

# **Cooperatives Business Management**

## **Level-I**

**Based on 2022, March, Version III Occupational  
standard**



**Module Title: - Cooperative Theory and Practice**

**LG Code: AGR CBM1 M01LO (1-3) LG (1-3)**

**TTLM Code: AGR CBM1 TTLM 0922v1**

**September, 2022**

**Addis Ababa, Ethiop**

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# 1. Introduction to the Module

Dear learners, welcome to study the module cooperatives theory and practice modules you will learn concept, various definition, evolution, movement of cooperatives in world and in Ethiopia, theories, principles and practices of cooperation and cooperatives. These modules also present to you some of features of cooperatives includes types and function of cooperatives, other form business organization, unique characteristics of cooperatives, level of cooperatives based on vertical structures and legislative frame work of cooperatives and also this module examine the definition and objectives, economic benefit, social and political, education and ethical benefit and advantage and disadvantages of cooperatives, rationale for establish cooperatives and factors affecting the performance cooperatives are discussed under the roles of cooperatives social and economic systems. Concept of Cooperation has been the very basis of human civilization. The inter-dependence and the mutual help among human beings have been the basis of social life. It is the lesson of universal social history that man cannot live by himself and for himself alone. Cooperatives as means of solving the common problem and gaining economic benefit, have benefited from the contribution of a number of many famous people and early exemplary cooperatives. Cooperation and cooperatives are guided by asset of principle that have evolved over centuries of practices and cooperatives themselves. For ease of understanding this module has three learning guides. The first learning guide deal with basic concept of cooperatives. Second learning guide deal with feature of cooperatives. Third discusses about rational for establish cooperatives. At the end of every learning guide, you will have self -check exercise and activity question which will help you to rate your progress and understanding. Dear learners, finally what I strongly encourage and advise you to do both.

<b>LG #1</b>	<b>LO #1- Basic Concept of Cooperatives</b>
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> <li>• Meaning and Concept of cooperative</li> <li>• Evolution, thought and movement of Cooperative</li> <li>• Values and Principles of Cooperatives</li> </ul> <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> <li>• Elaborate meaning and definition of cooperative</li> <li>• Explain the Evolution, thought and movement of Cooperative</li> <li>• Identify historical development of cooperatives</li> <li>• List Values and Principles of Cooperatives</li> </ul>
Learning Instructions:
<ol style="list-style-type: none"> <li>1. Read the specific objectives of this Learning Guide.</li> <li>2. Follow the instructions described below.</li> <li>3. Read the information written in the information Sheets</li> <li>4. Accomplish the Self-checks</li> <li>5. Operation sheet</li> <li>6. Lap test</li> </ol>

## Information Sheet-1.

### 1.1 Meaning and Concept of cooperative

#### 1.1.2 Concept of cooperatives

*Dear trainees what do you know about concept of cooperatives?*

Groups of individuals around the world and throughout time have worked together in pursuit of common goals. Examples of cooperation, or collective action, can be traced back to our prehistoric predecessors who recognized the advantages of hunting, gathering, and living in groups rather than on their own. Although the word “cooperative” can be applied to many different types of group activities, in this publication the term is used to reference a formal business model, which has relatively recent origins. The earliest cooperative associations were created in Europe and North America during the 17th and 18th centuries. These associations were precursors to cooperatives. The pioneers of the Rochdale Society in 19th-century England are celebrated for launching the modern cooperative movement. The unique contribution of early cooperative organizers in England was codifying a guiding set of principles and instigating the creation of new laws that helped foster cooperative business development. Today, cooperatives are found in nearly all countries

Meaning and definition of cooperative

#### 1.1.2 Meaning and Definition Co-operation

*☞ Dear learners What is the meaning of co-operation?*

*☞ Dear learners What is modern definition of a cooperative?*

Co-operation is derived from the Latin word “**Co-operari**”, ‘Co’ means “**with**” and ‘operari’ means “**to work**”. Hence co-operation means **Working Together** with others for a common purpose. The Primitive concept of Co-operation was related more to cultural, religious and social aspects. Co-operation was a way of life and it was inherent in the Society itself.

The Modern concept of Co-operation is altogether different from the primitive one. “It denotes a special method of doing business” T.N. Hajeela. The word Co-operation literally means Working Together or Act Together. Economists are of the opinion that co-operative is a means of countering the exploitation of weaker sections by conferring on them a better economic status. In a legal sense, Co-operation signifies special privileges and concessions conferred by law on its members.

“Co-operation is a weapon for the development of socialist thought and the realization of firms or households for business purpose and economic institution through which economic activity is conducted in the pursuit of economic objectives”.

McLegan Committee Defines Co-operation as “The Theory of co-operation is very briefly, the isolated and powerless man can, by association with others and by moral development and mutual support obtain, in his own degree, the material advantage available to attain the effective realization of the higher and more prosperous standard of life which has been characterized as “better business”, “better farming” and “better living”. “Lenin The basic idea behind Co-operation is “Self Help and Mutual Help” and “Mutual Aid” and “Each for all and all for each”

The cooperative model has been adapted to numerous and varied businesses. In 1942 Ivan Emelian off, a respected cooperative scholar, remarked that “the diversity of cooperatives is kaleidoscopic and their variability is literally infinite.” As a consequence of this diversity, no universally accepted definition of a cooperative exists. **Two** definitions, however, are commonly used.

#### 1. Definition of Cooperative according to ICA (1995)

**Cooperative** identity statement prepared by Daman Prakash, Director, (1995) “*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.*”

It is intentionally broad in scope, recognizing that members of the various kinds of cooperatives will be involved differently and that members must have some freedom in how they organize their affairs.

- The definition emphasizes the following **terminologies of a cooperative**: -
  - a) **The cooperative is autonomous**: -It is as independent of government and private firms as possible;
  - b) **It is “an association of persons”**. This means that cooperatives are free to define “persons” in any legal way they choose. Many primary cooperatives around the world choose only to admit individual human beings. Many other primary cooperatives admit “legal persons”, which in many jurisdictions includes companies, extending to them the same rights as any other member.

Cooperatives at other than primary level are usually cooperatives whose members are other cooperatives. In all cases, the membership should decide how it wishes the cooperative to deal with this issue.

- c) **“The persons are united voluntarily”**. Membership in a cooperative should not be compulsory. Members should be free, within the purpose and resources of the cooperatives, to join or to leave.
- d) **“Members of a cooperative meet their common economic, social and cultural needs”**. This part of the definition emphasizes that cooperatives are organized by their members, for their members. Member needs may be singular and limited, they may be diverse, they may social and cultural as well as purely economic, but, whatever the needs, they are the central purpose for which the cooperative exists. The term ‘aspirations’ here denotes strong desire or ambition for advancement
- e) **“The cooperative is a jointly owned and democratically controlled enterprise”**. This phrase emphasizes that ownership is distributed among members on a democratic basis. These two characteristics of ownership are particularly important in differentiating cooperatives from other kinds of organizations, such as capital-controlled firms. Each cooperative is also an “enterprise” in the sense that it is an organized entity, normally functioning in the market place; it must strive to serve its members efficiently and effectively.

Cooperative leaders around the world recognize the **ICA**, a non-governmental organization with over 230 member organizations from over 100 countries, as a leading authority on cooperative definition and values. The ICA definition recognizes the essential element of cooperatives: membership is voluntary. Coercion is the antithesis of cooperation. Persons compelled to act contrary to their wishes are not truly cooperating. True cooperation with others arises from a belief in mutual help; it can’t be dictated. In authentic cooperatives, persons join voluntarily and have the freedom to quit the cooperative at any time. The forced collectives prevalent in the former Soviet Union, for example, were not true cooperatives.

## 2. **Another widely accepted cooperative definition: -**

The one adopted by the United States Department of Agriculture (USDA) in 1987: A cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use.

- This definition captures what are generally considered the three primary cooperative principles: **user ownership, user control, and proportional distribution of benefits.**

The “**user-owner**” principle implies that the people who use the co-op (members) help finance the coop and therefore, own the co-op.

Members are responsible for providing at least some of the cooperative’s capital. The equity capital contribution of each member should be in equal proportion to that member’s use (patronage) of the coop. This shared financing creates joint ownership (part of the ICA cooperative definition).

The “**user-control**” concept means that members of the co-op govern the business directly by voting on significant and long-term business decisions and indirectly through their representatives on the board of directors. Cooperative statutes and bylaws usually dictate that only active co-op members (those who use the co-op) can become voting directors, although non-members sometimes serve on boards in a non-voting, advisory capacity.

“**Distribution of benefits on the basis of use,**” describes the principle of proportionality, another key foundation for cooperatives. Members should share the benefits, costs, and risks of doing business in equal proportion to their patronage. The proportional basis is fair, easily explained (transparent), and entirely feasible from an operational standpoint. To do otherwise distorts the individual contributions of members and diminishes their incentives to join and patronize the cooperative. Co-op benefits may include better prices for goods and services, improved services, and dependable sources of inputs and markets for outputs. Most cooperatives also realize annual net profits, all or part of which are returned to members in proportion to their patronage (thus, they are aptly called patronage refunds). Cooperatives can also return a portion of their profits as dividends on investment.



## 1.2. Evolution and movement of Cooperative

### 1.2.1. Evolution of cooperatives

Cooperation is the very bases of human civilization. Interdependence and mutual help among human beings have been the essentials of social life. History tells us that man cannot successfully live by himself and for himself alone. The spirit of association is essential to human progress. Therefore, working together is as old as human society. Since the beginning of human society, men have cooperated first in foraging and then in hunting, later in agriculture and still in manufacturing. Cooperation is the basis and essence of human life.

### 1.2.2. History of the Cooperative Movement in the world

The history of the cooperative movement concerns the origins and history of cooperatives. Although cooperative arrangements, such as mutual insurance, and principles of cooperation existed long before, the cooperative movement began with the application of cooperative principles to business organization. Co-operative movement in Europe the cooperative movement began in Europe in the 19th century, primarily in Britain and France. “The Shore Porters Society” claims to be one of the world's first cooperatives, being established in Aberdeen (UK) in 1498 (although it has since demutualized to become a private partnership). The industrial revolution and the increasing mechanization of the economy transformed society and threatened the livelihoods of many workers.

The effects of this revolution were certainly industrial and commercial dynamism, characterized by a rise in urban populations, a reduction in wages and exploitation of workers, particularly women and children. In addition, an increase in the cost of living, adulteration of foodstuffs and a rise in unemployment are other characteristics of this period.

This situation led certain thinkers and humanitarians to seek a solution to the growing unhappiness of the poor, to dream up a new system or even a new form of social organization. This way of thinking had a considerable impact in Great Britain and France but also in Germany. In Great Britain one of the main thinkers was **Robert Owen (1771-1858)**, considered the father of cooperation. He thought it would be more economical to deal with the poor in groups rather than individually; hence his proposal for what he himself called villages of cooperation. He first conceived these villages as a solution to the problem of unemployment and misery. He wanted to help the poorest villagers to acquire communal property and to take up work especially farm work which would save them from misery.

But gradually his concept grew, these villages of cooperation became the ideal type of society towards which he wanted to thrust (push) humankind. But his experiments created a favorable atmosphere for the origin of the Co-operative Movement. So, he is rightly called the ‘Father or Founder of Co-operation’. The Principles of Robert Owen which has continued to inspire the co-operative movements are:

1. Abolition of private profits.
2. Voluntary Association.
3. Common ownership of production.
4. Utilization of the wealth of the community for increasing the benefits to the poor.

**Dr. William King (1786-1865)** gave a more practical direction to the somewhat utopian (perfect) ideas of Owen. Like Owen, he had in mind a self-sufficient community in which the workers would produce according to their needs. But, contrary to Owen, he favored the involvement of the members with the outside world, in keeping with the earlier philanthropic funding concept. His idea was to encourage the establishment of shops by and for the working classes. Collecting regular payments from the workers would guarantee the funding of these shops. Rather than getting their supplies from shops unknown to them, the workers would buy them in their own shop. Therefore, they would buy goods at the wholesale price to then sell on more cheaply than the going rate. England is the cradle of consumer coops. Owen and King defined the rules and principles of consumer cooperatives. This type of cooperative supplies goods (food, educational supplies etc.) to its members at a lower cost than if they had tried to get them individually and not collectively.

In Germany, Hermann Schulze- **Delitzsch (1808-1883)** is considered to be the pioneer (founder) of municipal (public) cooperatives. He made himself the apostle of municipal credit cooperatives after working out that lack of capital was a major problem for people living in towns. His cooperatives were based on self-help in its purest form; that means no outside intervention at all, not even from the State. For Schulze-Delitzsch, the cooperative had a purely economic role to play in raising revenue. His other principles were self-responsibility, equal rights for each individual within the cooperative group, joint responsibility for debts by the group and finally democratic self-control.

**Friedrich Wilhelm Raiffeisen (1818-1888)** for his part is regarded in Germany as the pioneer of rural cooperatives. His model for credit cooperatives differs from that of Schulze Delitzsch in the sense that the principle of self-help was not applied in absolute terms, the building up of a capital base was in no way deemed necessary and that the reserves were distributed to another association in the event of dissolution. Raiffeisen's principles are: the advancement of the members, as much religious and moral as material, a limit on the number of group members based on the size of a village and the unlimited mutual responsibility of the members. We can at best trace the great lines which have helped it become what it is today, that is to say a worldwide movement.

**The Rochdale Pioneers (1844):** -This is an inspiring story of how a group of locals realized the power they had in working together, making it possible for a set of simple ideas to transform into a powerful global force. The Rochdale Society of Equitable Pioneers was a group of 10 weavers and 20 others in Rochdale, England, that was formed in 1844.

The mechanization of the Industrial Revolution was forcing more and more skilled workers into poverty. These tradesmen were fed up with dishonest and corrupt shopkeepers selling poor quality products at high prices, and decided to band together to open their own store selling food items they could not otherwise afford. With lessons from prior failed attempts at co-operation in mind, they designed the now famous Rochdale Principles, and over a period of four months they struggled to pool one pound sterling per person for a total of 28 pounds of capital. On December 21, 1844, they opened their store with a very meager selection of butter, sugar, flour, oatmeal and a few candles. Within three months, they expanded their selection to include tea and tobacco, and they were soon known for providing high quality, unadulterated goods.

- **The main objectives of Roch Dale cooperative were:**

- 1) To take up production and distribution of commodities required by members.
- 2) To make available houses to member for improving their conditions of life.
- 3) To manufacture articles in order to provide employment opportunities.
- 4) To meet the clothing requirements of the members.
- 5) To arrange for the education of members and so on

However, it must be stressed that in most of these countries, the cooperative institution only found its definitive formula when the “working class” adopted this new form of organization.

The Industrial Revolution very soon forced industrialized countries to seek out raw materials and new outlets for their products. It therefore played a not inconsiderable role in the colonization of the developing countries, the objective for the colonizing countries being to increase the area of their national territory by appropriating foreign lands. Countries thus lost their sovereignty (power) and did so, on their own territory, in favor of the home country. Africa, Asia, and Latin America then found themselves dominated by western countries including Great Britain, Portugal, France and Belgium. Once the country was conquered, the settlers ensured the promotion and development of the cooperative form of organization. The objective was never altruistic (humane). Cooperatives were in fact used as a strategic tool to allow people to be grouped together and goods, essential for the economy of the home country (coffee, cocoa etc.), to be collected for export. The development of cooperatives within the colonies has followed different forms depending on the colonizing country's origin. In Latin America, the promotion of cooperatives is carried out according to the ideas of European promoters, notably the Frenchman Gide and the German Raiffeisen, Schulze Delitzsch and Haas. On the other hand, in the Asian countries of the British Empire, the English ideas form the basis of cooperative development. After independence in the colonized countries, the governments of the newly independent States accorded an essential role to cooperatives especially in the development of rural areas. Nevertheless, in most of these countries, cooperatives remained a State-owned tool with which to control the masses

### **1.2.3. Cooperatives movement in Ethiopia**

#### **1. Traditional Cooperatives in Ethiopia**

Ethiopia is known as a country with diversified nationalities, ethnic groups, languages, each has its own unique culture and custom of living in entertaining different social activities. Our system of living is in cooperation mode of life that means; work in group (plowing, harvesting, trashing, house construction), habits of eating together (in holidays, festivals), and living together is the common phenomena of Ethiopians in the nearby village, with relatives and at workplace. In Ethiopia there are three well known traditional cooperatives or self-help groups.

- a) Edir:-**Edir is one of the traditional forms of cooperatives still operating almost in all parts of Ethiopia, urban and rural. It is similar with burial cooperatives or organization that mainly stand for performing burial ceremonies, to condolence, and also to offer assist financially and labor with the deceased family member to overcome difficulties arising due to

occurrence of death in members' family. Almost the majority of the people especially head of particular family are members' of Edir and also obliged to be a member in order to be assisted in case of death. The main objective for the establishment of Edir is to help a family in case of bereavement. Such a family requires personal, material and financial support from all of the Edir members based on the rules and regulations stated in the by law of the traditional society (Edir). If a person is going to get this assistance, he has to fulfill the membership criteria set by the traditional society.

- b) Ekub:** Is other form of traditional cooperative or traditional self-help group in Ethiopia. Ekub is a financial form of traditional cooperative formed voluntarily. It is a rotating saving and credit type association whose members make regular contributions to a revolving loan fund. The formation of “Ekub “is based on classes of people who have identical (similar) earning or income. Unlike saving and credit cooperatives, it does not bear interest on the money saved (collected). The person who has got the money on his turn basis solves his immediate *economic* and social problem.

To minimize risk in Ekub, personal guarantee should be given by payee to the traditional society when he/she taking the money from the Ekub members. Many people use this form of traditional cooperative as a means of financial solution to their economic problems.

Ekub is somewhat similar to the modern saving and credit cooperatives. Therefore, there is a chance that this traditional form of cooperative could be changed into modern cooperative societies with some adjustments on their operation and making them to have legal bases. The amount of money which is now used for immediate problem solving could be changed into sustainable and continuous problem-solving system of modern cooperative by convincing and promoting the Ekub members.

- c) Debo/ Wenfal/ Lefenty:** This form of traditional cooperative or mutual help group is an important form of traditional cooperatives in Ethiopia. This is mainly a cooperative formed at the rural area of the different parts of the country where most of the people are farmers. Debo is a system of farmer's cooperation during the time of farming, weeding, harvesting, trashing, and house construction etc. Debo/Wenfale/Lefenty does not have a system of administration like the other form of associations; it is based on equivalent labor or material contribution (Ox) by each farmer. It is a mechanism by which all farmers are helping each other on turn basis.

Since each type of work is being done in time, the productivity per farmer can be increased. Generally, these three traditional forms of associations which are the values and customs of our society should be brought to modern form of cooperatives so that they can contribute to the economic and social development of the people of Ethiopia. Some special features of Traditional Cooperatives in Relation to Modern Cooperative are as follows:

- ✓ Established on the felt needs of members and voluntary membership
- ✓ Democratic control and administration
- ✓ Fair and equal compensation
- ✓ Equal contribution
- ✓ Equal participation of each member.
- ✓ Serve their members
- ✓ Cultural development and other development activities
- ✓ Political neutrality
- ✓ Equal opportunity to all members
- ✓ They can be organized at working place, living area bases.

Therefore, traditional form of cooperatives can be the bases for modern cooperatives.

They can have management committee and serve on honorary base, have by-laws, different books of accounts, and have accounts in near-by banks, conduct annual meetings, election and even amend their by-laws. Especially Edirs can have office, store houses and hired employees

#### 1) **Advantages of traditional cooperatives**

- ✓ Indigenous way of solving member's problems
- ✓ No need of external expert's assistance (to be established, formulate by-laws, keeping of books of accounts, managing employees etc.)
- ✓ Strong and autonomous
- ✓ (No appropriate authority)
- ✓ Serve only members & members' faith in their organization is high
- ✓ Strong participation of members
- ✓ Management committees of Edir are loyal and corruption is a rare phenomenon.
- ✓ Edirs participate in social and economic activities like assisting constructing roads, schools, cleaning the surroundings, night guard of their localities, etc,

## 2) Limitations- Ekub

- ✓ Traditional organization like Ekub is far from the concept of *present value of money*.
- ✓ It has no continuity for long time & most of them are established for specified period and then dissolved.
- ✓ Mostly hasn't any legal documents and sometimes ends with conflict.
- ✓ Some of the leaders delay the money paid to the member and use the money for usury purpose in the between.
- ✓ In some Ekub the chairman's and secretary's contribution is paid by members and favored to take the first and second chance.
- ✓ Members forced to drink during the time of gathering together to draw the chance to create income for the one hosting the meeting.

## 3) Limitations of Edir

Most of the Edir are still stick to only for death time assistance, while there is an ample opportunity to help a member before death. Also, even though the chance to start saving and credit and consumer activities is there, only a few of them are practicing it.

- ✓ The chance to bring young leaders on these organizations is small.
- ✓ Some of its obligations needed to be meeting by its members are becoming challenging.

### a) Cooperative movement during Emperor Haile Selassie (1960- 1974)

Modern form of cooperatives started in Ethiopia during the ruling era of Emperor Haile Selassie I. Emperor Haile Selassie I was Ethiopian ruler during 1932-1974. In 1960 the first legislative called "Farm Workers Cooperatives Decree" was declared as Decree No.44/1960.

### 1. Purposes and objectives of these cooperatives

Cooperatives organized here under shall have as their principal purpose and object the promotion of the economic interest of Ethiopia and of their member through the efficient cultivation and development of land made available to them and the produced on said land.

- Without limiting the generality of the foregoing, the cooperative shall:
  - ✓ Arrange for the cooperative production, processing, transportation and marketing of agricultural products and commodities and the taking of other action calculated to achieve the most profitable production, processing and marketing of agricultural products and livestock produced or owned by the cooperative;
  - ✓ Operate and administer livestock and agricultural and other machinery owned by the



cooperative for the benefit of its members.

- ✓ Promote good farming and agricultural practices.
- ✓ Promote cooperation among members of the cooperative
- ✓ Promote cooperation among cooperatives generally by the pooling of common resources and the taking of other action appropriate to this end.

Decree No.44/1960 had no full

version of cooperative proclamation and only limited to agricultural cooperatives that didn't incorporate cooperatives that were emerging in the country like SACCOs. Even though the cooperative activity was started with the implementation of the above-mentioned objectives in legal basis, it had the following short comings:

- ✓ Lack of awareness by different government institutions
- ✓ The support given by the government was very low and the result is also very low (performance was only 4 coops out of 20 plan)
- ✓ Lack of awareness by different government institution
- ✓ The existing land tenure system was the main hindering cooperatives development.

As a result of the above problems, a **Cooperative society Proclamation No.241/1966** was to come to effective with consideration of previous Decree's short comings. The main reason stated for the enactment of this proclamation was "whereas our People have understood the usefulness of cooperative activities it is expedient to provide a proper basis for the formation of co-operative Societies which shall promote thrift, mutual help and self-help among persons sharing common needs and desires.

## 2. Purposes and Objects of societies

Societies organized under this Proclamation shall have as their principal purposes and objects the promotion, in accordance with cooperative principles and the requirements of social justice, of better living, better business and better methods of production by such means as:

- ✓ Reducing the cost of credit and other expenses;
- ✓ Reducing the cost of goods and services for production and consumption;
- ✓ Minimizing and reducing the individual impact of risks and uncertainties;
- ✓ Spreading knowledge of practical technical improvements; or
- ✓ May otherwise contribute to achieve the above-mentioned purposes and object.

By the end of second five-year development plan (1963-1967) 14 cooperatives societies (of



which 12 in agriculture) were established and registered.

Despite these achievements, the

program was hindered by the shortage of trained cooperative personnel and lack of credit

facility. When the third five-year development plan was launched (1968-1973) it again stressed the creation and expansion of cooperative societies and designed to encourage community self-reliance. During this plan period at least 300 new cooperative societies were supposed to be established and registered. Though various efforts were made to expand the cooperative movement in the country, the development was not as much as anticipated due to the following reasons:

- ✓ The oppressive land tenure system and the domination of feudal land relationship in the rural areas.
- ✓ Inadequate trained manpower to promote the development of cooperative ideas, organization and management.
- ✓ Inconvenient collateral policies for bank credit toward farm workers and poor farmers which, prevented farmers to get credit for farm development. The plan benefited the rich farmers and the landlords by excluding the majority of the farming community.
- ✓ Lack of efficient marketing system that is characterized by low price of farm products and high price of inputs coupled with poor transport facilities.

There were 14 workers in the cooperative department. All of them had been trained in cooperatives of which two of them are abroad. Besides the training of personnel employed in the cooperative department, training in cooperatives had been imparted to 150 community development workers at the community development training and demonstration center Awassa. To alleviate the financial problem, a National cooperative investment fund which would administer by special cooperative credit section in Development Bank of Ethiopia was to be set up. At the end of the plan year, however, the numbers of agricultural cooperatives established in the country were 50, having a membership of about 11,000 and a capital amounting of 6 million. The total number of other type of cooperatives was also 50 (SACCO, Consumer and Handcrafts).

- The government contributed the following for the development of cooperative movement:
  - ✓ Introduction of modern cooperative concepts
  - ✓ Establishment of independent appropriate authority to promote cooperative societies of

different type.

- ✓ Establishment of independent regulatory body (to register, audit and cooperative court)
- ✓ Establishment of training institution (the community development training and demonstration center Awassa)
- ✓ Arrangement of National cooperative investment fund which would administer by special cooperative credit section in Development Bank of Ethiopia was to be set up.

#### **b. The Post Revolution Cooperative Movement (1974- 1991)**

After the overthrow of Haile Selassie's monarchal system in Ethiopia, the military Junta has got the chance to come to the power in 1974. Starting with other leaders, Mengistu Hailemariam was the leader of the country in socialist principle to the end of his era up to May 1991 when he was forced to leave the country. The peasant associations were given legality by proclamation no. 71/1975. In this proclamation, the objectives, powers and duties of peasant associations, service cooperatives and agricultural producer cooperatives were clearly stated. It was during this time that a number of "Ye'irsha Mahber" was unwillingly organized in quota bases in most of the then provinces. The Cooperative Societies Proclamation No 138/1978 was issued later in order to include other type of cooperatives like Housing, Thrift and Credit, and Handicrafts etc.

All the efforts made to restructure the cooperative movement based on these proclamations were essentially geared towards direct control of cooperative and turning them into government and political rather than socio economic development instruments.

#### **Cooperative Societies Proclamation No. 138/1978**

- Cooperatives shall be organized for the following objectives:
  - ✓ To develop self-reliance and to promote the interest of their members
  - ✓ To put the means of production under the control of cooperatives and to transform them gradually to collective properly as be necessary
  - ✓ To increase production
  - ✓ To expand industry
  - ✓ To eliminate reactionary culture and custom
  - ✓ To participate in the building up of the socialist economy

- ✓ To accumulate capital and to mobilize human resources to sustain economic development

In the early 1990 there were already 3,316 producers' cooperatives and 525 service cooperatives in the country. In March 1990 the Derg Regime was forced to look into the new economic situation of the world. The policy of mixed economy was announced.

Cooperatives were faced with organizational, operational, leadership as well as production and distribution problems. In a situation where member's participation was so passive and leadership appointed by the political cadres, wastefulness and embezzlement were inevitable. In addition to that villagization program which lacked proper studies and the willingness of the people created a devastating effect to the development of cooperatives. Consequently, it was only one sentence of the Derg mixed economic policy which says "Any cooperatives can legally dissolve itself if its general assembly decides" that contributed to total dismantling of almost all producer cooperatives and some of the service cooperatives of rural Ethiopia. As a result of this mixed economy option given for cooperatives, all producers cooperatives are legally dissolved throughout the country.

During the fall of Derg regime (May 1991) most of the multipurpose cooperatives that survived the mixed economy policy, had been looted and dismantled even by their members. Since cooperatives were seen as institutions of Derg regime, nobody was interested to rescue their property from looting & dismantling by thieves, dissatisfied members and corrupted management members. Due to this fact some of the properties, money and documents were taken and destroyed. Even though, Cooperative values and principles were violated by the cooperative movement of that period, there were some positive contributions to the cooperative development of Ethiopia. The country witnessed expansion and promotion of different types of cooperatives. Introduction of distribution of consumer goods and extending agricultural credits (inputs, oxen, tractors, machinery, etc) through cooperatives.

The establishment of cooperative training center (Ardaita), government support to investment and infrastructural facilities, provision of domestic and international training, the agricultural cooperative society's proclamation no.85/1995 was the major contribution of the regime. The proclamation was however, meant to serve only agricultural cooperatives. Other types of cooperatives had no chance (legal ground) to adjust themselves to the newly created environment.

### c) Cooperative movement in Ethiopia: Post 1991

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After the downfall of the Derg regime, there was a gap between 1991- 1995 in the cooperative movement of Ethiopia. This gap was created due to the fact that the government's attention was mainly drawn towards stabilizing, bringing peace and creating administration organs.

Later on, due to cooperative expert's dedication and devotion and the government's commitment towards cooperative development, it became necessary to enact a new cooperative proclamation which suits the current economic system. Agricultural Cooperative Societies Proclamation No.85/1994

- The society to be established under this proclamation shall have the following objectives: -
  - ✓ To improve the living condition of members by increasing production and productivity;
  - ✓ To promote self-reliance among members;
  - ✓ To solve problems collectively which a peasant cannot personally achieve;
  - ✓ To make members obtain modern technologies products which are capable to increase agricultural production and materials necessary for their livelihood easily and at fair price;
  - ✓ To satisfy the needs of a community and increase the income of a peasant by processing agricultural product to industrial products; and
  - ✓ To promote the culture of the members by teaching and training

- **Salient features of Proclamation No.85/1994: -**

“General Meeting” means a meeting of members of the primary cooperative society. Individuals who are supposed to be voluntary members must have similar type of work and interest. Any kind of discrimination or influence based on religion, sex, nationality and political outlook shall not be made on those who want to be members;

The society shall carry out any of its activities on a democratic basis. One member shall have only one vote; Formation of higher-Level Society, the benefits of any dismissed member shall be respected in accordance with the by-laws of the society; Concept of shares holding introduced, Appropriation of net surplus after deduction for reserve, for the expansion of the work, and for social services. In the history of cooperative movement in Ethiopia, the government has taken serious measures after 1988 EC (1996).

The measures include, organizing and reorganizing different types of agricultural cooperative societies and establishing cooperative promotion bureaus/ offices in regions. In the

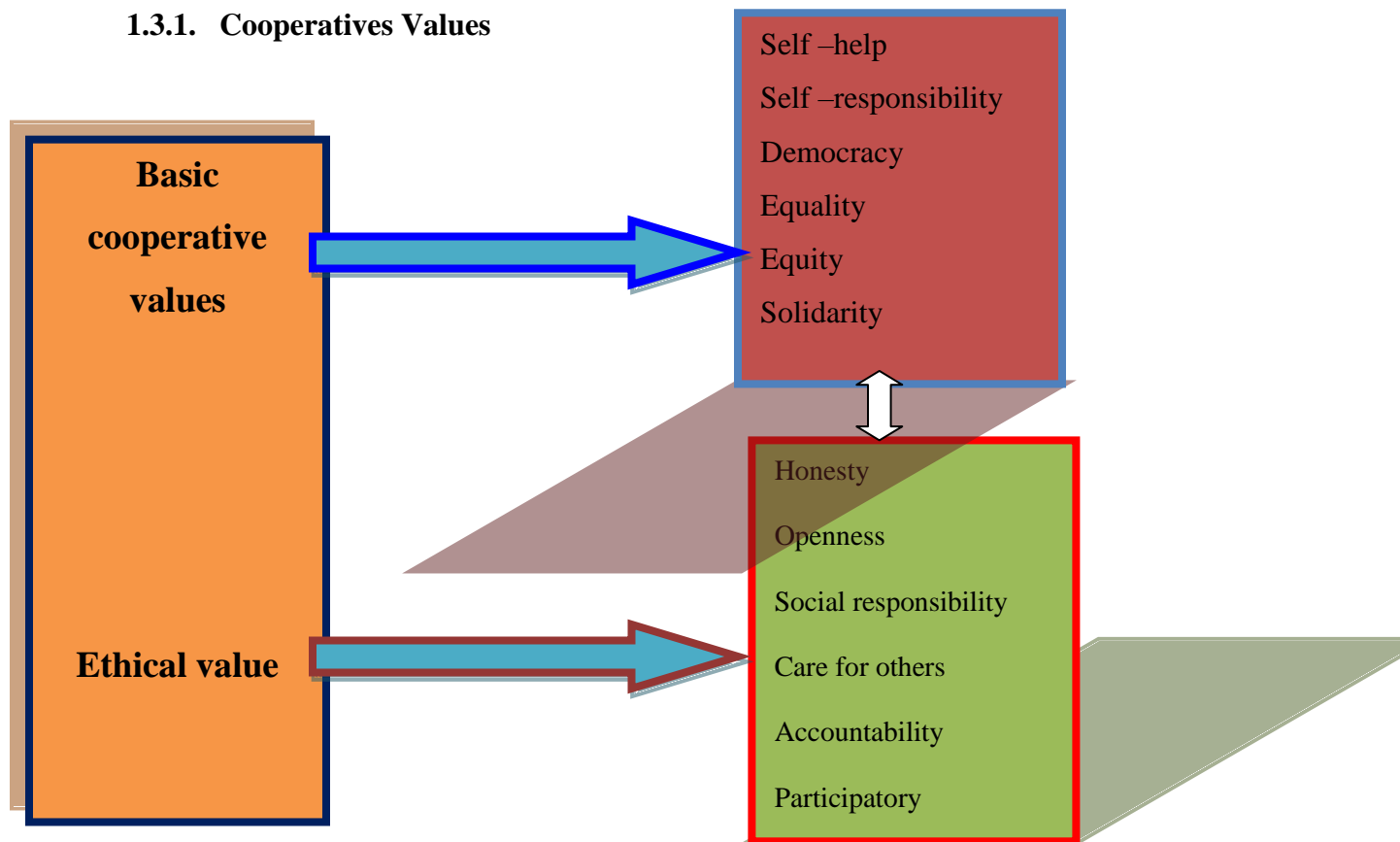
Federal government the cooperative promotion desk under the Prime Minister office has been also established.

A proclamation No. 147/ 1998 to provide for the establishment of cooperative societies had been also declared by the Federal Government to bring all types of cooperative societies under one umbrella. Later on, the Federal Cooperative Commission (the currently Federal Cooperative Agency) based on proclamation No. 274 / 2002 were established in 2002. More over to correct the short- comings in the proclamation 147/1998 amendment 402/2002 and regulation number 106/2002 became important instrumental documents in the cooperative movement of the country. As a result, some improvements have been seen in cooperative societies in the country.

- Cooperative societies started to:
  - ✓ Distribute inputs,
  - ✓ Provide loan to their members,
  - ✓ Unions (secondary cooperatives) were formed with the assistance of Cooperative Union Project (CUP) funded by VOCA/Ethiopia/USAID),
  - ✓ Market member produces in the domestic and foreign market,
  - ✓ Dividend payments were made by primary cooperatives as well as the unions.
  - ✓ Conducting cooperatives produce exhibition
  - ✓ Entered to the banking service

### 1.3.Values and principles of cooperatives

#### 1.3.1. Cooperatives Values



*Figur1.Cooperatives Values-Basic and Ethical*

#### A) Basic value of cooperatives

Cooperative values are general norms that cooperators, cooperative leaders and cooperative staff should share and which should determine their way of thinking and acting. The values, which are articulated by the ICA in a statement in 1995, include self-help, self-responsibility, democracy, equality, equity and solidarity.

**(a) Self-help:** It means one should try to solve his problems with his own efforts, means and resources available. But self-help succeeds only up to a point. Therefore, it needs joint- efforts with those who have the same problem. They can pool small resources and means, so that they become more potential. In-group individual becomes more powerful, he learns, with experience of other fellow men, this becomes mutual self-help. Self-help and mutual-help promote cooperative spirit and key to success of cooperatives.

**(b) Self-responsibility:** coupled with self-help and mutual self- help is the value of self-responsibility.

Every office-bearer, member of Board of Directors or management must take responsibility for his personal actions, for the activity as whole and for its impact on society. Similarly, each member of cooperative should realize and accept his responsibility towards cooperative and commit himself to it. A cooperative can achieve its object and progress only when everyone involved in its functioning, including employees, feel his accountability and discharge his responsibility with commitment, dedication and sincerity of purpose.

**(c) Democracy:** Democracy is a basic value of cooperatives. In the context of cooperatives, the essence of democracy is “*conscious decision*” based on “*freewill*”. “*Conscious decision*” means understanding the logic or rationale of taking decisions and be aware of the possible consequences of the decisions and their impact on individual and institution. “*Freewill*” means no forcing of the decision from outside. “*Participation*” is an integral aspect of democracy. Participation includes attending general body/board meetings, actively giving one's opinion on various matters and issues affecting the society.

**(d) Equality:** Equality means equal right and opportunities, right of participation, a right to be informed, a right to be heard, a right to be involved in the decision making. Members are to be associated as equal as possible, without any kind of discrimination of gender, religion, caste, creed, race, amount of share capital contribution, deposits, political affiliation etc. That is why one member one vote is the principle, which establishes equality.

**(e) Equity:** It refers to how members are treated within a cooperative. It means that members should be treated equal in how they are rewarded for their participation in the cooperative normally through patronage dividends, allocations to capital reserves in their name or reductions in charges. Equity ensures social justice.

**(f) Solidarity:** It is an important base of cooperatives. Solidarity is collectivity. Management has the responsibility to ensure that all members are treated as fairly as possible, that the general interest is always kept in mind, that there is consistent effort to deal with employees (members or non-members), as well as the non-members. It also means that a cooperative has a responsibility for the collective interest of its members. It indicates that societies financial and social assets belong to the group, being the result of joint efforts and participation. Solidarity also means that cooperatives and cooperators stand together. They work together to present a common entity before the public and government.



## B) Ethical Values of Cooperatives

The values statement further articulates values of personal and ethical behavior that cooperators actualize in their enterprises. They describe the kind of people cooperators strive to be and the traits they hope to encourage through cooperation. These are honesty, openness, accountability, Participator, social responsibility and caring for others.

**(a) Openness:** It means that cooperatives are open to members of community they serve. Openness is an overarching concept/philosophy that is characterized by an emphasis on transparency and free, unrestricted access to the knowledge information, as well as collaborative /cooperative management and decision-making rather than a central authority.

**(b) Honesty:** This is most important for survival of cooperatives. Rochdale Pioneers had a special commitment to honesty. Indeed, their identity in the market was distinguished partly because they insisted upon honest business-honest measurement, high quality and fair prices. Cooperatives' motto is honest dealing with members and non-members. For individual honesty is not monetary honesty only, but also honesty of thoughts, commitments, behavior and conduct, no hypocrisy or falsehood, no underhand dealings or false promises, no dishonesty in elections. In cooperatives honesty also encompasses correct maintenance of accounts and balance sheet, correct information to members, objectivity and fairness in personal matters. Individual cooperators honesty, business honesty and managerial honesty brighten the image of cooperatives and their identity and also it Involves being trustworthy, loyal, fair and sincere. Without honesty cooperatives have no cause to exist, no future to sustain themselves. Cooperatives will be in peril and danger of self-liquidation without honesty.

**(c) Accountability:** Is the obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the result in a transparent manner.

**(d) Participatory:** all members shall have the right to actively participate in every activity of the cooperative in democratic manner.

**(e) Social responsibility:** It means that cooperatives should move beyond caring for members only. They should financially assist or organize activities beneficial to the entire community. Social responsibility is an ethical framework which suggests that an entity, be it an organization or individual, has an obligation to act for the benefits of the society at large.



However, such activities can be taken up when cooperatives have surplus. This concept has linkage with the seventh principles of cooperative; Concern for community.

**(f) Caring for others:** This concept stems from humanism. It means take interest in and care about other people. Cooperatives are humans by nature though their main concern is to achieve economic objective.

*These Value concepts can be only in an individual who is an altruist, pluralist, self-denials, large-hearted, broad minded and above all a humanist, whose eyes become wet seeing others' sufferings; whose conscience revolts seeing others being exploited; whose heart throbs seeing the destitute and the oppressed; who gets happiness and satisfaction in helping others. To such people cooperation becomes a mission and means to solve problems and enable the weak to become collectively strong.*

### 1.3.2. Cooperative Principles

The term “**principle**”, derived from the Latin word “**Principium**” meaning “**basis**”, has different meanings: the primary idea, a certain thesis, a rule of an organization. The principles of co-operation may be considered as the broad **guidelines** for co-operative societies in the conduct of various activities. “ALL FOR ONE AND ONE FOR ALL” “SELF HELP AND MUTUAL HELP” Co-operative principles are those principles which are essential for the achievement of the co-operative objectives.

Every organization has its own principles (fundamental truth, law, doctrine, or motivating force, upon which others are based), which are to be observed for its smooth working. The principles are formulated keeping in view the object, pattern of governance, power and authority structure, accountability, organizational framework, financial structure etc. Organization is recognized, inter alia, with the laid down principles. This is a general Cooperatives have their own of principles, which are universal in their nature, recognition and acceptance. Since the beginning of their origin, cooperatives lay great emphasis on them. They manifest the mature of cooperatives; underline management principle inter-organizational relationship etc.

### 1.3.3. Evolution of Cooperative Principles

Historically, Cooperative Principles have their origin in the working practices and rules, which the Rochdale Pioneers had evolved, adopted for their working. The Pioneers had laid down certain rules and objects in what they called as “Law First” and were also found in the “Minutes of Proceedings”, their practice and decisions of the general body.

They adopted and evolved, however, what they found to be sound methods of conducting cooperative business, which they communicated to many societies seeking their advice, so that Rochdale practice became regarded as sound practice and generally adopted by most societies not only in Briton but also all over the world. Evolution of cooperative principles over 100 years of International Cooperative Alliance (ICA) life has been through **three** exercises:

- a) 1930-1937; Crystallization of Rochdale Principles,
- b) 1966 ICA Cooperative Principles and
- c) 1995 ICA revised Cooperative Principles.

Table 1.1 The following table gives sights of Cooperative principles at various stages:

1934	1937	1966	1995
1. Open Membership 2. Democratic control 3. Dividend on Purchase 4. Limited Interest on Capital, if any 5. Political & Religious Neutrality 6. Cash Trading 7. Promotion of Education	<b>Main Principles</b> 1. Open Membership 2. Democratic control 3. Dividend on Purchase 4. Limited Interest on Capital, if any <b>Optional Principles</b> 5. political & Religious Neutrality 6. Cash Trading 7. Promotion of Education 8. Promotion of Education	1. Voluntary and Open Membership 2. Democratic control 3. Dividend on Purchase 4. Limited Interest on Capital 5. Cooperative Education 6. Cooperation among Cooperatives	1. Voluntary and Open Membership 2. Democratic Member Control 3. Member Economic Participation 4. Autonomy & Independence 5. Education, Training and Information 6. Cooperation among Cooperatives 7. Concern for Community

**Rochdale Principles (1934-1937):** These Pioneers, registered their society “The Rochdale society of Equitable Pioneers” on 24 October 1844, and began business on 21 December 1844. This is said to be the true beginning of the modern cooperative movement. The ideas of the Rochdale Pioneers set forth in the rules of their society, made up a body of Principles, popularly known as the Rochdale Principles that have since inspired the Cooperative Movement throughout the world.

These ideas were: democratic control, open membership, limited interest on capital, patronage dividend, cash trading, sale of pure and unadulterated goods, education of the members and political and religious neutrality.

None of these ideas was individually novel; but their combination was essentially new. This was the originality of the pioneers. “They went on modifying rules for survival and progress. In the course of decades, as social historians began to look back on the performance and achievements of the Pioneers, they set out in their writing what they considered to be essential Rochdale Principles.

**1937 Committee** cooperative movement spread to various countries such as Germany, Italy, Denmark, etc., and various forms of cooperation were developed. How far the Rochdale Principles, which were evolved in the 1840s for Consumers’ Cooperative, were applicable in the present time and to various other forms of cooperation such as producers’ societies, credit societies and industrial cooperatives? This question received the attention of the International Cooperative Alliance (I.C.A.).

At the Vienna Congress of the I.C.A., in 1930, the Central Committee was asked to appoint a Special Committee to examine the conditions in which the Rochdale Principles were applied in the member countries and to state these principles in their final form. This special Committee was formed in 1934 at the London Congress of the I.C.A. The Paris Congress of the I.C.A. approved its report entitled “The Present Application of the Rochdale Principles of Cooperation” in 1937.

- This Special Committee came to the conclusion that the following seven principles may be considered as the essential principles of the Rochdale Pioneers:
  - ✓ Open membership
  - ✓ Democratic control
  - ✓ Distribution of the surplus to the members in proportion to their transactions
  - ✓ Limited interest on capital
  - ✓ Political and religious neutrality
  - ✓ Cash trading and
  - ✓ Promotion of education

The eighth principle, viz., the supply of pure unadulterated goods was omitted, as this could be taken for granted in these days in view of the adoption of protective legislation in various

countries. Nevertheless, cooperatives have to continue to make a contribution in dealing with the problem of adulteration and unfair weights and measures, and in order to do this the ethics of their business must be invariably higher than that the law requires.

The Committee felt that there should be some discrimination in the importance to be attached to the above seven principles in deciding the essential character of a cooperative society. It, therefore, suggested, that the first four principles (open membership, democratic control, distribution of the surplus in proportion to their transactions, limited interest on capital) ought to be regarded as **obligatory** and their observance as essential to the cooperative character of any society. In the opinion of the committee, the remaining three Principles, “While undoubtedly part of the Rochdale System, are, however, not a condition for membership of the I.C.A.” The Committee preferred to regard these three practices as “essential methods of action and organization rather than standards, the non-observance of which would destroy the cooperative character of a society.”

**Conditions Change** Since, **1937** the socio-economic and political conditions of various nations changed and the cooperatives had to adapt themselves to the changing situations. Under the stress of a revolution in distributive trade, many cooperative organizations encountered difficulties in maintaining their traditional practices. In the developing regions, the young cooperative movements had still to reach their full capacity to implement the movement’s principles and apply them in their special economic and social setting.

Further, important changes have taken place in technology and management. The world appears to stand on the threshold of a new and more comprehensive industrial revolution. The cooperatives should, therefore, expand their scope from mere defense of group interests to a positive contribution to the welfare of their members in an expanding economic system. The movement cannot remain content with the familiar organization of the past but new patterns have become necessary. Accordingly vast structural changes involving consolidation, concentration and integration are taking place in a number of cooperative movements. In this context, the need for guidance in matters of principles-the need to distinguish, which principles are essential and must be maintained, which may be varied, discarded or added according to circumstances-was keenly felt. Thus, the need for a review of the principles of Cooperation was recognized. This matter was, therefore, discussed at the **Twenty-second Congress of the I.C.A., in 1963.**

**1966 Commission** the above Congress, a resolution was adopted which provided for the appointment of a Commission to study cooperative principles. In accordance with this resolution, the Central Committee of the I.C.A. appointed in 1964 a Commission on Cooperative Principles. This Commission was empowered to study which of the principles of the Rochdale Pioneers retained their importance at the present time and which should be changed, and how, in order to contribute in the best manner to the fulfilment of the tasks of the cooperative movement; and finally, which of the principles had lost their importance and should be substituted by others. The Commission was also empowered to formulate new principles, if necessary. This Commission reported to the Twenty-third Congress of the I.C.A. held at Vienna in 1966 and the Congress accepted the report.

This commission reaffirmed the first four principles in a fuller form, adopted “the promotion of Cooperative Education” as the fifth principle and added a new principle-principle of growth: “Cooperation among cooperatives”. Thus, the Commission considered the following “as essential to genuine and effective cooperative practice both at the present time and in the future as far as that can be foreseen.”

1. Voluntary and open membership,
2. Democratic administration,
3. Limited interest on Capital,
4. Distribution of the surplus to the members in proportion to their transactions,
5. Cooperative education and
6. Cooperation among cooperatives.

These are general principles, which should be observed by cooperatives of all types and in all social and economic systems. The Commission did not draw a distinction of degree of validity between these essential principles, and so did not give, like the 1937 Committee, some principles a higher priority than others. To quote the Commission, “All possess equal authority and... must be equally observed.” They form a system and are inseparable... They... should be observed in their entirety by all Cooperatives.”

### **1. Statement on the Cooperative Identity (1995)**

There has been a concern among Cooperators in recent years that there has been serious erosion in the values of cooperation and the same was echoed in ICA Tokyo congress held in 1992.

The congress therefore recommenced the ICA Executive Committee to initiate the process to review the current ICA Cooperative Principles as amended in 1966 and make recommendation for the possible change. Dr Ian Macpherson was asked to coordinate the review of Cooperative principles and he submitted the draft including the statement of Cooperative identity in 1994, which was approved by ICA General Assembly in Manchester in September, 1995.

## **2. Explanation of Cooperative Principles (1995)**

Cooperative Principles are more than commandments; they are also guidelines for judging behavior and for making decisions. It is not enough to ask if a cooperative is following the letter of the principles; it is important to know if it is following their spirit, if the vision each principle affords, individually and collectively, ingrained in the daily activities of the cooperative.

The principles that form the heart of cooperatives are not independent of each other. They subtly linked; when one is ignored, all are diminished. Cooperatives should not be judged exclusively on the basis of any one principle; rather, they should be evaluated on how well they adhere to the principles in their entirety. The cooperative principles are guidelines by which cooperatives can put their values into practice.

### **• The seven principles of cooperatives according to ICA, (1995): -**

#### **1. The “Voluntary” and Open Membership Principle:**

Voluntary principle implies that people cannot be made to be cooperators; they must be given the opportunity to study and understand the values for which cooperatives stand. They must be allowed to participate freely. If membership is forced, such members should be involved so that they develop voluntary attitude.

Open Membership means that cooperative is open to all persons who need and are able to use the services of cooperatives and willing to accept the responsibilities of membership without any artificial discrimination. But where cooperatives are for specific purpose, e.g., housing, there may be understandable and acceptable reasons why cooperative may impose a limit on membership. “Willing to accept responsibilities of membership,” reminds members that they have obligations to their cooperative.

#### **2. Democratic Member Control Principle:**

Within cooperatives “democracy” includes considerations of rights and responsibilities. It means fostering the spirit of democracy within cooperatives.

“Controlled by the members” mean members participating in setting the policies and making decisions. It means members ultimately control their cooperatives and they do so in democratic manner.

“Accountable to membership” phrase reminds elected representatives that they hold their office in trust of the immediate and long-term benefits of members.

Cooperatives “belong to members” and not to elected officials. Elected officials are accountable to members. They are Trustees on behalf of members. Member control also prohibits a non-member becoming office bearer through nomination to the Board by the Government or through process of cooption.

### **3. Member Economic Participation Principle:**

In cooperative, capital is servant and not master of organization. Cooperatives exist to serve the needs of members; this principle describes how members both invest in their cooperatives and decide how to allocate surpluses. Members can contribute capital in three ways Viz., (1) Share capital, (2) Reserves; which is owned collectively, (3) Depositing their part of their dividend and on special request for specific activity.

### **4. Autonomy and Independence Principle:**

Cooperatives in all parts of the world are very much affected by their relationship with the state. Government determines the legislative framework within which cooperatives may function. In their taxation, economics and social policies, governments may be helpful or harmful in how they relate to cooperatives. For that reason, all cooperatives must be vigilant in developing open, clear relationship with governments. When cooperatives enter into agreement with organizations, they must retain their freedom ultimately to control their future.

### **5. Educations, Training and Information Principle:**

The principle emphasizes the vital importance played by education and training within cooperatives. Education means more than just distributing information or encouraging patronage, it means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexities and richness of cooperative thought and action.

Training means making sure that all those who are associated with cooperatives have the skills they require in order to carry out their responsibilities effectively. Education and Training are also important, because they provide excellent opportunities where by cooperative leaders can understand the needs of their membership.



They should be conducted in such a way that they continuously access the activities of the cooperatives and suggest ways to improve or to provide new services. A cooperative that encourages effective two-way communication between its members and leaders, while operative in an effective manner, can rarely fail.

The principle ends by recognizing that cooperatives have a particular responsibility to inform young people and opinion leaders-politicians, public servants, media representatives and educators, about the nature and benefits of cooperation.

#### **6. Cooperation among Cooperatives Principle:**

Cooperatives must also recognize the necessity of strengthening their support organizations and activities. It is crucially important for different kinds of cooperatives to join together when speaking to government or promoting the cooperative way to the public. In order to build an integrated cooperative system, it is necessary that cooperatives should cooperate among themselves. They should not compete with their own constituent members.

#### **7. Concern for Community Principle:**

Cooperatives are organizations that generally exist for the benefit of their members. Cooperatives have special responsibility to ensure that the development of their community- economically, socially and culturally- is sustained. They have the responsibility to work steadily, for the environmental protection of these communities. It is up to the members, though, to decide how deep and in what specific ways a cooperative should make its contributions to their community.



Self-check 1	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer from a given alternatives** (2 pts each)

- Cooperative's members have equal voting rights, /one member, one vote/. To which principle of cooperative is this statement referring?
  - voluntary and open membership
  - members economic participations
  - Democratic members control
  - independence and autonomous
- The first established set of cooperative principles and included organizational point that manifested social and political as well as business concerns is \_\_\_\_\_.
  - Rochdale principles
  - ILO principles
  - ICA principles
  - UN principles
- Cooperative is autonomous. This refers to as cooperatives is \_\_\_\_\_.
  - Not compete over each other
  - Free from external body interference
  - Association of capital
  - Voluntary membership
- The capital of cooperative is contributed by: -
  - Government
  - NGOs
  - Members
  - Public
- This is how the member is rewarded for their participation in their cooperatives
  - Equality
  - Equity
  - Solidarity
  - Unity
- Cooperative serves their member most effectively and strengthens the cooperatives movement by working together through local, National, Regional, International structures. This expresses through \_\_\_\_\_coop principle.
  - Concern for community
  - Cooperation among cooperatives
  - Open and voluntary membership
  - Democracy
- ICA refers to.....
  - International Co-operative Alliance
  - Indian Co-operative Association
  - Indonesian Co-operative Association

D. International Control of Alliances

8. .... was the promoter of rural credit co-operatives in Germany.

A) France Charles Fourier

C) Friedrich Wilhelm Raiffeisen

B) Schulze-Delitzsch

D) None of the above

**Test II: Give Short Answer for the following questions(5pts each)**

1. List and describe difference between 1937 and 1966 Cooperative Principles

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2. List and describe difference between 1966 and 1995 Cooperative Principles

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3. List and explain difference between Cooperative Values and ethical values

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4. List and describe Ethiopian Cooperatives Historical developments

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5. Define Cooperatives according to ICA,1995

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**Note: Satisfactory rating - 35 points**

**Unsatisfactory - below 35 points**

## Operation Sheet -1

### Cooperatives guide line /principles through the world

✓ Tools and equipment's

Paper, pen and computer

### Common guide line of principle cooperatives through worldpractice and value are: -

1<sup>st</sup> principle: voluntary and open membership

2<sup>nd</sup> principle: democratic member control

3rd principle: member economic participation

4th principle: autonomy and independence

5th Principle: Education, Training and Information

6th principle: co-operation among cooperatives

7th principle: Concern for Community

<b>LAP TEST-1</b>	<b>Performance Test</b>
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Name.....ID.....Date-----

Time started: \_\_\_\_\_ Time finished: \_\_\_\_\_

Assume that XYZ multipurpose farmer's primary cooperative society established 2007 E.C. by 150-members of cooperative from one woreda. During the establishing of these cooperatives' members join to these cooperatives based on their interest and open membership. In addition to that the primary coop. providing training to female members in order to make their participation more active and also, XYZ cooperative society provides service for both members and non-members such as provision of fertilizers, seed, sugar and the like. In 2009/10 fiscal year, the primary cooperatives distributed dividends to the member cooperatives, the greatest dividend of which was 2000 ETB to individual members according to economic participation in that cooperative's society. After two years ago in these primary cooperatives have face the following problem: -

- ✓ Since this date (for the past 2 years) these primary cooperatives has not been able to issue dividends "Not issuing dividends in a timely manner harms the cooperatives society relationships with its members."
- ✓ Theirs the restriction of members who went to join or leaves from these primary cooperatives due to the artificial discrimination among members.
- ✓ There no equal opportunity for both men and women to be electing their representatives
- ✓ There are the interventions of political governments and they have integrations among other cooperatives
- ✓ Their no members participation make decision during generally assembly meeting the decision making only by management committee
- ✓ The provision of services they delivery to members have no quality

Assumed that you are promoters of the cooperative's offices so, howe to solving or surviving the problem /challenge of these primary cooperatives by practicing principles and value of cooperatives

**Instructions:** Given necessary templates, tools and materials you are required to perform the following tasks within **1** hour. The project is expected from each student to do

**Task-1 Apply/practice the principles of cooperatives to solve the problems mentioned the above of primary cooperatives society**

## LG #2

## LO #2- Features of cooperatives

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- ✓ Types and functions of cooperatives
- ✓ Levels of Cooperatives
- ✓ Unique characteristics of Cooperatives
- ✓ Cooperatives Vs other forms of businesses
- ✓ Legislative framework of Cooperatives

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- ✓ Identify Types of cooperatives and their functions
- ✓ Explain Levels of cooperatives and their structural arrangements
- ✓ Identify Unique characteristics of Cooperatives
- ✓ Differentiates Cooperatives Vs other forms of businesses
- ✓ Understand Legislative framework of Cooperatives

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

## Information Sheet -2

### Introduction

Definitions do not describe all aspects of a cooperative. Therefore, it is well to look at those features which distinguish a cooperative from other business enterprises and which will help answer the question, “Is an organization a cooperative or not?” Criteria include: Does the organization provide economic benefits to member patrons? (This does not preclude educational, social, or other benefits.)

1. Is the cooperative essentially a non-profit enterprise? That is, is to benefit users of its services rather than to make profits for the organization or for the members as investors?
2. Does the people who use it control the organization? Generally, every member is given a single vote irrespective of the volume of business he transacts with the firm or how much stock he owns. Sometimes control is based on the volume of business he conducts with the cooperative (patronage voting).
3. Is the organization centered around the mutual interest of its members, that is around a common bond of interest?

### 2.1.Types and function of cooperatives

#### 2.1.1. Types of Cooperatives

Cooperatives operate in all sectors of the economy it is difficult to list them for each sector. Base of our criterion the two principal objective of the members 1. Service cooperatives, and 2. Worker Cooperatives. their goal is to get a job (i.e., producer and labor cooperatives) and also it depending on primary function or purpose the service offered and the way that the members are organized, they also differ depending on the economic activity, how members use the Cooperative and kind of management. Based the primary function or purpose we can categorize cooperatives as: Agricultural Cooperative, Consumer Cooperative, Credit Union, Housing Cooperatives and Worker Cooperative.

### **1. Agricultural/ Producer Cooperatives / Marketing Cooperatives**

The Producer Cooperatives were one of the first kinds of Cooperatives developed to explore and provide solutions to the farmers' production in the early 1880. Producers Cooperatives are also known as marketing Cooperative where the members provide the Cooperative with the same production that the co-op markets in a processed or value-added form. These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipment's, machinery, etc. The Cooperative mandate is to commercialize the members input by seeking the best price possible on the market.

### **2. Consumer Cooperatives**

This is one of the best-known forms of cooperatives. They are owned and controlled by the people that buy the products and services sold, managed or distributed by the co-ops. These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Their mandate is to acquire the products and services required by their members at the lowest possible cost with the highest possible quality.

### **3. Financial/credit Cooperatives**

These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Cooperatives Society and Urban Cooperative Banks are examples of Cooperatives credit society. The financial Cooperatives are initially based consumer Cooperatives offering financial services to their members. The financial Cooperatives were started in rural communities providing farmers with micro credit during the beginning of the 1800s and they were known as people's bank or credit union and saving and credit co-operatives.

These special types of co-ops often come under legislation developed for the uniqueness of the financial services being provided to their members, deposit taking, loans, trust services, and insurance.



Credit Unions (in English Canada) / Caisses Populaire (French Canada) are the most recognizable or best known of the financial Cooperatives. Like other Cooperatives democratic control is in the hands of their members/owners.

These Cooperatives have the mandate to provide their members with financial services at the lowest possible cost and the highest possible return. These services include a variety of deposit vehicles, mortgages, loans, lines of credit, safety deposit boxes, financial planning, estate administration and insurance.

#### **4. Housing cooperatives**

Housing cooperatives are developed to resolve the living need by offering an affordable and secure housing in a viable community. The members are tenants/owners having the ability to manage and control the cooperative. These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses.

#### **5. Workers Cooperatives**

Workers Cooperatives are identified as the type of cooperatives owned and controlled by their employees. The purpose of the worker cooperatives is to create jobs for their members and allow them control of their workplace. Members provide the capital to finance the business, each sharing the costs and risks of ownership. The management of a worker cooperative is concentrated in the business part and classified as a third type of cooperative where the members are employees. Usually, the worker co-ops are services co-op offering services to other business and they are generally printing, nursery schools, cleaning, consulting, delivery, manufacturing and food services. Major benefits to the employee-members include involvement in the policy-making process, through the election of a Board of Directors, profit sharing through patronage allocations, and a quality of work life that is established by the membership

#### **6. New-generation Co-ops**

New Generation cooperative or New Formula to view and operate a Co-op and they are the latest buzzwords in the co-op community describing a variation on the traditional co-op, yet, retaining the critical co-op principles.

New Generation Cooperatives (NGCs) represent an emerging trend in agriculture, forestry, fishing and other industries that are supplied by producers. These are distinct types of cooperatives formed to enable members to process raw commodities. As a result, members not only receive market prices for their produce, they also gain the opportunity to profit from processing and marketing these value-added products. It is primarily the financial structure and membership requirements that distinguish NGCs from the more traditional cooperatives. Typically, higher equity investments are required by members in order to establish a processing plant. Because of the unique structure of NGCs, members feel a greater degree of personal ownership and a stronger commitment to the cooperative.

These cooperatives are referred to as new generation because of four distinct variances from traditional co-ops:

- ✓ The focus is on the value-added processing or manufacturing of raw commodities delivered to the co-op by its members and the marketing of the resulting products.
- ✓ A significant equity investment is required by each member, with the total initial equity contribution being a major portion of the gross project costs.
- ✓ A two-way contract between the member and the co-op requires each member to deliver, and the co-op to accept, an agreed-upon amount of the raw commodity for each delivery right (special investment share under legislation) owned by the member.
- ✓ Membership is limited to the number of special investment shares (delivery rights) required to be sold by the co-op to its members in order to meet its processing capacity.

### 2.1.2. Functions of cooperatives

Cooperatives society may be established to engage in **production or service rendering activity or both in production and service rendering activity**.

- The followings are the main functions of cooperatives:
  - ✓ Access to quality supply and services at reasonable cost
  - ✓ Local economy enhanced and protected
  - ✓ To promote saving and credit system

- ✓ Provide a marketing service to their members. For example, they could sell a farmer's grain, coffee, or livestock for them.
- ✓ Sell needed supplies to their members. For example, they could sell to a farmer the fertilizer, improved seed varieties, and consumer goods they need.
- ✓ Provide the service needed by its members. For example, they could provide a farmer with tractors or combines, provide finance, have flour mills, and provide a workshop to repair or build equipment.
- ✓ Take a commodity raised by its members and process it into other products. Forexample, they could take a member's grain and process it into mill or pasta products or take milk and process it into other dairy milk products, such as cheese and ice cream

A cooperative exists to fill a mutual need of its members. Depending on the need, a cooperative may serve one or multiple functions: -

The goal of a **marketing cooperative** is to benefit members by helping them increase their margins, maintain control of their product to point of sale, and secure a reliable and consistent market for their goods. Marketing cooperatives may negotiate sales

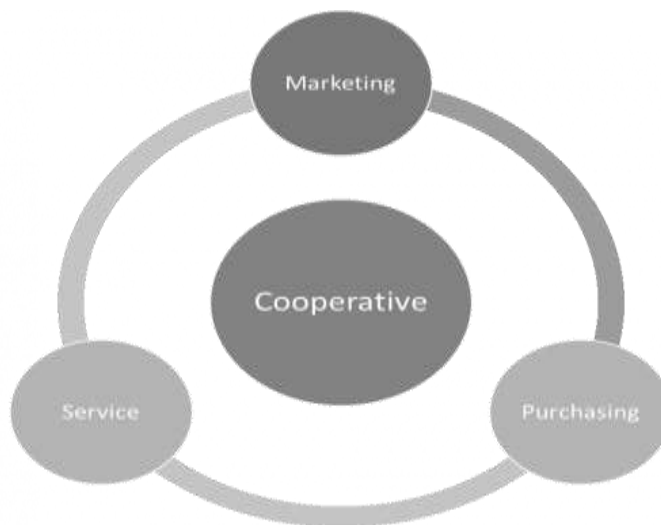


Figure 2.1 Function of cooperatives

Some marketing cooperatives aggregate product from members to achieve a volume sufficient to access larger markets, such as institutions and intermediaries.

The co-op may further process and then sell the products with added value. For example, agricultural cooperatives market farm products for members.

- ✓ **Purchasing cooperatives** achieve discounts on bulk purchases and pass the savings on to members. Farmers, manufacturers, and builders' benefit from purchasing cooperatives to buy inputs. Purchasing cooperatives such as purchase bulk product and resell product in smaller quantities to members and non-members.
- ✓ **Service cooperatives** provide members access to services. Credit unions provide members with access to credit. Healthcare cooperatives provide care to thousands of patients each day. Insurance co-ops provide members with risk management policies for home and business.

## 2.2.Unique characteristics of Cooperatives

A co-operative society is a special type of business organization different from other forms of organization and also cooperatives is a special method of doing business. Let us discuss some of points characteristics: -

- a) **Open Membership:** The membership of a co-operative society is open to all those who have a common interest. A minimum of ten members is required to form a co-operative society. For example, a housing society of teachers of a particular school or university may be formed and non-teachers may be denied membership in it. The co-operative society Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.
- b) **Voluntary Association:** members join the co-operative society voluntarily, that is by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.
- c) **Cooperatives as nonprofit making organization:** Another point about co- operatives is that the underlining force behind them is not for making profit. That is to say, the primary objectives for the formation of a cooperative society are not for profits unlike the private entrepreneurs.

Co- operatives on the other hand are business organizations of patrons whose motive is to obtain goods and services they require at cost through their joint undertaking. Consequently, cooperators combine in themselves the functions of owners and users.

- d) **State Control:** To protect the interest of members, co-operative societies are placed under state control through registration. When getting registered a society has to submit details about the members and the business it is to undertake. It has maintained books of account, which are to be audited by government auditors.
- e) **Sources of Finance:** The finances of a co-operative society are contributed by members through the purchase of shares. Since co-operatives are generally formed by the weaker and poorer sections of the society, their capital collections. Also, there is limit to the maximum shares that a member can buy in a co-operative society. However, it can easily raise loans and secure grant from government after its registration.
- f) **Democratic Management:** Co- operative society is managed by group known as “Board of Directors”. The members of the board of directors are the representatives of the society. Each member has a single vote, irrespective of the number of shares held. For “example”, in local area of xyz credit society, the small farmer having one share has equal vetoing right as that of a landlord having 20 shares
- g) **Service Motive:** co-operatives are not formed to maximize profit like other forms of business organization. The main purpose of a co-operative society is to provide service to its members. For example, in a consumer co-operative store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.
- h) **Separate Local Entity:** A co-operative society is registered under the cooperative society Act. After registration the society becomes a separated legal entity with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of the society. It can enter into agreement with others and can purchase or sell properties in its own name.
- i) **Distribution of Surplus:** Every co-operative society in addition to providing services to its members, also generate some profit while conducting business, profit is earned at the cost of its

members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of member's participation in the business of the society. For example, in a consumer co-operation store only a small part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.

- j) **Self-help through mutual Cooperation:** A co-operative society thrives on the principle of mutual help. They are the organization of financially weaker section of society. Cooperative societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of “Each for all and all for each”, the members can fight exploitation and scone a place in society.

#### • **Features of Cooperatives**

Cooperation is a special method of doing business. It has the following features:

1. **An Association of Persons:** A Cooperative Society comes into existence when a group of individuals join hand and form an association.
2. **An Enterprise or Undertaking:** Cooperation lays stress on ethical standard and it is basically an enterprise. It is run by members themselves at their own cost and risk.
3. **Voluntary Association:** An individual is free to join the Society and resign from his membership of the Society at his will and discretion.
4. **Service Objective:** The main object of co-operative society is to serve its members rather than to earn profits.
5. **Equity:** No discrimination among members is made on the grounds of religious faith, political ideology, and educational qualifications and so on.
6. **Norms of Social Justice:** There is no class division among capitalists and working class in Co-operation.
7. **A part of Socio-economic Movement:** The Co-operative movement is viewed as a constituent part of the overall socioeconomic movement of the country.

The purpose of a cooperative is to meet a common need amongst its members and to provide greater benefits to its members such as increasing income levels for members or enhancing way of

living. But just because a cooperative is not profit driven does not mean that it is a non-profit. In fact, cooperatives operate in a manner to earn a profit, but co-ops strive to keep net income low by providing products and services at or near cost. Cooperative businesses have three distinctive economic principles that separate them from other business structures, and they are:

- a. **User-Owned:** The people (members) who use the co-op's services help finance the co-op's operations, and thus they own the business. Members are responsible for providing some of the start-up funding, and they provide working capital to the co-op by using its services.
- b. **User-Controlled:** Members of the co-op govern the business directly by voting on significant issues and indirectly through representatives on the board of directors that they elect. Co-ops are democratically-controlled businesses, and voting rights are tied to membership status (usually one-member, one-vote) and not based on the level of investment.
- c. **User-Benefitted:** Members receive benefits from the co-op based on their use of the services of the cooperative. Members who use the co-op more receive more of the benefits. Co-op benefits may include better prices for goods, improved services, market for goods, or source of inputs. Net profits of the cooperative are allocated to members based upon their use of the co-op's services.

### 2.3.Level of Cooperatives by their structures

Cooperatives is categorized based on the level of their organization: Primary cooperatives, Secondary cooperative/union, Federation/tertiary and League: -

**Primary cooperative society"** means a cooperative society established by individuals having similar interest and objective with a minimum number of members prescribed in this Proclamation to produce, provide service or to engage in both activities; These are organized by the people to serve as the first level in the cooperative system. Its member/owners are the local people. They elect the board of directors (management committee) and controlling committee.

**Union (Secondary Cooperatives):** According to Cooperative proclamation No.985/2016 defines these cooperatives are the second in the structure. They are organized by a number of primary cooperatives having similar objective with a minimum number of members as prescribe in this proclamation to produce, provide service or to engage in both actives that are beyond the

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capacity of primary. The board of directors of the cooperative Union is elected by the directors of the primary cooperatives, which are members of the Union. Cooperative societies union may be established at the federal or regional levels based on their social and economic feasibility. The members of a cooperative society's union established at federal level shall be drawn at least from two regional primary cooperative societies.

**Federation:** According to Cooperative proclamation No.985/2016 defines these cooperatives are the third in the structure/tertiary level of cooperatives society established by cooperatives society union. They are organized by two or more cooperative Unions having similar objective with a minimum number of members as prescribe in this proclamation to produce, provide service or to engage in both actives that are beyond the capacity of cooperatives society union. Where it is socially and economically feasible, cooperative societies' federation may be established at federal or regional the members of a cooperative society's federation to be established at federal level shall be two or more than two cooperative societies unions drawn at least from two regional cooperative societies unions levels. The boards of directors of the Federation are elected by the directors of the cooperative Unions, which are members of the Federation

**Cooperatives society league:** Subject to the provision of this Proclamation and that of other relevant laws, primary cooperative societies, cooperative society unions and federations may establish a league that represents all cooperative societies in Ethiopia. The highest /apex of the cooperative structure is known as league. The number of the league established pursuant to sub-article (1) of this article shall not exceed one. The establishment, functions and financial sources of cooperative societies' league shall be determined by the council of minister's regulation.

According to cooperatives proclamation No.985/2016, Cooperatives society league mean league which represent primary cooperatives society, cooperatives society union and cooperatives society federation operating at national level and registered by appropriated authority approved by house of people representatives

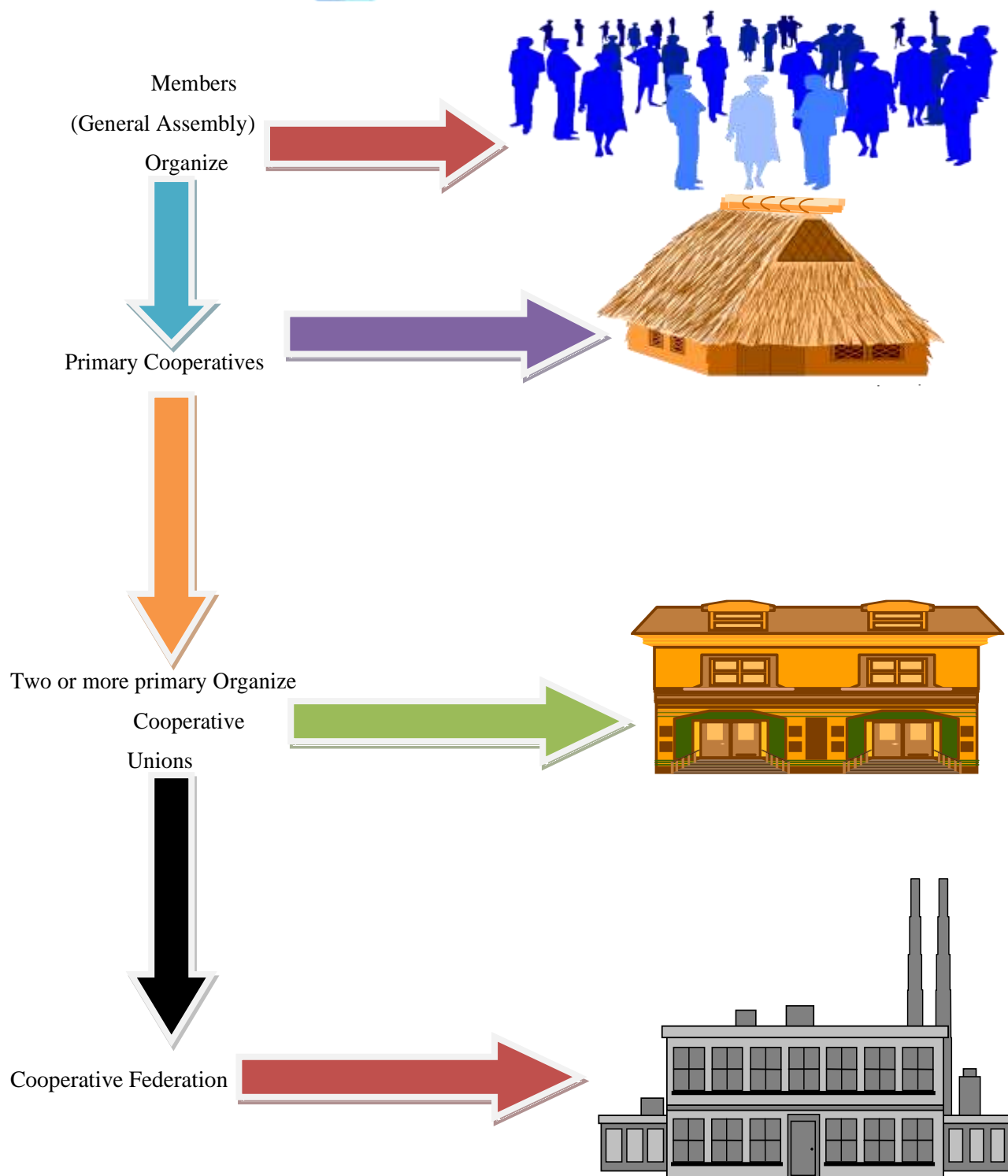


Fig 2. Summary of the vertical structure of cooperative

#### 2.4.Cooperatives Vs other forms of businesses

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- **Forms of Business Organization**

Various legal forms of business organizations are available to organize businesses. These include: Proprietorship, Partnership, Corporations, and Cooperatives. Each form of ownership has a characteristic internal structure, purpose, legal status, ownership, controls and field to which it is best suited. Each has key advantages and disadvantages and offers employees a distinctive working environment

#### **2.4.1 Sole Proprietorship**

A sole proprietorship is a business owned by just one person, although it may have many employees. It is the easiest form of business to start with limited funds. This person, also called a proprietor, is classified as self-employed. Sole proprietorship is the most common form of ownership among small businesses and can be cited as the first stage in the evolution of the forms of business organizations.

Proprietorships are generally referred to as sole proprietorships, because the business (assets, liabilities and all of the risks) belong to one individual. The owner provides the capital to start the business and may perform any normal business transactions, though with personal liability and personal responsibility.

The basics include registration of a business name, opening business accounts and acquiring any licenses or permits required. Because the entrepreneur is the sole decision maker, the nature of the business is much more flexible than other structures. In a proprietorship, all of the risk is carried by the owner, but the decision to assume that risk provides for quick decisions and agility that would not be possible with other organization structures.

- **Purpose**

Proprietorships can engage in virtually any type of enterprise. They can be large, with many employees, or they can be a one person/owner/employee business. Business income, net of expenses, is treated as personal income for the owner and as such, business income is taxed at personal income tax rates, which are often much higher than corporate income taxes.

- **Organization**

The proprietor has complete control over the business, types of business, whether the business continues or ceases, business purchases, sales and so on. The proprietor is also personally liable for any indebtedness of the business venture or unlimited liability. This means that assets that a proprietor has outside of the business would still be at risk in the event of business failures, even if the assets were owned before starting the business. The life of the business is tied to the life of the owner.

#### **2.4.2 Partnership**

A partnership is very similar to a proprietorship, except that there are two or more owners. There are two basic varieties of partnership, generally referred to here as a partnership and limited partnership, which is a variation to the basic partnership.

Partnerships are generally guided operationally by a partnership agreement, which defines how the venture will operate (i.e. managed), how decisions will be made and how profits and losses will be treated. This agreement may also define how a partner can exit the partnership.

In a general partnership, all of the partners are personally liable for the venture's liabilities. While the partnership agreement cannot change the liability, it can outline how partners could recover funds from each other. Partnerships are voluntary associations, and most are relatively small businesses. They are the least popular forms of business ownership.

A limited partnership provides for one or some of the partners to limit their liabilities to the amount of the capital they have invested into the partnership. This is helpful when an entrepreneur is seeking capital from someone who, while willing to invest, does not want to be involved in the day-to-day business decisions. The life of the partnership is determined by the partners. If one partner dies or wishes to leave the organization, it must be dissolved and a new partnership organized.

- **Purpose**

Partnerships, like proprietorships, can engage in virtually any type of enterprise. They can be large enterprises with many employees. Business income, net of expenses, is treated as direct income for the owner and taxed at personal income tax rates.

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- **Organization**

Whether assigned by way of a partnership agreement or not, the general partner or partners have complete control over the business, types of business, whether the business continues or ceases, and purchases, sales and so on. They decide when to change or wind down the partnership. The structure is similar to a proprietorship.

### **2.4.3 Corporations**

Corporations are legally created “persons” that can perform business transactions in the same manner as an individual or partnership. Corporations have been referred to as a “creature of the law”. This corporation has the right to buy and sell goods and services. It operates as a profit-making enterprise for its investors, called stockholders. They are a legal entity, with ownership defined under a share pre-determined structure.

The most widely quoted definition for joint stock company or corporation is given as an artificial person (being an association of natural persons) authorized and recognized by law, with distinctive name, a common seal, comprising of transferable shares of fixed values, carrying limited liability and having a perpetual or continued or uninterrupted succession life.

Corporations are subject to special legislation and generally require legal assistance to establish and to operate. Management is controlled by a board of directors and officers. Each stockholder has as many votes in elections as the number of shares of stock they own in the corporation.

Business and policy decisions are made by the directors and officers. Profits are divided among the stockholders as dividends, based upon the number of shares that a stock holder has. A corporation continues its existence, regardless of the death, entrance, or exit of one or more of its owners.

- **Purpose**

A corporation can exist to provide virtually any service, and the sole corporate purpose is to provide benefit (monetary or other) to shareholders.

Profits may be distributed in the form of share dividends and increased equity which should theoretically increase the value of the shares. In the broadest terms, there are private corporations and public corporations. The corporate entity and its functioning are described in “Articles of

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Incorporation” and Bylaws created for each corporation. Normally these are prepared and registered with legal assistance.

Not for Profit corporations are formed for non-commercial purposes with the express intention to not make personal profits.

Any profits that are generated are used to further the goal or undertakings of the non-profit organization or donated to another non-profit organization. Profits cannot be used by the individuals of the corporation for their own personal financial gain.

- **Ownership and Control**

Private corporations have ownership that is clearly identified and limited. Shares are privately traded. Examples of simple corporations include individuals, partners or groups (related or unrelated). Control is defined in the Articles of Incorporation and bylaws, described in detail in a later section. In some private corporations, decisions are not necessarily based on ownership. A shareholder may, by choice, be excluded from corporate business decisions. Decision making and accountability are clearly defined in the By-laws.

#### **2.4.4. Cooperatives**

Broadly defined, “A cooperative is an organization owned by the members who use its services. Cooperatives can provide virtually any product or service, and can be either a non-profit or for-profit enterprise.” (Canadian Cooperative Association) Cooperatives have a clear set of values, principles and guidelines that outline the manner in which they operate.

One of the reasons that cooperatives have been so successful globally is the fact that their creation is generally rooted in a common need. For example, credit unions were created because individuals did not have access to credit.

Cooperatives allow individuals to accomplish together what none of the participants could have achieved alone. These cooperatives are formed to give members more economic power as a group than they would have as individuals. Cooperatives can have open membership or what is called a “closed bond” membership. Closed bond means that membership is open to a defined group of individuals.

Incorporated cooperatives with share offering will have a requirement for members to purchase a membership share. Their membership provides membership in the cooperative and voting rights in the election of the board of directors and a voice in the affairs of the cooperative.

Cooperatives can also be created without shares, in these circumstances; members do not purchase a share in the cooperative, but pay a membership fee, sometimes including an annual fee, or provide a member loan to the cooperative. This must be defined in the cooperative's by-laws.

- **Purpose**

While cooperatives can provide virtually any service from funerals to birthing centers, and everything in between, the purpose of a cooperative is linked to the common needs of its members. All cooperatives have their origins in some form of mutual self-help, whereby there is a direct benefit in sharing a service or activity. The purpose of a cooperative is to provide benefits to its owners (who are also the consumers). Financial rewards are generally based on member participation, often referred to as 'patronage', but may in some cases also be linked to ownership.

- **Ownership and Control**

All cooperatives are structured in a manner whereby the members (the people who benefit from its activities) own and control the organization. The most unique attribute of a cooperative is that, unlike any other structure, the customers are the owners. Cooperatives work for the good and fulfillment of all members. In some models, producers or employees are the member-owners. These cooperatives still work for the benefit of the members.

*Table.1.2 Comparative summary of the different forms of business organization*

<b>Organization Structure</b>	<b>Number of Owners and Owner's Ease of Start-up</b>	<b>Investor Liability</b>	<b>Equity Capital Sources</b>	<b>Firm Life and Liquidity of Ownership</b>
<b>Proprietor-ship</b>	One owner; little time and low legal costs	Unlimited	Owner	Life determined by the owner; often difficult to transfer ownership
<b>General partnership</b>	Two or more owners; moderate time and legal costs	Unlimited	Partners, families and friends	Life determined by partners; often difficult to transfer ownership
<b>Limited partnership</b>	One or more general partners and one or more limited partners	Limited partners' liability limited to their investments	General and limited partners	Life determined by general partner; often difficult to transfer ownership
<b>Corporation (private)</b>	One or more owners, with no limit; long start-up time and high legal costs	Limited to share-holders' investments	Venture investors and common share-holders	Unlimited life; usually easy to transfer ownership
<b>Cooperative</b>	Member-owners	Limited liability	Member-owners	Unlimited life



## 2.5. Legislative framework of Cooperatives

### 2.5.1. Meaning and concept of Legislatives

**Cooperative law** means the rule and regulations established in a country by cooperative appropriate authority and applicable to its people, whether in the form of legislation or policies recognized and enforced by appropriate authority. It includes cooperatives proclamation, regulations, directives, by laws and internal by laws.

**Legislation** is the word for all the laws and legislative measures of a country. It is the most appropriate way of controlling the activities of people working in the field of economics

- **Coop legislation takes different forms depending on the country:**

1. Those adopt a single law applicable and valid for all coop (Germany, Brazil, Côte d'Ivoire, Thailand, Mexico] among others);
2. Others have specific laws for a given type or sector of coop separately (Ethiopia, Japan, France, Rumania among others);
3. In some countries, cooperatives are regulated by specific chapters of more general codes like the Civil Code or the Commercial Code (Switzerland, Belgium among others);
4. Coop can also be regulated by special provisions governing the application of a more general law to cooperatives (the United Kingdom for example).
5. Some countries like Denmark and Norway have the distinction of not having any cooperative legislation

In spite of their diversity, all legislation on cooperatives is usually in three parts.

- **First** of all, a law, an ordinance, a decree, a proclamation or a decision, whatever is the term used for it in the country in question, sets forth the fundamental nature and the general principles.
- **Secondly**, regulations drawn up to conform to the law are issued
- **Thirdly and finally**, the rules governing their operating procedures are set.

### 2.5.2. Historical development of cooperative laws in Ethiopia

The first cooperative law of the modern cooperative movement in our country was agricultural cooperatives decree No. 44/1960 which is prepared at the time of Emperor Regime.

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After time later in the emperor regime the empire made some adjustment on the first decree/cooperative law and enacted proclamation No. 241/1966 as agricultural cooperatives proclamation.

After the collapse of the imperial regime the Derg government enacted agricultural cooperatives proclamation No. 138/1978 for control and follow up of cooperatives.

After the downfall of the Derge Regime the Transitional government enacted agricultural cooperatives proclamation No. 85/1992 for management of the cooperatives of the time.

Then the FDRE government developed the first ICA principle and societies-based cooperatives society proclamation No. 147/1998,

Cooperative proclamation amendment 402/2002, and Cooperative regulation 106/2002 to manage the cooperative movement in the country and to reinforce these principles and strengthen membership incentives by improving members' rights in the areas of ownership, voting, share transfers, and risk management. Finally, at recent time FDRE government proclamation No. 985/2016 which is called as Cooperatives society proclamation.

### **2.5.3. The role of cooperative legal frame work**

Cooperative legislation shall establish that cooperatives are entities capable of holding legal rights or obligations, that is, entities whose existence is recognized by the national legal system as having all rights of any legal person, on equal terms as corporations, non-profit organizations and other legal forms of association admitted under national law.

If the legal system of the country permits it and clearly states its legal nature, the cooperative law could contain a preamble, possibly alongside a clause in the constitution or a policy declaration on cooperatives.

#### **✓ Cooperative legislative play'srole the following: -**

- It helps to regulate the day-to-day activities of cooperative
- It offers Cooperators a legal framework, which will permit them to develop their activities in an autonomous manner.
- It is a reference point and a guide mark.
- Guarantees the autonomy of cooperatives because of its inevitably general character;

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- Reduces bureaucracy;
- Favors the unity of the cooperative movement; and finally
- Guarantees legal security for those dealing with cooperatives

#### 2.5.4. Cooperative Law Vs Legislation

The cooperative law is part of cooperative legislation. The rule of law is a fundamental element in the new approach to development which emphasizes the respect for human rights. This presupposes that the legal relationship between citizens and the state is founded on acts of parliament. International cooperation uses law, in an ever-increasing manner, as a means of information and communication.

For example, law establishes the criteria for the definition of legal persons, which gives physical persons the possibility of avoiding personal, financial liability. Cooperative legislation is: - to regulate the activity of the cooperative sector. It will be part of public economic law and should include besides rules on the formation, structure, operations and Dissolution of cooperatives, rules on a tutelage authority and its powers.

**Cooperative law** means the rule and regulations established in a country by cooperative appropriate authority and applicable to its people, whether in the form of legislation or policies recognized and enforced by appropriate authority. **Cooperative legislation:** refers to the actual law enacted by a legislative body at the national, state, or local level governmental and cooperatives organizations.

#### 2.5.5. Content of a Cooperative law

- **Preamble:** Defines guidelines for interpretation of the law.
- **General provisions:** This section contains, among other matters, the definition of a cooperative society, the cooperative principles, a definition of terms used in the law...etc.
- **Formation, registration and publication:**
  - ✓ Formation (status of members, their number, age restrictions).
  - ✓ This section also contains guidelines for the procedure for registering the cooperative with the competent authorities and its consequences as well as
  - ✓ For the rules for admission and resignation of members and

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- ✓ Conditions for their exclusion and suspension.
- ✓ Obligations and rights of members:
- **Organs and management of the cooperative society:**
  - ✓ A list of the different organs of the cooperative along with their composition and powers is drawn up (General Meeting, Board of Directors, and Supervisory Committee).
- **Funding, accounts and distribution of surpluses:**
  - ✓ The cooperative's internal and external financial resources
  - ✓ A definition and description of a share, the reserve fund,
  - ✓ Ways of distributing the surplus at the end of the financial year
- **Audit:**
  - ✓ Procedure for controlling the accountability and management of an enterprise and the way it fulfills its objectives.
  - ✓ It monitors whether the interests of third parties, administrators and members are being protected.
  - ✓ The audit can be internal or external
  - ✓ The frequency of internal and external audits must be clearly defined in the law.
- **Forms of dissolution/ termination:**
  - ✓ The law deals both with the steps to take after dissolutions without liquidation / Bankruptcy and dissolutions with liquidation.
- **Simplified structures:** The law might provide organization less complex than the traditional cooperative.
- **Apex organizations:** The cooperative law has to define the roles of unions,
- **Settlement of disputes:** The cooperative law specifies the way disputes in cooperative matters are dealt with and settled.
- **Miscellaneous, transitory and final provisions:** The legal penalties incurred by particular acts and on the decree specifying how the law should be enforced, etc

**Self-Check – 2**

**Written test**

Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Multiple choice (2pts each)**

- Types of cooperatives take commodity raised by its members and process it in to other product is\_\_\_\_\_.
  - Service cooperative
  - Process cooperatives
  - Marketing cooperative
  - Supply cooperatives
- Among the other form of business organization which one is formed a business with two or more owners?
  - Corporation
  - Partnership
  - Cooperatives
  - Sole proprietorship
- An autonomous association of person united voluntarily to meet their economic, social and cultural need and aspiration through a jointly-owned and democratically controlled enterprise
  - Government
  - Cooperatives
  - Partnership
  - Corporation
- From the types of business organization, which one is unlimited liability?
  - Partnership
  - Corporation
  - Cooperatives
  - None
- Among the following, which one is false about the unique character of cooperative?
  - Profit maker
  - Services rendering
  - Association of person
  - All
- Limited liability is the characteristics of\_\_\_\_\_
  - cooperatives
  - partnership
  - sole proprietorship
  - All



## LG #3

## LO #3- Role of Cooperatives

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- ✓ Objectives and Benefits of Cooperatives
- ✓ Advantages and Disadvantages of Cooperatives
- ✓ Rational of establishing Cooperatives

This guide will also assist you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- ✓ Explain Objectives and Benefits of Cooperatives
- ✓ Identify Advantages and Disadvantages of Cooperatives
- ✓ Describe Importance of establishing Cooperatives.
- ✓ Identify factors affecting cooperatives

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

## Introduction.

- **The role of cooperatives in socio-economic system**

✓ *Dear trainees what do you think about the roles of cooperatives in socio-economic development? Discusses*

Cooperatives play quite an important role in the promotion of socio-economic development in the area of food security and sustainable agriculture and rural development through the provision of good and service to the rural and urban population. they also traditional organization of mainly the poorer segment of society which have the potential to play an important role in developing a strong social capital in rural areas. Social capital is a pre-requisite for food security and sustainable development. The concept of that needs clarification is “sustainable development”. Sustainable development is development that meets the needs of the present without compromising the needs of future generation to meet their own needs.

The objectives of a cooperative are primarily social and economic. It is not an easy task to organize and successfully develop a cooperative and generally a rather time-consuming and complicated process. Market conditions, government policies and the legal environment should be conducive for such a development. Moreover, strong leadership and management capabilities should be available, together with sufficient financial resources. The purpose of the cooperative is to provide greater benefits to the members such as increasing individual income or enhancing a member’s way of living by providing important needed services. Additionally, the importance of co-operatives is job creation, mobilizing resources, generating investment and their contribution to the economy. In their various forms of cooperatives promote the fullest participation in the economy and social development of all people



### Information Sheet -3

### 3.1. Objectives and Benefits of Cooperatives

#### 3.1.1. Objectives of Cooperatives

- Self-help made effective by organization is called Co-operative Society. The main objectives of cooperatives are:
  - ✓ **Elimination of Middlemen:** The First and foremost objective of co-operative society is to remove the middlemen in different fields, who take away the gains that should have gone to the real beneficiaries.
  - ✓ **Raising economic status of the poor:** The most basic aim of a co-operative society is to raise the standard of living of the poor.
  - ✓ **Removal of the ills of capitalism:** The basic cause of the ills of capitalism is the profit motive. This leads to exploitation, class struggle, economic inequality and unfair competition. These evils adversely affected the interest of workers and gave birth to co-operative movement. Therefore, the aim of co-operation is to restrict the amount of profit and provide better service to its members.
  - ✓ **Raising moral standards of its members:** Co-operative movement wishes to direct human life towards goodness by raising their moral standard.
  - ✓ **Increasing the prosperity of the whole community.** A co-operative society aims at bringing about the welfare of not a particular individual but of the whole community.
  - ✓ **Abolition of Social Inequalities:** The feeling of 'high' or 'low' among members of the community act as a cause of social tensions, the removal of which is the goal of the co-operative movement.
  - ✓ **Political and Religious Neutrality** As far as possible, a co-operative remains aloof from political parties and religious groups.
  - ✓ **Development of Corporate Life:** A Co-operative aims at providing a corporate life to the weaker sections of the community.
  - ✓ To solve problems collectively which members cannot individually achieve;

#### 3.1.2. Benefits of Cooperatives

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Benefits of cooperatives are difficult to measure. Some are tangible or direct as in the case of net margins or savings. Others are intangible or indirect such as cooperatives' effect on market price levels, quality, and service. Some are most evident at the time the cooperative is organized but become more obscure as the years pass. Benefits are greater for some types of cooperatives or in specific areas. Most benefits are evaluated in economic terms but some also may be social.

- In several major ways, cooperatives benefit members, and often non-members.

#### **a) Increase Income Communities**

Cooperatives increase farm income in a number of ways. These include:

- ✓ Raising the general price level for products marketed or lowering the level for supplies purchased;
- ✓ Reducing per-unit handling or processing costs by assembling large volumes, i.e., economies of size or scale;
- ✓ Distributing to farmers any net savings made in handling, processing, and selling operations;
- ✓ Upgrading the quality of supplies or farm products handled; and
- ✓ Developing new markets for products.

#### **b) Improved Service**

A basic objective of cooperatives is to serve their members' needs. They do this by providing services not available or by improving existing services. Rural electric cooperatives and artificial insemination associations are outstanding examples of making a new service available in rural areas.

#### **c) Quality of Supplies and Products**

Their objectives have been to provide the feed, seed, and fertilizer that gave the farmer maximum gains or yields rather than those that returned the largest net margins to the cooperatives. Cooperatives long have relied heavily on State experiment stations for advice as to variety of seed, analysis of fertilizer, and formulation of feed that would best meet the needs of their farmer-members.

#### **d) Expanded Markets**

Through pooling products of specified grade or quality, many marketing cooperatives can meet the needs of large-scale buyers better than can individual farmers.

A number of cooperatives have developed markets in other countries and their exports provide outlets for more production than members otherwise could sell.

#### e) **Improved Farm Management**

Progressive managers and field staffs of cooperatives provide valuable information to members on farm production and management practices. Advice may be offered on the quality of seeds, fertilizers, and pesticides, and on feeding and cropping practices. Also, many cooperatives provide market and economic information about various products or enterprises.

### **The General Benefits of the Cooperatives**

The benefits of co-operation are studied under **three broad categories** viz., a). Economic Benefits b). Social and Political Benefits c). Educational Benefits

#### a) **Economic Benefits:**

- The following are the Economic Benefits derived out of Co-operative Form.
  - ✓ The substitution of profit incentive in business by that of service to the community.
  - ✓ A more equitable distribution of wealth.
  - ✓ A break up of monopolistic tendencies.
  - ✓ Increase in purchasing power and real wages to individuals.
  - ✓ Reduction in cost of distribution system by elimination of unnecessary middlemen.
  - ✓ The more accurate correlation of demand and supply.
  - ✓ Stabilization of employment.
  - ✓ General improvement in employer, employee relationships.
  - ✓ Cheap marketing and processing of farm products at reasonable prices.

#### b) **Social and Political Benefits**

The Important Social Benefits are as follows:

- ✓ To provide a unique education in democracy, responsibility and toleration.
- ✓ To train for political power.
- ✓ To evolve an industrial relationship among all.
- ✓ To preserve a strong friendly or family spirit and sense of pride and power which is impersonal.
- ✓ To secure rational construction and unifying approaches to social and economic problems.
- ✓ To prevent underemployment and unemployment

- ✓ To secure moral as well as physical satisfaction of pure quality, correct weight and fair dealings.
- ✓ To prevent exploitation of man by man.

**c) Educational Benefits**

- ✓ The individuals learn by experience gained in practical work of co-operation.
- ✓ Co-operation also sponsors education. There are many co-operative schools and colleges formed to provide affordable education and also employment to educated unemployed youths

**d) Ethical Benefits**

- ✓ The policy of honesty is a necessity in co-operation
- ✓ Cooperation returns money value for honesty and other virtues.
- ✓ The motto of co-operation is “each for all and all for each”
- ✓ Co-operation aims at the production of fine human beings.

### **3.1 Advantage and Disadvantage of Cooperatives**

#### **3.1.1 Advantages of Co-operative Society**

A Co-operative form of business organization has the following advantages:

1. **Easy Formation:** Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.
2. **Open Membership:** Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.
3. **Democratic Control:** A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.
4. **Limited Liability:** The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.
5. **Elimination of Middlemen’s Profit:** Through co-operatives the members or consumers control their own supplies and thus, middlemen’s profit is eliminated.

6. **State Assistance:** Both Central and State governments provide all kinds of help to the societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc.
7. **Stable Life:** A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

### 3.1.2 Disadvantages of cooperatives

Besides the above advantages, the co-operative form of business organization also suffers from various limitations. Let us learn these limitations.

1. **Limited Capital:** The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society. Again, due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.
2. **Problems in Management:** Generally, it is seen that co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.
3. **Lack of Motivation:** Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.
4. **Lack of Co-operation:** The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.
5. **Dependence on Government:** The inadequacy of capital and various other limitations makes cooperative societies dependent on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and also audits their annual accounts.

### 3.2 Rationale of establishing Cooperatives

#### ☞ *Why and how to start a Cooperative?*

There basic rationale is that they are providing a good or service that is demanded at a price which creates an acceptable return to the member-owners. There are however some classic situations where cooperatives are particularly effective. In terms of the general cooperative business model, typical rationales include: economies of scale, providing a missing service and reducing or pooling risk.

A cooperative is simply an alternative structure for organizing economic activity. The major rationale for forming a cooperative is to improve the economic well-being of the potential members. In almost any situation where there is a potential to form a feasible business there is the potential to form that business as a cooperative and, in fact, cooperatives are successfully Co-operatives are often very attractive to public service workers who want to be liberated to provide a high-quality service.

- The other rational for starting/establish cooperative includes: -

#### ✓ **To improve bargaining power**

Co-operatives can provide groups of producers with marketing power more comparable to that held by processors and other market players. Co-ops do this by gathering market information and sharing that information with their members or by acting as a bargaining agent on producers' behalf.

#### ✓ **To reduce costs**

Pooling capital and resources through co-op enterprises can enable producers to access services, such as marketing expertise, that they could otherwise not afford alone.

#### ✓ **To achieve economies of scale**

By handling large volumes of product, co-operatives can reduce the per-unit cost of marketing and processing for producers. Similarly, the cost of inputs and services can also frequently be lowered if larger volumes are ordered through a central agency. Co-ops allow producers to focus on producing goods, rather than on finding buyers and suppliers.

#### ✓ **To increase returns**

Because the surpluses generated by co-operative businesses are returned to producers on the basis of patronage, co-operatives allow producers to capture additional profits beyond the farmgate.

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✓ **To improve product and service quality**

Co-operatives can allow producers to coordinate the timing of the delivery of commodities to markets. Co-ops can also enable producers to implement grading systems and standards. These activities can improve the services provided to retail and wholesale outlets and the quality of product available to consumers.

✓ **To reduce risk**

Agricultural commodity prices often fluctuate considerably throughout the year. Co-operatives allow farmers to pool their production with that of other farmers to minimize price and market risk.

✓ **To obtain needed products or services**

Often producers require certain services or products which privately owned companies are reluctant to provide due to the small potential sales volume or uncertain profits. Such producers may join together to form a co-operative to assure the availability of vital products and services.

### **3.2.1 Formation of Co-operative**

- ✓ According to their nature established from primary up to the federation level.
- ✓ A primary society shall be established by persons who live or work within a given area.
- ✓ Members in a primary shall not be less than ten.
- ✓ for above primary societies should not be less than two,

### **3.2.2 Manageable membership size;**

- ✓ The maximum number may be determined in the by-law,
- The size of membership depends on;
- ✓ Availability of resources around,
  - ✓ The nature of the project,
  - ✓ The expected outcome of the project (quality production or service, efficiency of service, addressability of the problem...);
  - ✓ If the membership is not manageable of size form extra branches,
  - ✓ In the new proclamation under amendment the problem is reconsidered. (Minimum 50, but for special coops not less than 10),

### 3.2.3 Conditions that favor starting cooperatives

- Certain conditions are need for starting cooperatives successfully. Such conditions are as follows.
  - a) The cooperative that is to be started must be *socially viable*. Those who are starting such cooperatives must be willing to provide all needed cooperation.
  - b) The members who are entrusted in starting a cooperative must commit themselves to mobilize *needed resources*. This should be on a voluntary basis and not for a pressure from outside.
  - c) There should be the *community of interest* between the proposed members. That means, the proposed members should have a common problem to be solved among them. “The persons forming the local organization have to have at least one economic interest in common, a broader base of interest is favorable”
  - d) The cooperative must be *economically viable* and provide at short notice tangible advantages for the members individually or as a group, otherwise, the interest in the cooperative will rapidly decline.
  - e) There must be the questions to be raised among the members as to why the cooperative must be formed and the uses of *group action*.
  - f) The proposed cooperatives must be given the chance to develop on their own. any stimulation from outside is desirable but should not lead to artificial growth
  - g) The proposed cooperatives must be given the opportunity of evolving their own rules, regulation and patterns of organization.
  - h) Certain external forces like the governments, taxation policy, land policy, and political developments are to and membership support qualified management adequate financing and membership



### 3.3 Factors that affect the performance of cooperative

- The factors that affect the performance of cooperatives organization are:

**The internal factors** that would have an effect on a cooperative's success are the ones that arise internally and these include members' commitment, members' participation, structural and communication and managerial factors.

**The external factors**, considered essential in the success of cooperative, include assistance that act as motivation for members in a cooperative, external assistance, government policies, regulatory frameworks and market factors. These factors can affect the competitiveness of cooperatives, especially in developing countries, where cooperatives are still underdeveloped.

#### 3.3.1 Reasons for Poor Performance of cooperatives

Certainly, members will think negatively of their cooperative if it is not performing well as compared to other firms in their industry. But the problem of performance does not stop there. The poor performance of one cooperative can give a bad reputation to all cooperatives. Let's examine various reasons for poor cooperative performance.

- 1. Conflicting Goals:** There are inherent goal conflicts in all types of cooperative organizations. The board of directors has a fiduciary responsibility to, in the short run, act in the best interest of the cooperative even if its actions have a negative impact on members. Examples of this would be increasing the amount of equity required from members, reduction of member services, increasing membership dues or fees, etc. Management may pursue goals, with the approval of the board, that are not in the best interests of members. A polarized membership may have conflicting goals. Members of different age groups, geographic areas or types of farm enterprise may not agree on a set of common objectives.
- 2. Poor Management:** While it has changed considerably in recent years, historically cooperatives were notorious for their unwillingness to offer competitive compensation packages to attract the best or most appropriate management team. As a result, they would not attract managers with sufficient business experience to manage large cooperatives. Associated weaknesses include managers with insufficient vision and the ability to implement action plans. Another common fault in cooperatives is the board not giving management sufficient control of operations, interfering with the implementation of cooperative strategies, or just plan meddling in operations.

3. **Poor Board Performance:** One of the common reasons given for poorly performing boards is that cooperative directors do not fully understand their fiduciary roles and responsibilities. The result is that directors may provide too little or too much oversight of the cooperative.
4. **Inappropriate Strategies or Poor Implementation:** -Some cooperatives take over unprofitable operations. The opposite can be also true with an unwillingness to exit money losing businesses, plants, products and services. Occasionally the board or management may have too much of an emotional investment in a particular business or product, or pay too much for an acquisition. Sometimes cooperatives are not willing or not able to invest in an appropriate strategy. This may be the reason a number of cooperatives market commodities rather than value added products and services. Often cooperatives are accused of being too risk averse.
5. **Inadequate Capitalization:** -A common complaint of cooperatives is they do not have sufficient access to adequate capital. Being too dependent on debt is dangerous especially with new operations or high-risk operations. Sometimes cooperatives do not require a significant amount of equity from members. Usually if the return is high enough, members would be more willing to invest larger amounts of equity. Another reason members are unwilling to invest more equity is because of poorly functioning equity programs, resulting in members not receiving their invested equity in a timely manner.
6. **Lack of Member Oversight:** Cooperatives are democratic organizations. There are three major alternatives for members to exert democratic rights:
  - a) By voicing their opinion,
  - b) By voting for directors and other issues, and
  - c) By exiting the organization.

To properly carry out their democratic responsibilities, members must keep well informed about the cooperative's affairs.

- **Generally, the Challenges/problems cooperatives faces are: -**
  - ✓ Owing to social and political dynamics within the group, there are possibilities of conflicts between the members.
  - ✓ Failure in participation by all members could result in failures of Cooperatives

- ✓ Risk is associated with how much resource to be used and how much risks should be assumed by the entire membership for the benefit of one group of producers or type of product.
- ✓ Because of a lack of vision, leadership, managerial ability, capital, or for other reasons, some cooperatives may not be able to vertically integrate their operations, either individually or jointly with other cooperatives in federated associations.
- ✓ If Cooperatives operate fully on a cost basis by distributing to patrons any net margins remaining over operating expense, this could limit the cooperatives' ability to accumulate capital reserves similar to those in other businesses.
- ✓ Not all farmers in an area believe alike and thus may not join or trade at a given cooperative.
- ✓ High level of competition, lack of professional and qualified managers, shortage of credit and restricted market places.
- ✓ Warehousing, transportation and lack of communication and Lack of business linkages;

### 3.3.2 Major competences of successful cooperatives

- **Common factors for Success:**

- ✓ An enabling legal environment that creates economic conditions favorable to profitability and a regulatory system favorable to business success.
- ✓ Legal provisions must protect democratic member control, autonomy and independence, voluntary membership, and economic participation in cooperatives and provide a level playing field for cooperatives to compete with other enterprises (e.g. there should be no pricing limitations on cooperatives).
- ✓ Cooperatives need capable management and governance and the ability to adapt to prevailing business conditions.
- ✓ Cooperatives must develop professional management, be democratic, inclusive, fair, and transparent and have strong leadership.
- ✓ Autonomy and freedom from government control is positively associated with success. While government support can be helpful, governments should avoid over regulation.
- ✓ Successful cooperatives have purposely increased collaboration with other cooperatives. Cooperative networks can help cooperatives to rapidly gain scale and can support better governance and training.

- **Internal Factors:**

- ✓ Strong vertical structural support;
- ✓ Trained professional and motivated staff;
- ✓ Enlightened, dedicated, and selfless leadership;
- ✓ Well-honed means to encourage members' involvement and participation;
- ✓ Comprehensive programs for members' education and information;
- ✓ Value-added activities through the use of advance technologies;
- ✓ Provision for reasonable coverage of risk for loss of crops and deposits.

- **External Factors:**

- ✓ Positive support and helpful role of the government;
- ✓ Market reforms;
- ✓ Reasonable rate of growth in agriculture/economy;
- ✓ Availability of basic infrastructure;
- ✓ Healthy linkages with regulatory and development agencies and institution

Self-Check – 3	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Multiple choice(2pnt)**

- Which one is true about internal factor for common success of cooperatives?
  - Trained profession
  - Market reforms;
  - Basic infrastructure
  - Helpful role of the government
- Among the following which one is purpose establishing cooperatives?
  - To reduce costs
  - To achieve economies of scale
  - To increase return
  - All
- Among the following one is false about social and political benefit of cooperatives?
  - To train for political of cooperatives
  - To prevent exploitation man by man
  - To prevent unemployment
  - Policy of honesty
- Which one is reason for faller of cooperatives?
  - Poor management
  - Political interference
  - Conflicting Goals
  - All

**Test II: Give Short Answer for the following Questions (5pnt each)**

- What is the role of cooperatives in social and economic system?

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- List the objectives of cooperatives

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- Benefit of cooperatives

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4. Discusses the advantages and disadvantage of cooperatives

a) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

b) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

5. List reasons for poor performance of cooperatives

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*Note:* Satisfactory rating - 30 points

Unsatisfactory - below 30 points

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## **ACKNOWLEDGEMENT**

**Ministry of Labor and Skills** wish to extend thanks and appreciation to the many representatives of TVET instructors and respective industry experts who donated their time and expertise to the development of this Teaching, Training and Learning Materials (TTLM).

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