

## PARTICIPATION AND EQUITY SHAREHOLDING BENEFITS AMONG WHEAT FARMERS' MULTIPURPOSE COOPERATIVES IN SOUTHERN ETHIOPIA

Woldeyes ZW<sup>1\*</sup>



Zenebe Worku Woldeyes

\*Corresponding author email: [zenebewld@gmail.com](mailto:zenebewld@gmail.com)

<sup>1</sup>Hawassa University College of Agriculture, Faculty of Environment Gender and Development Studies, Ethiopia



## ABSTRACT

The study assessed cooperative members' participation and its effect on their equity shareholding benefit. This cross-sectional designed study covered 371 stallholders' wheat producing members from 27 primary cooperatives in three wheat producing districts. Survey questionnaire and key informant interviews were used for data collection. Multiple linear regression analyses were done on six participation variables to identify their relationship with members' individual equity shareholding benefit. The result showed that, three participation variables, namely years in membership, number of shares, and quantity of wheat produce supplied were identified as significant predictors of benefit ( $p < 0.05$ ) and are therefore, deemed to have influence on the individual equity shareholding of members in their cooperatives. Based on the study findings the study recommended that the regional cooperative agency and affiliated zonal and district public service providing structures should work on how to strengthen those participation aspects having influence on member's equity shareholding benefit. This can be used as springboard to further encourage members' participation. Increased equity shareholding in turn, will contribute and eventually address the recurrently reported financial problem of cooperative societies both investment and working capital and their dependence on fragile external sources; on sustainable manner. Cooperative societies should encourage members to supply more quality produce to their cooperatives by giving them tangible benefits in price reward and patronage dividend. The Regional and Federal governments need to create a supportive policy environment to enable farmers' cooperative societies to own the fertilizer business, including importing and distribution to the village level, which is the main function that these societies are assumed to perform. More importantly, focus should be given to improve members' participation on the management and decision-making process. This is because, as members based entity, the fundamental organizational characteristics of cooperative, which is members' ownership, use and control is assumed to be manifested in due process of making decisions that are affecting the affairs of their society.

**Key words:** Cooperatives, Equity, Ethiopia, Farmers, Members, Wheat, Participation, Shareholding



## INTRODUCTION

Ethiopian cooperation has a long tradition embedded in the culture of the society in different forms and purpose. There are three traditional forms of cooperation in the country, namely Debo, Ekub and Edir. These traditional voluntary associations Debo, Ekub and Edir were established with common objectives of labor mobilization in farming activities, financial support among group members in the form of rotating savings and credit schemes, and the welfare financial and/or labor support associations for specific communities in case of social events such as funerals and weddings, respectively [1].

During the Emperor Haile Selassie's regime, modern cooperatives were enacted under Farm Workers' Cooperatives Decree (Cooperatives Decree No. 44/1960) with the objective of assisting in the development of the agricultural and service sectors. Members of cooperatives during this period, however, included only few big commercial farm land owners, thus, the peasant farmers were excluded from joining cooperatives and therefore, were unable to reap the benefits from the movement [1].

Transitional Government of Ethiopia (TGE) made an effort to create an enabling policy support environment by issuing Proclamation No. 85/1995 with implementation guidelines [2]. This proclamation was the foundation and the turning point of the nation's cooperative movement from socialist orientation to International Cooperative Alliance (ICA) principles- based movement through nationwide restructuring and re-registration of cooperatives [3].

As a result of the nationally implemented restructuring and re-registration intervention, members were able, for the first time, in history of Ethiopian cooperative movement to have share capital holding, which was established by dividing net-worth of the respective societies to the total number of members. Government considered and supported cooperatives as an appropriate model for national agricultural and rural development policy implementation [4]. The major drive of the Ethiopian government's policy support for the cooperative sector's development is based on the recognition of the contribution of cooperatives in terms of empowering resource-poor smallholder farmers [4]. In Ethiopia, cooperatives form an indispensable component in rural and community development as they mainly engage in marketing of agricultural inputs and outputs [5]. In Ethiopia, increased adoption of improved agricultural technologies, especially mineral fertilizer, and the rate of commercialization are among the contribution of cooperatives [6]. To the contrary, there are research studies arguing



that in Ethiopia, most cooperatives have a high level of distrust among members, and face major constraints to become effective for improving market commercialization and farmers' welfare [7]. Particularly, in southern Ethiopian cooperative movement, members' limited participation with regard to decision making and control of their cooperative societies is the most important constraint that hindered their organizational success [8].

The significance of members' participation for the better performance of cooperatives has been attested by different authors. For instance, the performance and success of cooperatives depend heavily on their ability to establish and maintain trust, confidence, commitment and participation among members both as owners and users [9]. Moreover, members' participation is a critical factor that determines the cooperative development and accomplishment of their organizational objective and members' participation has a direct relation with ownership, benefits and control of the cooperative society [10].

Therefore, the overall objective of this study was to assess the types of members' participation and its implication to equity shareholding benefit of individual members' multipurpose cooperatives in the Southern Nations' Nationalities' and Peoples' Region of Ethiopia.

Theory of participation affirmed that participation can take different forms and varying degrees, ranging from what has been termed as 'passive participation' to 'self-mobilization' [11]. The seven-step participation ladder includes: passive participation, participation by information giving, participation through consultation, participation for material incentives, functional participation in which people participate by forming groups to meet predetermined objectives, interactive participation whereby groups take control over local decisions, and so people have a stake in maintaining structures and participation for self-mobilization. At the level of self-mobilization, people participate by taking initiatives [11].

This study particularizes the participation explanatory variables in line with above mentioned theoretical aspects and levels of members' participation. Accordingly, purchase of shares and staying in cooperative membership are considered the functional lower-level participation whereas doing business with cooperative society by purchasing agricultural inputs (quantity of fertilizer and seed) and supply of wheat produce are the interactive medium level participation. Management decision making process participation is indicated by attendance of the cooperative's general assembly meetings and equated with interactive and self-mobilization – high- level of participation.



The study assumes there is a direct and proportional relationship between members' participation and their share capital holding benefit, the dependent variable of the study in their cooperative societies. Equity is the net-worth, of the organization and represents the members' ownership interest in the total assets of the company [12]. Moreover, co-operatives are membership-based organizations and rely on long-term and repeated exchange relationships with their members to generate a collective benefit that is greater than the sum of inputs of individual members, which is the contribution individual members' make as equity share capital holding [12]. Thus, it was considered worthy to verify whether or not this equity is influenced by members' participation commitment in their cooperatives [13].

## MATERIALS AND METHODS

This study was conducted in South Nations', Nationalities' and Peoples' Region (SNNPR), one of the ten federal regional states of Ethiopia (Fig.1). The study focused on major wheat growing central highland areas of the region. The study covered three wheat growing districts. Two districts, namely, Lanfuro and Sankura from Siliti zone and Lemo District from Hadiya zone were purposively selected for the study.



Figure 1: Location of the study area

(Source: [www.rippleethiopia.org/page/snnpr](http://www.rippleethiopia.org/page/snnpr))



The study used a cross sectional design and employed mixed method approach. A survey method was used for collection of quantitative data on individual respondents, and key informant interview checklists were used to collect qualitative data. The study targeted, 55 212 (43 212 male and 11 691 female) population, who were members of 27 primary cooperatives in three high wheat growing districts of Lanfro, Sankura and Lemo. The study employed sampling formula [14] to determine the total sample size of 371 respondents, (300 (80.9%) males and 71 (19.1%) females), which were selected through systematic simple random method.

Data were collected using structured and semi-structured questions which were administered through face- to- face interviews with individual respondents. An interview checklist was used in discussion with key informants including members of board of directors and managing directors of sampled primary cooperative societies. Relevant documents, including the audit reports, policy and proclamations and reports pertinent to the cooperative movement were reviewed as secondary data sources.

The collected data were analyzed through both descriptive and inferential statistical techniques. Types of members' participation along itemized six participation activities, namely participation in: years of membership purchase of share, purchase of fertilizer, purchase of wheat seed, wheat produce supply and attendance meetings, were analyzed with descriptive statistical measures such as frequency, percentage and mean values. Multiple linear regression model [15], were employed to determine the relationship between members' participation practice, independent variables and their equity shareholding benefit and the dependent variable, as specified below:

$$Y_i = \alpha + \beta_1 py + \beta_2 psh + \beta_3 pF + \beta_4 wS + \beta_5 wP + \beta_6 pM + \mu_1$$

Where

$Y_i$  = is individual members equity share value in Ethiopian Birr (ETB)

$\alpha$  = intercept

$py$  = years of membership

$psh$  = purchase of share capital

$pF$  = purchase of fertilizer

$pwS$  = purchase of wheat seed,  $pWP$  = participation by wheat produce supply

$pM$  = attendance and participation in meetings

$\mu_1$  = stochastic error term

$\beta_i$  = coefficients

$i=1, 2, 3, \dots, 5$



## RESULTS AND DISCUSSION

### Members' participation

The results depicted great variation in participation level (Table 1) among members. Particularly, in duration of membership, purchase of share capital and participation by wheat produce supply.

The study results show that the monetary value of equity shareholding by members ranges from Ethiopian Birr (ETB) 44.21 to 1426.15 with the average of 254.48 (ETB).

### The effect of members' participation on equity shareholding benefit

The multiple linear regression model analysis result for relationship between members' participation and their equity shareholding value benefit is presented in Table 2. The model had good overall fit and most variables performed as expected ( $F_{\{6, 364\}} = 16.821, p < 0.001$ ). Out of the six explanatory variables considered in the econometric model, three variables significantly influenced the cooperative members' equity shareholding value benefits. Purchase of share capital had significant negative influence on members' equity shareholding value benefit; while duration of membership in the cooperative and wheat produce supply had significant positive influence.

There are two possible explanations for the negative influence. The first one is because, in the case of shares purchased, even though members' purchase of more share capital increases the cash inflow to the society, and hence solves its working capital, the societies were not paying interest on shares to members; in real terms it was members' money which implied a liability to the society. The second possible reason would be since there was a considerable variation in number of shareholding among members and the individual equity share is an aggregate average, those who contribute in terms of shares may not get proportional reward as it offsets for those who are having minimum number of shareholding; and thus, the result showed negative influence on share purchasing participation.

Even though provision of fertilizer to members was a practically observed main activity, the study result indicates that, fertilizer purchase participation had no influence or contribution to their equity shareholding value benefit. The reason for such paradox was verified during key informant interviews. One primary cooperative manager explained that, this happens because the fertilizer business was not owned by the cooperatives. Fertilizer was supplied by the regional



government, while cooperatives were just channeling the input to members with small commission to cover the overhead cost amount computed per bag distributed.

## CONCLUSION, AND RECOMMENDATIONS FOR DEVELOPMENT

Based on the findings, the study concludes that, there was a great variation among cooperative members in terms of participation activities they are making with their societies. Moreover, all different participation types that members made with their society did not contribute to their equity shareholding benefit. From the six predictor variables considered for participation types, only three namely: number of years in the cooperative membership, purchase of shares capital, and supply of wheat produce has statistically significant influence on the members' individual equity share benefit. The significant and positive influence of wheat produce marketing activity will in turn support the commercialization stallholder farmers which will have a direct contribution of their productivity.

The Regional Cooperative Agency and its affiliated zonal and district public service providing structures should work on how to strengthen those participation aspects having influence on members' equity shareholding benefit. This can be used as springboard to further encourage members' participation. Increased equity shareholding, in turn, will contribute and eventually address the recurrently reported financial problem of cooperative societies, both investment and working capital, thereby reducing farmers' cooperatives dependency on fragile external sources in a sustainable manner. Cooperative societies should encourage members to supply more quality wheat produce to their cooperatives by giving them tangible benefits in the form of better market price reward and patronage dividend. The Regional and Federal governments need to create a supportive policy environment to enable farmers' cooperative societies to own the fertilizer business, including importing and distribution to the village level, which is the main function that these societies are assumed to perform.

More importantly, however, focus should be given to improve members' participation on the management and decision-making process because there embeds, the fundamental organizational ownership and control essence of cooperatives as a member based organization.

**Conflict of interest:** None





## ACKNOWLEDGEMENTS

The researcher would like to express his highest appreciation and special gratitude to Sasakawa Africa Fund for Extension Education (SAFE) for financial support to undertake the study. Special thanks go to: respondent cooperative members for their willingness in providing the necessary information, the staff of members of Lanfuro, Sankura and Lemo Districts, and Silti and Hadiya Zones' cooperative offices and Regional Cooperative Agency for their assistance during data collection data collectors and others who contributed in one way or another in realizing this study.



**Table 1: Frequency distribution of members' participation along six participation activity types (n=371)**

| Participation types                          | Min.  | Max.    | Range   | Mean    |
|--|-------|---------|---------|---------|
| Number of years in coop membership           | 1.00  | 30.00   | 29.00   | 11.3    |
| Number of current number of shares held      | 1.00  | 11.00   | 10      | 3.1     |
| (Monitory Value of share capital             | 44.21 | 1426.15 | 1381.94 | 254.48) |
| Quantity of fertilizer purchased (Qts*)      | 0.25  | 7.00    | 6.75    | 2.1     |
| Quantity of wheat seeds purchased (Qts)      | 0.25  | 8.00    | 7.75    | 0.9     |
| Wheat produce quantity supplied (Qts)        | 0.00  | 36.00   | 36.00   | 8.3     |
| Number of GAM attended during last 12 months | 0.00  | 2.00    | 200     | 1.1     |

\*1Qt=0.1tons

**Table 2: Multiple linear regression for relationship between members' participation and individual member's equity share**

| Variables                                  | Coeff.  | Std. Err. | t value | p value |
|--|---------|-----------|---------|---------|
| (Constant)                                 | 64.327  | 52.13     | 1.234   | 0.218   |
| Duration of membership in the cooperative  | 17.082  | 2.826     | 6.044   | 0.000   |
| Number of shares in cooperative            | -26.941 | 6.49      | -4.151  | 0.000   |
| Quantity of fertilizers purchased          | 14.551  | 14.158    | 1.028   | 0.305   |
| Quantity of improved wheat seeds purchased | -9.451  | 15.282    | -0.32   | 0.573   |
| Wheat produce quantity sold to cooperative | 10.04   | 2.438     | 4.118   | 0.000   |
| Number of days attending meetings          | 19.603  | 20.747    | 0.945   | 0.345   |
| Number of observations                     | 371     |           |         |         |
| R Square                                   | 0.217   |           |         |         |
| Adjusted R Square                          | 0.204   |           |         |         |
| F(6,364)                                   | 16.821  |           |         |         |
| Prob.>F                                    | 0.000   |           |         |         |

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