**DEBRE MARKOS UNIVERSITY**

**COLLEGE OF AGRICULTURE AND NATURAL RESOURCES**

**DEPARTMENT OF RURAL DEVELOPMENT & AGRICULTURAL EXTENSION**

**A Teaching Note**

**On**

**RURAL ORGANIZATIONS & COOPERATIVES (RuDv 423)**

**Course Instructors:**

 **Esubalew H. (MA)**

**Nov, 2020**

**Debre Markos**

Contents

[INTRODUCTION 5](#_Toc339887594)

[1.1. Rural Organizations 5](#_Toc339887595)

[1.2. Concepts of Cooperatives 5](#_Toc339887596)

[**1.2.1.** **Primitive Concepts** 5](#_Toc339887597)

[**1.2.2.** **Modern concepts** 6](#_Toc339887598)

[**1.3.** **The Scope of cooperatives** 8](#_Toc339887599)

[**1.4.** **Definition of Cooperatives** 8](#_Toc339887600)

[**1.5.** **Objectives of cooperatives** 9](#_Toc339887601)

[**1.6.** **Benefits of Cooperatives** 11](#_Toc339887602)

[**2.** **EVOLUTION OF COOPERATIVES** 13](#_Toc339887603)

[2.1. Cooperative Development in the World 13](#_Toc339887604)

[2.1.1. Cooperative Development in England 13](#_Toc339887605)

[2.1.2*.* Cooperative Development in Germany 14](#_Toc339887606)

[2.1.3. Cooperative Development in India 15](#_Toc339887607)

[2.1.4. Cooperative Development in Kenya 16](#_Toc339887608)

[2.2. Cooperative Development in Ethiopia 1](#_Toc339887609)

[2.2.1. Traditional Cooperatives 1](#_Toc339887610)

[2.2.1. Traditional Cooperatives 1](#_Toc339887611)

[2.2.2. Modern (Pre-Derg) Cooperatives (1960-74) 3](#_Toc339887612)

[2.2.3. Cooperatives during the Military Regime (1974-1991) 4](#_Toc339887613)

[2.2.4. The Post Derg Era and Cooperatives (1991- ) 4](#_Toc339887614)

[3. VALUES AND PRINCIPLES OF COOPERATIVES 6](#_Toc339887615)

[3.1. Values of Cooperatives 6](#_Toc339887616)

[**Ethical Values:** 8](#_Toc339887617)

[3.2. Evolution of Cooperative Principles 9](#_Toc339887618)

[3.3. Statement on Cooperative Identity (1995) 13](#_Toc339887619)

[4. TYPE AND CLASSIFICATION OF COOPERATIVES 17](#_Toc339887620)

[4.1. Types of Cooperatives Based on Levels of Organization 17](#_Toc339887621)

[4.1.1. Local Level Cooperatives 17](#_Toc339887622)

[4.1.2. Regional Level Cooperatives 17](#_Toc339887623)

[4.1.3. National Level Cooperatives 18](#_Toc339887624)

[4.1.4. International Level Cooperatives 18](#_Toc339887625)

[4.2. Types of Cooperatives Based on Functions 18](#_Toc339887626)

[4.2.1. Multipurpose Cooperatives 18](#_Toc339887627)

[4.2.2. Agricultural Producers’ Cooperatives 19](#_Toc339887628)

[4.2.3. Marketing Cooperatives 19](#_Toc339887629)

[4.2.4. Production Supply Cooperatives 19](#_Toc339887630)

[4.2.5. Fishery Cooperatives 19](#_Toc339887631)

[4.2.6. Housing cooperatives 20](#_Toc339887632)

[4.2.7. Saving and Credit Cooperatives 20](#_Toc339887633)

[4.2.8. Consumers’ cooperatives 21](#_Toc339887634)

[5. AGRICULTURAL COOPERATIVES 23](#_Toc339887635)

[5.1. Importance of Agricultural Cooperatives 23](#_Toc339887636)

[5.2. Types of Agricultural Cooperatives 23](#_Toc339887637)

[5.2.1. Supply Cooperatives 24](#_Toc339887638)

[5.2.2. Marketing and Processing Cooperatives 24](#_Toc339887639)

[5.2.3. New Generation Cooperatives 25](#_Toc339887640)

[5.3. Limitations of Agricultural Cooperatives 27](#_Toc339887641)

[5.3. Limitations of Agricultural Cooperatives 27](#_Toc339887642)

[5.4. Strategies to Improve Agricultural Cooperatives 28](#_Toc339887643)

[6. COOPERATIVE LAW 30](#_Toc339887644)

[6.1. Introduction to Cooperative Law 30](#_Toc339887645)

[**6.1.1.** **Definition of law** 30](#_Toc339887646)

[**6.1.2.** **Purposes of law** 30](#_Toc339887647)

[**6.1.3.** **Definition and concepts of a cooperative law** 30](#_Toc339887648)

[**6.1.4.** **Purposes of cooperative law** 31](#_Toc339887649)

[**6.1.5.** **Sources of cooperative law** 31](#_Toc339887650)

[**6.2.** **By-law of a Cooperative Society** 32](#_Toc339887651)

[6.2.1. Purposes of by-laws 32](#_Toc339887652)

[6.2.2. Contents of by-laws 33](#_Toc339887653)

[7. ORGANIZATION AND MANAGEMENT OF COOPERATIVES 34](#_Toc339887654)

[**7.1.** **Situations for Organizing Cooperatives** 34](#_Toc339887655)

[**7.2.** **Procedures for Organizing Cooperatives** 34](#_Toc339887656)

[7.3. Registration of Cooperative 47](#_Toc339887657)

[**7.3.1.** **Definition of registration** 48](#_Toc339887658)

[**7.3.2.** **Conditions and procedures for registration** 48](#_Toc339887659)

[**7.3.3.** **Effects of registration** 49](#_Toc339887660)

[**7.3.4.** **Cooperative Societies Proclamation No. 147/98 with regard to registration and formation of cooperatives** 49](#_Toc339887661)

[**7.4.** **Cooperative Management** 50](#_Toc339887662)

[7.4.1. Defining cooperative management 51](#_Toc339887663)

[7.4.2. Objectives of Cooperative Management 51](#_Toc339887664)

[**7.5.** **Management Decisions in Cooperatives** 52](#_Toc339887665)

[Kind of Managerial Decision 53](#_Toc339887666)

[Process of Decision Making 53](#_Toc339887667)

[**7.6.** **Functions of Cooperative Management** 55](#_Toc339887668)

[**7.7.** **Organization Structure and organs of a Cooperative Society** 57](#_Toc339887669)

[8. The Role of Government and NGOs in Cooperative Promotion and Development 59](#_Toc339887670)

[8.1. The need for government and NGOs involvement 59](#_Toc339887671)

[8.2. Areas of government and NGOs involvement 59](#_Toc339887672)

# INTRODUCTION

## 1.1. Rural Organizations

**1.1. Rural Organizations**

Rural organizations (member-run and financed rural cooperatives, agricultural producer and rural workers associations, rural credit unions, women and youth associations and other self- help groups) are important forms of rural social capital that empower collective self-help action that makes rural development happen.

Acting through their own organizations, small-scale rural producers and workers can make the poor access inputs, markets and government services more efficiently aimed at improving their livelihoods and undertake other self-help action to improve their communities. Government and NGO agencies also reach more people and deliver services more effectively. But there are socio-political advantages as well. Through groups, rural people elect their own leaders, mobilize their own resources to improve their livelihoods and their communities and learn the value of cooperation. This reduces the risk of conflict and contributes to the improved local governance and the growth of more stable and democratic institutions serving the interests of rural people.

## 1.2. Concepts of Cooperatives

* + 1. **Primitive Concepts**

Right from the dawn of human civilization, the concept of cooperatives existed. This concept has undergone an enormous change from ancient times till to date.

In primitive societies man’s life was not complete or sophisticated.

* People led a simple life with only a few wants;
* Every man produced whatever he needed as his needs were very limited to the basic necessities of life.

As days passed & civilization grew:

* The village (instead of an individual) become self-sufficient with the prevalence of the large number of farmers & a few carpenters, cobblers, blacksmiths, etc
	+ Every one produced more than what he needed & exchanged it with a surplus of the others.
	+ So, the village was operating smoothly with the working of the barter system.

In primitive societies, cooperation was:

* + - related to cultural, religious, & social aspects.
		- not perceived as a type of business, it was a way of life.
		- a way of leading a better life.

Cooperation was:

* + - * Evident in the prevalence of common customs & traditions. There was mutual aid & collaboration among different individuals in the society.
			* More of an informal nature:
				+ Villages were peaceful; there was very little exploitation of one class by another.
				+ People lived and thought in an almost a similar fashion.

Abstract things like love, affection, sympathy, friendship & charity played an important role in an individual’s life.

Thus, in primitive society cooperation had become an integral part of man’s life; it was inherent in the society it-self.

* + 1. **Modern concepts**
* different from the primitive one.
* “denotes a special method of doing business”
* an offshoot of the Industrial Revolution-which is a name given to the series of changes that come about in the method of production (18th c.) in Europe, especially in Great Britain:
* Pattern of production changed from old to new one;
* D/t machines replaced the human labor (lost its importance);
* These machines enhanced production at a very rapid rate;
* The major proportion of wealth flows into the hands of a machine & capital owners.
* Therefore, the society divided into the capitalist & working class:
	+ The capitalist class started exploiting the working class. This exploitation took diverse forms:
		- Payment of lower wage
		- Increase in the number of working hours
		- Insecure employment conditions.

Capitalists could do this because manpower had then become subsidiary in the production process. This resulted in humiliation & frustration of the workers & discontent among them.

* + - * They realized that they were weak and totally incapable of protecting individually against the actions of the capitalists.
			* Therefore, they looked for an alternative to save themselves from the grip of inhuman employers

It was during that time that social reformists like **Robert Own** and **D.r William King** gave thought to the formulation of new philosophy.

* As a result, the cooperative movement began on the world stage.
* Poor people thought that if weak persons come closer together & formed an association of them, they could run a separate business where there will no scope for exploitation and ill-treatment.

The modern phenomenon of cooperation has thus an economic concept & is a formal nature:

* It is a distinct form of business, which affects the pattern of production & distribution within the economy.
* It is an organization of people where the production activity is conducted by assigning a secondary role to capital.

The cooperative movement therefore offers a ray of hope to the economically weak persons to live in better conditions of life in the modern world.

In the modern concept, cooperatives are established to perform specific functions.

Cooperation is a broader phenomenon, which yields different meanings to different categories of persons:

*(****a) Sociologists point of view***

* The cooperative movement is an instrument of establishing social harmony through the removal of class struggle.
* See in the movement, the potentialities of bringing about a social transformation.

***(b) Economists***

* + Cooperative is a means of converting the exploitation of weaker sections by conferring on them a better economic status.
	+ Consider it as a business organization which is meant to protect the interests of people of limited means.

(***C) Moralists***

* A movement meant to raise ethical values of society by helping people to lead virtuous (morally good) life.
	1. **The Scope of cooperatives**

Generally, cooperatives operate in every sector of the economy. A cooperative may engage in production, in service giving activities or in both production and service giving activities.

**Definition of Cooperatives**

* 1. **Definition of Cooperatives**

Broadly categorised into three schools of thought:

***1. The cooperative Enterprise School***

* Also known as the cooperative yardstick school.
* Considers a cooperative society as economic instrument for the maintenance & furtherance of the economic interests of its members.

**Schulze Delitzch, Raiffeisen, Plunkott, etc** (co-operators):

* + Belong to this school of thought.
	+ In their opinion, cooperative societies are not the dominant economic institutions of the country.

 ***2. The cooperative common wealth school***

* Believes in substituting capitalism by cooperation so that the society will be restructured & refashioned
* Envisages an economy where private enterprise is relegated/transferred to a secondary position, while the cooperative becomes the dominant economic institutions.

Reformists: -**Robert Own, Charles Gide, T.W Mecer, G.W Russel**, etc. belong to this school of thought.

***3. The socialist cooperative school***

* Views cooperatives as a weapon for the development of socialist thought & the realization of the socialist state.

Revolutionaries: -**Karl Marx & Lenin** belong to this school

* Lenin observes “cooperative societies can help the transformation from capitalism to socialism and then to communism.”

***4 .Latest (modern) cooperative Definitions***

A cooperative is a company that:

* belongs to the agricultural producers
* aims at providing services for its members.

The producers create or join a cooperative in order to carry out activities that can be performed more efficiently together than alone:

* Input supply & marketing
* for the rational use of machinery (for those whose farm land is not sufficient)
* Use of shared equipment.

***Definitions Given by ILO***

* A cooperative is an association of persons, who are voluntarily joined together to achieve a common objective through the formation of democratically controlled organization by making equitable contribution to the capital acquired & accepting share of skill & benefit of undertaking. This was accepted by bilateral & multilateral organizations.
* According to this concept, the nature of cooperatives at the primary level is an association of individual members. Individual members have the right to establish cooperatives

In a sense, it is an organization of members who are owners and customers. This is different from business organizations that shareholders are not customers (e.g. joint-stock companies)

* 1. **Objectives of cooperatives**

Every cooperative society comes into existence for the fulfillment of certain specific objectives, which may be termed as its immediate aims:

* Immediate aims differ from one cooperative to another
* Long-run objectives of all cooperative societies are the same.

***1.5.1. Elimination of Middlemen***

* + Is to mean removing the middlemen present in different fields, who take away the gain that should have gone to the real beneficiaries
	+ E.g. consumer cooperatives came to be established to remove the wholesalers & retailers who come in between producers and consumers.

To save farmers from the stranglehold of landlords who, act as a middlemen in farming activities, coop-farming societies came to be formed.

***1.5.2. Raising the economic status of the poor***

* The most basic objective of a cooperative society.
* To mean to raise the living standard of the poor, who were, in the past, exploited by capitalists.

Poor people form an association to undertake business independently & get the rewards of their work, with out being harassed or ill-treated by their employers.

An effort to raise the economic status of individuals has a far-reaching effect on their social & cultural life. This is because economic consideration is the primary consideration in all-human life.

***1.5.3. Raising the moral standards of its members***

* The combination of business with ethics is a feature of a cooperative society.
* The result is the conduct of business activities with honesty & truthfulness.
* The cooperative is not merely bothered about the economic life of individuals, but attempts to improve the quality of life by virtuous qualities in them.
* The cooperative movement wishes direct human life towards goodness by raising their moral standards.

***1.5.4. Increasing the prosperity of the whole community (sense of community***)

* + This is to create a sense of community among members.
	+ It believes in making persons deviate from the individualistic attitude & take a broader view of life.

Cooperation stresses the fact that individuals will prosper along with the prosperity of the community so that there is no room for ill will on the part of any individual.

A cooperative society aims at bringing about the welfare of not a particular individual, but of the whole community.

The community feeling fosters the bond of cooperation. Hence, cooperation and community life go hand in hand, resulting in the betterment of the community & of the individual.

***1.5.5. Ablition of social inequalities***

* Social inequality refers to ***a social*** concept.

A few people enjoy certain privileges because they are considered to be great on the basis of their wealth, while others are denied the same privileges & are treated with contempt because their resources are inadequate or meager. This feeling of “High” or “low” acts as a cause of social tensions, the removal of which is the goal of the cooperative movement. Thus, we are guaranteed equal right & opportunities, and there is no possibility of any body’s interests being hurt.

***1.5.6. Neutrality in religion and politics***

* A cooperative should remain aloof from political parties and religious groups.
* The separate & distinctive identity of the coop is lost if it aligns itself with political parties and religious groups. The alignment is likely to be detrimental (harmful) to the interests of its members.
* Therefore, a cooperative society has to be neutral between religion and politics in which cases; there would be no probability that the member’s welfare would be neglected.

***15.7. Development of corporate life in view of cooperative formation***

* + A cooperative aims at providing a corporate life to the weaker sections by following the watchwords, “each for all and for all each.”
	+ It has no faith in the natural law of “the survival of the fittest.” for it seeks to transform the weak into the strong & make them fit for a better life.

The ultimate objective of cooperation is “**cooperative common wealth**,” where the whole economy is regulated & controlled by cooperatives. In this connection, the International Cooperative Alliance observes: “The present- day system of private enterprise based on competition, should be replaced with a cooperative system supporting the interests of the whole community and based on the principle of mutual self-help.”

If this concept if the cooperative common wealth is realized, the “**mutuality** among individuals, fraternity among associations & **harmony** among nations,” are likely to develop.

* 1. **Benefits of Cooperatives**

All over the world, millions of people have chosen the co-operative model of business enterprise to enable them to reach their personal and community development goals. Co-operatives create and maintain employment providing income; they are responsible for producing and supplying safe and quality food and services to their members, but also to the communities in which they operate. By putting the Co-operative Principles and ethics in practice, they promote solidarity and tolerance, while as 'schools of democracy' they promote the rights of each individual - women and men. Co-operatives are socially conscious responding to the needs of their members whether it is to provide literacy or technical training, or to take action against the HIV/AIDS pandemic. Through their varied activities, co-operatives are in many countries significant social and economic actors in national economies, thus making not only personal development a reality, but contributing to the well-being of entire populations at the national level.

**Chapter 2: EVOLUTION OF COOPERATIVES**

## 2.1. Cooperative Development in the World

### 2.1.1. Cooperative Development in England

**The Rochdale Equitable Pioneers Society [1844]**

Co-operatives started out as small grassroots organizations in Western Europe, North America and Japan in the middle of the last century; however, it is the Rochdale Pioneers that is regarded as the prototype of the modern co-operative society and the founders of the Co-operative Movement.

In 1844 a group of 28 artisans working in the cotton mills in the town of Rochdale, in the north of England established the first modern co-operative business, the Rochdale Equitable Pioneers Society. Initial capital was 28 pound each having one share of stock for one pound. The weavers faced miserable working conditions and low wages, and they could not afford the high prices of food and household goods. They decided that by pooling their scarce resources and working together they could access basic goods at a lower price. Initially, there were only four items for sale: flour, oatmeal, sugar and butter.

The Pioneers decided it was time shoppers were treated with honesty, openness and respect, that they should be able to share in the profits that their custom contributed to and that they should have a democratic right to have a say in the business. Every customer of the shop became a member and so had a true stake in the business. At first the co-op was open for only two nights a week, but within three months, business had grown so much that it was open five days a week.

**The 1st draft of policies and aims of the society were**: -

* To establish store for the sale of provisions and clothing's
* To build houses for members
* Purchase of estates of land, which will be cultivated by members when unemployed.
* Promote, production, and members education & other self-supporting activity
* To open Temperance Hotel (free from alcoholic drinks)

The principles that underpinned their way of doing business are still accepted today as the foundations upon which all co-operatives operate. These principles have been revised and updated, but remain essentially the same as those practiced in 1844.

**Summary of Rochdale Principles**:

* + Open membership
	+ One man, one vote.
	+ Cash trading
	+ Membership education
	+ Political and religious neutrality
	+ Limited interest on stock/capital
	+ Goods sold at regular retail prices
	+ Limitation on the number of shares owned
	+ Net margins distributed according to patronage (participation)

### 2.1.2*.* Cooperative Development in Germany

I. **Herman Schulze Delitzch (1808-1883**)

* Was a German lawyer known for organizing credit cooperatives for small businessmen.
* Organized around 1900 credit cooperatives in Germany in his life time.
* Founder of postal saving banks.
* Helped form consumer purchasing, accident, health, insurance, and specially whole-sale buying cooperatives for small business men.

**His basic economic beliefs concerning cooperatives were:**

* 1. Patrons should control & capitalize their cooperatives
	2. Cooperatives should accept no charity from philanthropists or state
	3. Cooperatives should grow slowly through self-help

**II.Fredrich Raiffeisen (1818-1888**)

* + - Follower of Herman S. Delitzch
		- Mayer of town of Flammersfield
		- Around 1860, economic conditions in Germany were catastrophic
		- Men who before had been able to earn their bread with honest toil were reduced to begging, destitution & actual starvation
		- This was worsened by drought, which ruined the two -year’s crop
			* In a desperate effort to keep their families together & continue living, the people had gotten themselves hopelessly in dept to usurious money lenders-those who lend money at exorbitant rate.
			* People were in heavy debt which, together with a bad time.
			* As a mayor, he was desperate for a way to save his people from starvation. Lastly he came to a decision that the only way for the people was to help themselves. So he set up his 1st credit union.

**His main ideas were**:

* Only people belonged to the credit union could borrow from it
* Loans would be made only for provident & productive purposes at low interest
* Member’s character was the most important security for his loan.
	+ Before he died, he had organized 425 credit unions
	+ Before WW-I, there were thousands of Raiffeisen banks following in Germany.

In all parts of the world, credit unions often referred to as the **Raiffeisen credit Societies**

**NB**. A significant principle which Raiffeisen developed was, the federation of local credit societies developed into regional & hence into a national bank.

### 2.1.3. Cooperative Development in India

The seeds of cooperation in India were sown in 1904 when the first *Cooperative Societies Act* was passed. Since then, the cooperative movement has made significant progress.

Cooperatives have extended across the entire country and there are currently an estimated 230 million members nationwide. The cooperative credit system has the largest network in the world and cooperatives have advanced more credit in the Indian agricultural sector than commercial banks. In fertilizer production and distribution the [Indian Farmers Fertilizer Cooperative](http://www.iffco.nic.in/) (IFFCO) commands over 35 percent of the market. In the production of sugar the cooperative share of the market is over 58 percent and in the marketing and distribution of cotton they have a share of around 60 percent. The cooperative sector accounts for 55 percent of the looms in the hand-weaving sector. Cooperatives process, market and distribute 50 percent of edible oils. Dairy cooperatives operating under the leadership of the [National Dairy Development Board and through 15 state cooperative milk marketing federations has now become](http://www.nddb.org/)  the largest producer of milk in the world. The groundwork for this was laid in the early 1970’s when the largest dairy development program in the world - *Operation Flood* - was launched. *Operation Flood* was a national marketing strategy linked to a dairy infrastructure development program that created a chain of dairy processing plants, collection stations and a national milk transportation grid.

**Democratic Reform and Greater Autonomy**

With the rapid growth of the cooperative sector, a supportive climate has been created for the development of cooperatives as democratic and autonomous businesses providing them with the opportunities for diversification. The cooperatives have long been demanding that the Central Government introduces democratic reforms in their regulation, supervision and functioning. With the persistent efforts of the [National Cooperative Union of India,](http://www.ncui.nic.in/) the Central Government recently passed the *Multi-State Cooperatives Societies Act* and also formulated a national cooperative policy that provides greater autonomy to cooperatives.

The National Cooperative Union of India is the apex organization promoting the cooperative movement in the country. With the passage of the Insurance Act, cooperatives have been allowed to entry into the insurance business. Insurance is a field where the immense potential of cooperatives still remains untapped. The Indian Farmers Fertilizer Cooperative has recently teamed up with a Japanese company and formed a joint venture for undertaking general insurance business in India. This signifies that Indian cooperatives have come of age in formulating strategic alliances.

In the new economic environment, cooperatives at all levels are making efforts to reorient their functions according to the market demands. The failure of the public sector in several cases is a worrisome trend. Privatization has also failed to make an impact in the rural areas. The government has therefore pinned a considerable amount of hope on the cooperative sector. In comparison to the step-motherly treatment of the past, cooperatives are now considered an important plank of development. The government is committed to cooperative development and it wants cooperatives to succeed. The government knows that cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Cooperatives are also considered to have immense potential to deliver goods and services in areas where both the state and the private sector have failed.

### 2.1.4. Cooperative Development in Kenya

Agricultural co-operatives were first established in Kenya more than sixty years ago during British colonial rule. The first dairy co-operatives appeared in the 1930s and the first coffee co-operative was established in 1950. While initially small, in terms of membership, dairy co-operatives grew in size and number during the post- independence period. By 1997, there were 165 active registered dairy co-operatives, with 116,300 registered members and an aggregate turnover of K.shs 2,782 million (US$44.4 million). Coffee co-operatives -- which generally had larger memberships than dairy co-ops -- followed a similar growth trajectory. In the same year (1997), there were 192 coffee registered co-operatives in Kenya, serving a membership of 392,700 and having an annual turnover of K.shs 6,963 million (US$111 million).

As in other countries of the region, government has played a major role as promoter, financier, auditor and sometimes even manager of co-operatives in Kenya. Within the co-operativized dairy and coffee sectors, its influence also extended into the processing and marketing of these products. The governance of the vertical co-operative structures that evolved within these two sectors reflected that history with the primary societies serving as the main milk and coffee collection points at bottom level, linked to secondary societies (district unions) at district level that provide additional service support to primary societies, which in turn were linked to tertiary level co-operative unions (federations of secondary co-operatives) at national level that assisted affiliated co-operatives in the processing and marketing of produce.

In the particular case of coffee co-operatives, primary societies collect and normally process all coffee. Coffee district unions provide complementary non-marketing support services to affiliated primary societies, like bulk fertilizer supply, banking, and including management and accounting. With regard to marketing, primary societies send their coffee directly to the Kenya Planters Co-operative Union (KPCU), the coffee sector's apex organization at national level, nominally owned by the primary societies, but in actuality, heavily controlled by government. KPCU also does the milling and grading of the coffee. Coffee auctions and sales are organized by the Coffee Board, which is a government marketing board. In contrast, within the co-operative dairy sector, most primary dairy societies collect the milk and transport it to Kenya Co-operative Creameries (KCC), though the co-operative dairy sector's apex organization, which is also largely controlled by government.

While Kenyan dairy and coffee co-operatives are nominally referred to as "member-governed and member-financed" organizations based on the "one member one vote" principle, the management and financing of their day-to-day operations remains firmly in the hands of the co-operative unions which continue to select and pay the salary of the general manager of the affiliated primary society. Members voting in the Annual General Meeting theoretically have the power to set overall policy and dismiss a manager if he/she performs poorly; but in practice, this power is seldom exercised. As the Kenya study findings indicated, most members of the primary co-operative societies interviewed seemed to regard the management of their own co-operative as more responsive to the wishes of government, the union, or the general manager than to those of the members themselves.

During the 1960-1990 periods, Kenya's dairy and coffee co-operatives operated within relatively protected markets and benefited from government grants and access to subsidized credit. The price that co-operative members paid for this support frequently translated into increased government intervention in running the co-operative's business affairs, management inefficiencies as more non-productive employees were hired, requiring higher marketing margins to be charged thus lowering net revenues to member producers, delays in payments, and a low sense of member ownership in the co-operative enterprise. But since the co-operative was the only permissible way in which small dairy and coffee producers could market their crops, the system continued to survive because of its monopsony position as sole buyer of these two products.

## 2.2. Cooperative Development in Ethiopia

### 2.2.1. Traditional Cooperatives

### 2.2.1. Traditional Cooperatives

Ethiopia is a country with diversified nationalities, ethnic groups, languages; each has its own unique culture and custom of living in entertaining different social activities. Working in group (plowing, harvesting, trashing, house construction), habits of eating together (in holidays, festivals), and living together is the common phenomena of Ethiopians. Cooperation is an age-old tradition that runs through the fabric of Ethiopian society. For centuries, the spirit of self-help has been an integral part of farming communities. In Ethiopia there are different well known traditional cooperatives or self-help groups.

**1. “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 stands for performing burial ceremonies and to condolence. The main objective for the establishment of this form of traditional cooperative (Edir) is to help a family who is the member of Edir in case of getting sorrow (due to the death of a family member) and happiness (marriage and other occasions) which require 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. Edir gets its legal personality from ministry of justice or regional justice bureau by paying registration fee. The member’s participation is very high in Edir because its foundation is based up on the willingness of each and every member.

**2. “Ekub”:-** Ekub is a traditional financial (saving & credit) cooperative formed voluntarily. In this, members make a fixed regular contribution on weekly or monthly basis 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 an Ekub, personal guarantee should be given by payee to the traditional society when he/she is 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 to certain extent similar to the modern saving and credit cooperatives. Therefore, there is a chance that this traditional form of cooperative could be changed in to modern cooperative societies with some modifications on their operation and making them to have legal bases. The amount of money which is now serving for immediate problem solving could be transformed into a sustainable and continuous problem solving system of modern cooperative by convincing and promoting the Ekub members.

**3. “Mahiber and Senbete”**

* organized to undertake a periodic feast held at each members house successively
* some times established based on ethnical homogeneity ,friendship & colleague basis

In Senbete, members are organized to fulfill religious obligations which are celebrated every Sunday. But, in Mahiber, members are organized not only for feast purposes but also to provide mutual assistance in time of death & other misfortune among members.

**4. “Meredaja Mahiber”**

* a self-help development-oriented association that targets a certain area, region or ethnic group.
* membership is drawn based on the above particulars.

**5**. “***Debo”/ “Wonfal”/* “Guza”/*Lefenty:*** Debo is a system of farmer’s cooperation during the time of farming, weeding, harvesting, trashing, and house construction etc. It does not have a system of administration like the other form of associations; it is based on equivalent labor or material contribution (mainly Ox) by each farmer. It is a mechanism by which all farmers help each other on turn basis. Since each types of work are being done in time, the productivity per farmers can be increased.

Generally, these traditional forms of associations which are having the values and customs of our society should be brought to modern forms of cooperatives so that they can contribute to the economic and social development of the people of Ethiopia.

### 2.2.2. Modern (Pre-Derg) Cooperatives (1960-74)

Modern form of cooperatives started in Ethiopia during the ruling era of Emperor Haile Selassie-I. In 1960, the first legislative called “Farm Workers Cooperatives Decree” was declared as Decree No.44/1960. The objectives needed to enact this decree were:

* to accelerate the development of the agricultural economy of the country.
* the organization of cooperative enterprise was believed to be as it can contribute measurably to this end.
* and it was also found necessary that the proper framework be created for the establishment of such cooperative enterprises.

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 Cooperatives out of 20 planned)
* The then existing land tenure system was the main hindering factor for stunted cooperatives development ( especially for the poor peasant farmers)

As the result of above problems, Cooperative societies Proclamation No.241/1966 was come to effective with consideration of previous Decree’s short comings. The main reason stated for the enactment of this proclamation was “where as our People have understood the usefulness of cooperative activities and 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.

Societies organised 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.

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.

### 2.2.3. Cooperatives during the Military Regime (1974-1991)

After over throw of Haile -Selasse’s monarchal system in Ethiopia, the military Junta has got the chance to come to power in 1974. Land became the property of the state & private ownership of the land was abolished. Farmers were granted with the right to use their land under their possession. The peasant associations were given legality by proclamation no. 71/1975. 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, producers cooperatives, service cooperatives, etc. The Derg period was politically motivated & geared to promote socialism by abolishing private ownership. Socialistic cooperatives of various types were initiated & established by the government through coercion in both rural and urban areas. 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. In the early 1990 there were already 3,316 producers’ cooperatives and 525 service cooperatives in the country.

**Main Problems of Cooperative Development in Ethiopia during the Derg Era**

* Massive intervention of politics in economic undertakings
* The complete subordination of cooperative activity to the state policy (coops work under the state law)
* Lack of credit availability
* Lack of support from members

### 2.2.4. The Post Derg Era and Cooperatives (1991- )

After the downfall of the Derg regime, there was a gap in between 1991- 1995 in cooperative movement of Ethiopia. This gap was created due to the fact that the government attention was mainly drawn towards stabilizing, bringing peace and creating administration organs. Later on, due to cooperative experts dedication and devotion and the government’s commitment towards cooperative development, it became necessary to enact new cooperative proclamation which suits to the current economic system.

Agricultural Cooperative Societies Proclamation No.85/1994 was enacted to give more thrust on all round development of the economy of Ethiopia. Yet another act 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 (currently Federal Cooperative Agency) based on proclamation no. 274 / 2002 was established in 2002. More over to correct the short comings in the proclamation 147/1998 amendment 402/ 2002 and regulation number 106/2002 have come into effect. 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

        prepared to establish federation at national level

The number of Primary and secondary cooperatives of different type with significant increase in number of member beneficiaries is achieved. Trained man power in the sector is increasing through universities and colleges, training, exposures visit, education of members through various means, etc coordinated effort of the government.

**Table 1. Number and Type of Primary Cooperatives in Ethiopia**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S.****N** | **Types of coops** | **No.of coops.** | **Male**  | **Female** | **Total** | **Capital** |
| 1 | Multipurpose  | 5104  | 3285990 | 401747 | 3,687,737  | 347.36  |
| 2 | Dairy  | 112 | 3048 | 1087 | 4135  | 3.3  |
| 3 | Incense  | 14 | 1257 | 202 | 1459  | 0.129  |
| 4 | Fishery  | 36 | 2267 | 134 | 2401  | 3.42  |
| 5 | Irrigation  | 442 | 26280 | 4217 | 30497 | 11.86  |
| 6 | Apiary  | 40 | 2478 | 44 | 2522 | 0.442 |
| 7 | Seed production | 17 | 1751 | 182 | 1933 |  |  |

# 3. VALUES AND PRINCIPLES OF COOPERATIVES

## 3.1. Values of Cooperatives

Co-operatives throughout the world share a set of values that give them their distinctive character.

**(i) Self-help:** In co-operatives, people help each other whilst helping themselves by working together for mutual benefit. 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.

**(ii) Self-responsibility**: Individuals within co-operatives act responsibly and play a full part in the organization. Coupled with self-help and mutual self- help is the value of self-responsibility. Ever 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 every one involved in it’s functioning, including employees, feel his accountability and discharge his responsibility with commitment, dedication and sincerity of purpose. This is what the Rochdale Pioneers demonstrated and they succeeded.

**(iii) Democracy:** A Co-operative will be structured so that members have control over the organization - one member, one vote. 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 once opinion on various matters and issues affecting the society. It also encompasses participation in strengthening internal finance and business.

**(iv) Equality:** Each member will have equal rights and benefits (according to their contribution). 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.

**(v) Equity:** It refers to how members are treated within a cooperative. Members will be treated justly and fairly. 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.

**(vi) Solidarity:** It isan important base of cooperatives. Solidarity is collectivity. Members will support each other and other co-operatives. Management have 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 resent a common entity before the public and government.

**Ethical Values:**

In the tradition of their founders, co-operative members believe in the ethical values of:

**(vii) 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 ideal is honest dealing with members and non-members. Therefore, cooperatives have a bias towards openness. They regularly reveal to their members and others information relating to their performance. Scope of honesty is much wider in cooperatives than what generally is understood. For individual honesty is not monetary honesty only, but also honesty of thoughts, commitments, behaviour 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. It prohibits undue favours of any kind to any one. Individual Co-operators honesty, business honesty and managerial honesty brighten the image of cooperatives and their identity. 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.

**(viii) Openness:** It means that cooperatives are open to members of community they serve. They have a commitment to serve and assist individuals in helping themselves.

**(ix) Social Responsibility:** In fact Social Responsibility and caring for others are overlapping concepts. It means that cooperatives should move beyond caring for members only. They should financially assist or organize activities beneficial to the entire community. However, such activities can be taken up when cooperatives have surplus.

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

*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*.

## 3.2. Evolution of Cooperative Principles

**Definition of Principle**

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 I.C.A. Commission (1966) on Cooperative Principles faced the problem of defining the term “principle”. The working definition adopted by the Commission was: “those practices which are essential, that is, absolutely indispensable to the achievement of the Cooperative Movement’s purpose”. How far is it justifiable to identify cooperative principles with any particular practice? Practices vary according to social and economic conditions of countries. If cooperative principles are not practices, what are they? According to W.P. Watkins, the former Director of the ICA, “They are the ideas, inherent in cooperation, which determine what it is as a mode of action … they are the ideas which it is the purpose of cooperative activity to realise ….” They are ideas accepted as invariable guides to policy or conduct or action of any kind. The ideas remain constant; the practices vary in response to need and circumstances. So the term “principles” means ideas, which determine the character of Cooperation as a form of association in contrast with practical rules and methods, which changes in competitive situation.

The principles of cooperation arise out of the characteristic features of cooperation. Cooperation is a form of economic organization. It is voluntary and democratic association of human beings, based on equality (of control and opportunity) and equity (of distribution of surplus), for the promotion of their interests. Solidarity, democratic control, mutuality or self-help through mutual help, voluntarism, equality and service motive are its characteristic features. The principles of cooperation are based on these features. Generally, the co-operative principles are guidelines by which co-operatives put their values into practice.

**Evolution of Cooperative Principles**

**Introduction**

The idea of cooperation is older than man himself. But cooperation, as a form of economic organization, is of recent origin.

The early 19th century was a period of considerable stress and strain in England. Great changes took place in the economic system with consequent social effects. The introduction of the steam engine and the mechanisation of processes revolutionised industry. Factory system of production came into existence. The society became divided into two classes – capitalist – employers and wage-earning workers. A blind capitalistic system of economy emerged. It was a system based on profit-motive. It promoted social evils, selfishness and exploitation of man by man. “The developing capitalism devoured greedily and indiscriminately the lives of men, women boys and girls” and squeezed “the life juices of men, women and children into the brimming vats of industrialism.”

The evils of the capitalistic system made the social thinkers like Robert Owen (1771-1858) of England and Charles Fourier (1772-1837) of France to think of an alternative better system of economy. They visualised an ideal form of society based on cooperation and mutual help instead of competition and exploitation of man by man. Though these historic figures did not trace in detail the forms that cooperation was to take, they set out its fundamental principles: association, voluntary nature of cooperation, democratic government of the enterprise and social motive.

Their followers, being inspired by their ideals and doctrines, shaped the cooperative form of enterprise. For instance, Dr. William King (1786-1865) of England gave practical guidance to translate Owen’s ideas into action. Under his inspiration, many cooperative stores were organised by workers to escape from the exploitation of “truck-shops” of factories and private-trader-“badgers”. While Owen’s ideals were more exalted and millennial, Dr. King’s teachings were more practical. Thus he “was nearer than Owen to the practical ideas of Rochdale Cooperation which came later”.

The dream of Owen, viz., creation of a new moral world based on cooperation did not become a reality, but cooperation as a new and noble form of economic organization with a social philosophy of high order and a moral content has come to stay. Many cooperatives were organised in the 1830s and almost all of them failed. And finally a society organised by a group of 28 workers of Rochdale, an industrial town in England proved a successful venture. The single factor in their success was the way in which they absorbed the lessons of the previous failures.

**Rochdale Principles**

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.

These Pioneers organised their society as a revolt against the unscrupulous practices of the truck-shops of their employers and the petty capitalist groceries. “The rules of their association, therefore, have a relevance to the circumstances in which they were working and specific purpose for which they had to operate. “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. The selection and particular formulations were of the historians’ making.

**1937 Committee**

In course of time, 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 embers 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 grated 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 o 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 much water has flowed under the bridge. 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 organization 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 defence 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 recognised. This matter was, therefore, discussed at the Twenty-second Congress of the I.C.A., in 1963.

**1966 Commission**

In 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.”

## 3.3. Statement on Cooperative Identity (1995)

There has been a concern among Co-operators 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. Following is the text:

**Definition:**

***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 enter-prise.***

**Values:**

***Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others***.

**Principles:**

**1st Principle: Voluntary and Open Membership:** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities to membership, without gender, social political or religious discrimination.

**2nd Principle: Democratic Member control:** Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

**3rd Principle: Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of the assets is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

**4th Principle: Autonomy and Independence:** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

**5th Principle: Education, Training and Information:** Cooperatives provide education and training for their members, elected representatives, mangers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public-particularly young people and opinion leaders-about the nature and benefits of cooperation.

**6th Principle: Cooperation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

**7th Principle: Concern for Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

**Analysis of the Principles (1995)**

Cooperative Principles are more than commandments; they are also guidelines for judging behaviour 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.

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

Voluntary principle implies that people cannot be made to be co-operators; 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.

# CHAPTER 4 : TYPE AND CLASSIFICATION OF COOPERATIVES

## 4.1. Types of Cooperatives Based on Levels of Organization

### 4.1.1. Local Level Cooperatives

* operate in a small geo­graphic area, typically a single county or two or three contiguous counties.
* established by the local community
* provides service for small category groups /the local community
* they usually have only one or two facilities to serve members.
* includes all types of coops that have individual members, e.g. marketing coops, consumer coops, service coops

### 4.1.2. Regional Level Cooperatives

* operate in territories that range in size from several districts to several regions
* Primarily organized to provide wholesaling and manufacturing services that local coops were unable to provide b/c of limited size & resources. These enable members further to:
	+ integrate their operation
	+ move products closer to eventual consumers by expanding operations from simple assembly & storage function to provide processing & manufacturing services

### 4.1.3. National Level Cooperatives

* established at national level
* serve a major portion or most of the nation.
* provide a special kind of services unique in nature that even regional coops may not be able to provide them efficiently. Example banking, manufacturing of milking machines, paints, lubricants, automotive supplies, certain grocery items, etc.

### 4.1.4. International Level Cooperatives

* established at international level to give services for national level coops
* operate in more than one country
* the head quarters may be situated domestically or in foreign country.

Examples:

1. **International cooperative petroleum association (ICPA)**
* Provides lubricating oil & related services to national coops in Belgium, Holland, Egypt, Scotland, Germany, sri-lanka, France, Sweden and, Denmark, Switzerland
* Provides technical assistance &raw petroleum materials to member associations
1. **The Scandinavian coop wholesale society-Copenhagen Denmark**
* National coops from 5 Scandinavian countries are members
* Manufactures, Lump, washing powder, Light bulbs, aerosol products (sprays), TV appliances
1. **Cooperative fertilizer international-Chicago**
* Established by America to assist the development of Indian fertilizer coops
* Construct fertilizer plant in India

**The Need for organizing high-level cooperative society**

* to integrate resources of the d/t nations
* to provide services for developing nations &
* to strengthen the national level coops, hence they will improve their performance.

## 4.2. Types of Cooperatives Based on Functions

### 4.2.1. Multipurpose Cooperatives

* those, which provide general services for members like, supply of agricultural inputs, marketing services, credit services, processing farm products, transport services, storing services, etc.

### 4.2.2. Agricultural Producers’ Cooperatives

* + - the most important types of producers coops
		- used by farmers to market all types of crops &livestock products
		- provide farm supplies & business services to farmers for Ag. production
		- some can be specialized on handling only one farm product marketing and
		- others may carry out diversified activities. They handle production supplies & services in addition to marketing of one or more farm products.
			* + others still provide only limited services such as assembling, financing, processing, wholesaling, storing, and retailing services .

### 4.2.3. Marketing Cooperatives

also known as the coop sales societies

voluntary associations of independent producers organized for the purpose of arranging for the sale of their output.

primarily engaged in the marketing of principal farm products which represents the four main commodity, dairy, vegetable, grain and livestock.

Can be organized to market any products that farmers produce, such as oil, poultry products, tea, coffee, flower, forest products, rice, teff, wheat, and corn/maize.

**Basic objectives**:

* securing best possible market price for the members’ products
* joint sales decisions eliminate the competition amongst members & ensures them better price
* reduction in the cost of marketing (due to bulk selling): transportation, storage and packaging costs.

### 4.2.4. Production Supply Cooperatives

* Provide many inputs for farmers for their farm operations, such as Seed, fertilizer, chemicals and sprays, farm machinery and equipment, feeds, containers and packaging materials, building materials, petroleum products, etc
* Most of them provide a wide range of supplies and
* Some market farm products and handle a limited amount of consumer goods
* Few handle only one type of supply item, e.g. petroleum supplying association.

### 4.2.5. Fishery Cooperatives

* Are involved in fishing activities
* Can own fishing boats with hired crew that are paid either straight salary or on a percentage of fish catch
* or coop members can undertake all of the activities
* boat owner may be member of the fishery coop
* can cover the following functions
	+ fish processing and marketing
	+ provide necessary supplies & equipments & other related activities

### 4.2.6. Housing cooperatives

* associations of persons who are interested either in securing the ownership of the house or obtaining accommodation at fair and reasonable rents.
* mostly formed in urban areas
* organized to provide housing services to members at a reasonable price
* helps to solve the problems of housing in developing countries specially in for the low economic group of the society
* limited to a single transaction-housing service
* ceases to exit after members have their own houses

Reasons for establishment of such societies are:

* + - * Increase in population
			* Industrial development
			* Increase in the income of the population
			* Agricultural development
			* War and refugees

### 4.2.7. Saving and Credit Cooperatives

* 1st established in the mid 1970 in Germany by Raiffeisen and H. S. Delitzch
* Voluntary associations of people with moderate means formed with the objective of extending short-term financial accommodation to them & developing the habit of thrift among them
* Functions both as saving institutions and loan agency
* Their funds consist of the share capital contributed by the members.
* Provide short & long-term loan for members
* Classified as rural and urban oriented (laborers, civil servants)

**Objectives**:

* To secure short-term financial accommodation to members and
* To develop the habit of thrift among members

***Saving aspect:***

* The society helps the members to develop the habit of thrift among them.
* Members are encouraged to save some amount of money in the coop to get interest
* The contribution is on regular basis, e.g. on monthly basis etc
* Members’ contribution is considered as investment, i.e., they get as a cost of capital
* Members’ savings provide most of the funds that are a loan to members
* NB. rate of interest(IR) should be greater than other institutions to encourage members to save more money

**E.g.** IR of CBE is 3% per year. Therefore, IR of should be > 3% per year

***Credit aspect/loan:***

* given to members from their savings
* they get credit based on the amount saved in the coop
* loan is often at a rate of 1% or less per month on the unpaid balance. loan is made for :
	+ the purchase of farm inputs
	+ financing educational & vocational expenses
	+ household repairs
* the coop provides money to get interest from the credit
* NB. -The IR for credit is lower than other lending institutions

 E.g. IR of CBE = 6%/year. Therefore, IR of the coop should be > 6%/year

 -The liquidity date of the coop depends on the financial laws of the country.

### 4.2.8. Consumers’ cooperatives

**Objectives:**

* To supply better quality goods at comparatively lower prices
* To eliminate the dishonest intermediaries in trade whose actions benefit neither the producers nor the consumers

Consumers’ cooperatives:

* Refer to the economic institutions, which are set up by the consumers themselves on a coop basis to protect their collective interests.
* Formed by ordinary people for obtaining their day-to day requirements of goods at a cheap prices
* Make their purchase in bulk from wholesalers at wholesale rates & sell the goods to members (so. times to non members
* An economic agent of members & an extension of their household operations
* Aimed at increasing members’ purchasing power to improve members living standard
* The hope of members is to benefit from them through Favorable prices, High quality products & reliable services. Therefore their basic goal is to achieve economic gains for members
* Provide members with a wide range of foods and services they use in every day living
* Have achieved varying degrees of success in many parts of the world
* Some operate as a retail store & handle complete lines of Food, Clothing, Appliances (devices), Hardware (household articles), Garden items
* As a rule, they own their own warehouses & wholesaling facilities
* Others function as informal consumer buying clubs that meet occasionally & distribute special items (e.g. processed food, basic household supplies)
* Others can be organized to provide Housing, Credit, Health care, Preschool care, Insurance, Travel, Recreational facilities, Automobile repairs, Student housing.

# CHAPTER 5: AGRICULTURAL COOPERATIVES

## 5.1. Importance of Agricultural Cooperatives

Agricultural co-operatives are owned and controlled by the producers who purchase goods and services from, or deliver products to, the co-operative business. Co-ops provide groups of producers with the opportunity to own and control businesses related to their production operations, allowing them to address common problems or develop market opportunities which they could not otherwise achieve alone.

Agricultural cooperatives are important providers of services such as market access and contracts to small scale farmers and agribusinesses that may be excluded from private markets and businesses due to scale and quality considerations. They also provide farmers access to extension and inputs, improve quality and quantity and negotiate more effectively. Agricultural cooperatives offer an effective way of delivering agricultural services to smallholder farmers that facilitate intensification of production and diversification into more profitable cash crops.

## 5.2. Types of Agricultural Cooperatives

Types of co-operatives common in the agricultural sector include supply, marketing and processing co-operatives. Another relatively recent form of agricultural co-operative is the New Generation Co-operative. Each type of co-op offers producers the chance to realize individual economic benefits through group action and co-operation.

### 5.2.1. Supply Cooperatives

Supply co-operatives provide producers with inputs and services at competitive rates. These co-ops sell a variety of goods to producers, including petroleum, feed and fertilizers. Services such as breeding, artificial insemination, and seed cleaning have also been organized on a co-operative basis. Supply co-ops can enable producers to reduce their operating costs and can provide access to needed inputs. Depending on the needs of the producers involved, supply co-ops can vary in complexity. They can range from simple buying clubs organized by producers to access bulk or volume discounts, to large wholesale and retail operations which provide a wide variety of goods and services to a broad range of producers.

A supply co-operative may either charge market prices for the services and products offered or it may provide these services or products at cost (the price paid for the products or services plus an operating margin). In the former case, surplus generated from charging the market price is returned to members at the end of the year as patronage refunds or is reinvested in the business.

Members can also decide whether or not their co-operative will sell to non-members. Allowing non-members to purchase supplies or services can further increase the surplus generated by the business.

### 5.2.2. Marketing and Processing Cooperatives

Producers create marketing co-operatives to jointly market and distribute their products. Many marketing co-operatives also further process commodities on behalf of their members. Depending on their mandate, co-operatives may or may not market the product of non-members.

By handling large volumes of product, co-operatives can reduce the per-unit cost of marketing and processing for producers. By pooling their resources, producer-members can hire professional marketing specialists and have their products processed in plants in which they have an ownership stake. Many marketing co-operatives also facilitate producer investment in the creation of brand names as well as research and development.

**Cooperative Marketing Arrangements**

Co-operatives use many methods to price and account for the raw commodities delivered by members to the co-op for marketing and processing. Some co-operatives pay producers a market price upon delivery, while others pay producers a pooled price. A pooled price is based on the average returns earned by the co-operative for a particular type and quality of product over a specified marketing period (see page 4). Still other marketing co-operatives simply facilitate the transaction between the producers and the final buyer, never retaining ownership of the product and charging the producer on a per-unit basis for this service.

1. **Marketing Pools**

In cooperative marketing pools, the producers of a specific commodity jointly pool their production to be marketed by their co-op. under this practice, ownership of the harvested commodity is transferred to the co-op and the co-op’s management determines the best time to sell, where to sell, and whether to subject the raw commodity to further processing. In return, members agree to accept the average return earned by the pool during the marketing season. The final return paid to participants in such pools is adjusted according to the relative quality of the delivered commodity. In a typical pool, producers receive advance payments at the time their harvests are delivered to the co-operative. The co-op then makes a serious of progress payments as the crop is marketed. A final settlement payment is made when all costs and revenues for the marketing season have been established.

1. **Call Marketing**

Under a call marketing arrangement, the cooperative functions as a broker between buyer and seller. In this case, ownership of each unit of product remains with the member who produced it. At any time during the marketing season, the member decides when to sell each unit that he/she has produced. The cooperative’s role is to sell its members’ products and to guarantee the collection of proceeds for its members. In addition to giving members the right to determine the time of sale, the co-op may also allow members to set a minimum or reservation price at which the commodity may be sold. After the sale is completed and a portion of the proceeds is withheld to cover the cooperatives’ operating costs, the remaining funds are paid to the members.

Call marketing co-ops typically provide a marketplace where transactions between buyers and sellers are conducted in public. This serves to provide members with information on the most recent transactions, thus giving producers increased market power in the form of information about supply, demand, and the impact of the market situation on the prices being offered.

Regardless of the type of marketing arrangement between the co-op and its members, producers may receive additional payments at the end of the marketing season. These payments are based on the co-operative’s earnings in excess of operating costs for that period. Surplus generated from the co-operative’s marketing or processing activities is either reinvested in the business or is returned to members in proportion to the amount of raw product delivered to the co-operative.

### 5.2.3. New Generation Cooperatives

The name New Generation Co-operative (NGC) refers to a type of processing co-operative which uses a particular financial structure to raise the large sums of capital required to invest in value-added processing activities. This structure is based on investment shares which are tied to the right and contractual obligation to deliver raw product to the co-op’s processing facility.

The investment shares in an NGC are tied to a marketing agreement which commits producer members to delivering a specified volume and quality of raw product to the co-op’s processing facility. In turn, the co-op is committed to accepting the delivered product (as long as it meets established quality standards) and to returning the profits generated from processing activities to members. As with other contractual agreements, contingencies are incorporated to account for unusual occurrences, such as crop failure.

The capital structure of an NGC is similar to a strict form of base capital plan—members are required to invest in the co-operative in proportion to patronage. However, unlike a base capital plan, member investment in an NGC is up-front, through the purchase of investment shares, and is based on members’ assessment of their processing needs, not past patronage.

Despite the distinctive capital structure of NGCs, the co-operative features of producer control and ownership remain. In particular, NGCs:

* are democratically controlled by producer members, based on “one-member, one-vote;”
* distribute the earnings generated by their marketing and processing operations to members in accordance to patronage;
* meet the bulk of their capital requirements through member-investment.

NGCs were first formed in the upper mid western United States in response to depressed commodity prices and declining rural economies. This situation led producers to become involved in producer-owned, value-added processing ventures in order to:

* gain access to an increased share of the consumers’ food dollar;
* reduce producers’ reliance on the export of raw commodities to other regions for processing;
* create local employment opportunities and revitalize rural communities.

## 5.3. Limitations of Agricultural Cooperatives

## 5.3. Limitations of Agricultural Cooperatives

1**. Lack of market competitiveness and private sectors involvement**

A number of agricultural coops lack competitiveness in the market due to economies of scale. As a result, the sector is currently plagued by inefficiency, uneconomical scale of operation, low technology and inefficient marketing systems.

2. **Incomplete agricultural infrastructure**

Some areas need better infrastructure in relation to inland transportation and irrigation facilities.

3**. Low penetration of information and communication technology to increase**

 **productivity**

Agricultural coops do not have enough resources to be involved in this sector to enable them to improve their efficiency and effectiveness in agribusiness activities.

4. **Inefficiency in the delivery system**

Agricultural projects are very prone to failures and as such, they do not provide predictable returns. This in turn has made members hesitate to invest large sum of capital in the sector. As a result, they have limited sources of funds to run their farms and hire competent management personnel.

5**. Weaknesses in the marketing system and R&D**

The lack of funds and marketing outlets have restricted agricultural coops in marketing their products to the consumer. Most of them depend on wholesale markets as outlets for their products which normally do not favor a good price for their product.

6**. Low level of women’s participation**

The low level of participation by women is a challenge faced by many cooperatives, a problem that is worse in agricultural cooperatives compared to other types such as credit cooperatives.

## 5.4. Strategies to Improve Agricultural Cooperatives

**1. Expanding marketing activities**

Marketing of agriculture products is another important activity that agricultural coops have to give priority. They should form a joint venture with the Agricultural Marketing unions to plan the marketing activities for export and domestic markets.

**2. Provision of required services to members**

The agricultural coops have to enhance and improve the services needed by the members. Since members’ requirements are varied in nature, they have to identify clearly what the majority of their members want. The emphasis will be given on credit and marketing services.

**3. Increase the coordination with the Ministry of Agriculture and agro- industries**

Agricultural coops will collaborate with technical departments and agencies under the Ministry of Agriculture and Agro-based Industries through coordinated effort. This coordination will be in the form of technology transfer, farm management practice, accreditation program and marketing support.

**4.** **Products of high quality and traceability**

A major development in some agricultural cooperatives is their attempt to satisfy consumer demand by offering high quality product and introducing product traceability. In such an initiative farmer-members are advised to use organic fertilizers and avoid farm chemicals. This good practice enhances the quality and safety of farm products and will enable the producers and consumers work closely.

**5. Value-addition**

Agricultural cooperatives should undertake value-added operation through processing, grading, packaging and branding products in order to gain market competitive advantages.

**6.** **Increase women’s participation in agricultural coops**

The low level of participation by women is a challenge faced by many cooperatives, a problem that is worse in agricultural cooperatives compared to other types such as credit cooperatives. One way to address this problem is through setting up women’s cooperatives like the women’s cooperative banks in the South of Sri Lanka. Awareness campaigns, as in the Women’s Dairy Cooperative leadership program in India, helped double the participation rates of women.

#

# CHAPTER 6: COOPERATIVE LAW

## 6.1. Introduction to Cooperative Law

* + 1. **Definition of law**

Law is simply defined as rule or regulation supported by the power of government and that governs the behavior of members of the community in a country. The most important point that distinguishes law from other types of rules of society or norms for that matter is that there is the power of government behind law. Government has formal institution by means of which it takes sanction up on those who violate the law.

* + 1. **Purposes of law**

Every society or community has its own laws which regulate mutual relation and conduct of its member. And these laws are enforced to realize these. The main purposes are:

* To regulate the conduct or behaviour of persons.
* To provide justice to the members of societies.
* To maintain political or economic stability
* To protect the fundamental rights or freedom of the individuals.
* To maintain peace and security of the country
	+ 1. **Definition and concepts of a cooperative law**

A cooperative law can be defined as the branch of the law which regulates the formation of new societies, management of cooperative societies and winding up or dissolution of societies (ministry of cooperative Development of Kenya, 1991).

Cooperative law defines the role and place of cooperatives in society and its economy. It also provides the legal framework for the relationship between the state ands cooperatives. Besides, it regulates the functioning of cooperatives and spells out the rights and obligations of their members.

Cooperative law though partly, is influenced by the basic human rights that are guaranteed under by various countries’ constitution. Such rights include the following:

* Freedom of association
* Protection of private property
* Freedom to exercise any lawful professions
* Freedom to from coalitions.
* Basic democratic rights.
* Free access to the courts.

Human rights to the development of cooperative principles such as voluntary membership, democratic management and control, and autonomy in goal setting and decision making are expressions of these basic human rights. And where these basic human rights are guaranteed the climate for development of cooperatives is more favourable.

* + 1. **Purposes of cooperative law**

Cooperative laws serve a number of purposes. These purposes vary from country to country depending mostly upon the political ideology of the country concerned. In spite of these variations, ILO has attempted to summarize the most important purposes of cooperative law. These are: -

* Firstly, the law lays down that a cooperatives is a lawful organization serving a desirable end and that it is , as such entitled to become a legal entity – that is to acquire the right , which an individual person already enjoys, to own property, buy and sell goods, borrow and lend money , sue and be used
* Secondly, the law lays down what kind of organization a cooperative is, what its objectives are, how surpluses or losses are to be distributed and how, if necessary, it is to be brought to an end.
* Thirdly, the law will probably, though not necessarily in every case, lay down ways in which the government, acting usually through some administrative department, is prepared to help cooperative to develop. The help may be of a very limited kind. It may simply require cooperatives for their own good, to submit rules and amendments for official approval.
	+ 1. **Sources of cooperative law**

A source of cooperative law is that which may be pointed out as forming the basis of cooperative law .It may be written or unwritten. Customary law for example can be cited as unwritten law. But constitution is a written law. The following are source of cooperative law:

* The Ethiopian constitution
* The various cooperative Declarations
* The substance of common law
* Professional opinion
* Customary law

These are the major sources form which cooperative law can be formulated, i.e. they serve as a reference or are considered while legislating a cooperative law.

* 1. **By-law of a Cooperative Society**

**By-law of a Cooperative Society**

By-law is a law made by a coop authority itself or it is an operating rule of a coop society.

### 6.2.1. Purposes of by-laws

Members adopt a set of by-laws after a cooperative is incorporated. By-laws:

* + provide a detail description of the internal operation & structure of the coop
	+ a working plan for how the association should function
	+ used for the creation of organizational agreement

References to by-laws in the statutes are usually permissive, giving members to write their own rules on how to handle a particular issue.

### 6.2.2. Contents of by-laws

* + Name & address of the society
	+ objectives and activities of the society
	+ working place or area
	+ requirements necessary for membership
	+ the right & duties of members
	+ powers ,responsibilities and duties of management bodies
	+ conditions for re-election, appointment, terms of office & suspension or dismissal of the members of the management committee or other management bodies
	+ conditions for calling of meeting & voting of members
	+ allocation & distribution of profit
	+ auditing
	+ employment of workers
	+ other particulars not contrary to government coop proclamation

# CHAPTER 7: ORGANIZATION AND MANAGEMENT OF COOPERATIVES

* 1. **Situations for Organizing Cooperatives**

A compelling need and a few community leaders can spark the idea of forming a cooperative.  Usually, these leaders have an economic need or desire a service they believe a cooperative can provide.  They also know others who have similar interests.

These leaders can be business owners, manufacturers, growers, artisans, or citizens who lack, or are losing, a market for their products, satisfactory sources of production supplies, or services related to their occupation.  Or they may wish to secure some other needed service or develop sources of additional income.

* 1. **Procedures for Organizing Cooperatives**

In organizing a coop, the following sequences of events usually occur:

1. **Leadership and Advisers**

 Responsibility for starting a cooperative and seeing the project through rests mostly with the leadership group. Leaders begin by discussing their idea at one or more small group meetings with other prospective members or users. If the group supports the idea, the next step is to seek the advice of someone familiar with cooperatives.

Specialized help is needed throughout the various stages of starting a cooperative. Leaders need someone familiar with the cooperative-forming process to work with them step by step concerning legal, economic, and financial aspects.

 Depending on the resources available and interest found among sources of specialized help, the group should request a person from one of the organizations to serve as an adviser.

**Business and cooperative specialists:** include those in Rural Development offices, a cooperative promotion and development specialists, universities, and other established coops in the area. They can recommend other specialized services and talents that will be needed during organization stages.

**Legal Counsel,** preferably an attorney familiar with State cooperative statutes, is needed.  Among sources to check for one are State Extension specialists working with cooperatives, the State cooperative council, Cooperative Bank, an established cooperative in the area.

An attorney prepares the organization papers or checks the legality of those written by someone else. Early expertise is needed to acquire property, make capitalization plans, borrow money, and write agreements and contracts. Even after the cooperative is operating, an attorney should be retained who can help ensure the organization conforms to applicable laws.

**Financial counsel** from some financial institution should be sought early regarding anticipated capital needs and methods of financing.

This institution can provide advice on designing the feasibility study to meet requirements of a lending agent. Staff specialists on finance and accounting matters can also advise the cooperative. An independent accounting firm that has the knowledge of cooperative operations should be hired to establish the bookkeeping system, tax records, and a plan for revolving capital prior to sale of stock or collection or handling of members' money. Later, the board will need to hire an outside accounting firm to conduct the annual audit.

 **Technical advice** may be needed periodically from a variety of technicians and persons experienced in cooperative business operations.

1. **Exploratory Meeting**

To determine the level of interest in starting and supporting a cooperative, invite potential members to a general meeting. Announce the meeting date, time, and place via newspapers, radio, telephone, at other meetings, by letter, or word of mouth. Invite outside advisers.

The leadership group should develop an agenda and select a presiding officer who can conduct a business meeting. Sometimes, an adviser can act as chair or help answer questions. Primary agenda items should include:

What is the need;

Possible solutions;
Cooperative principles and terminology;
Cooperative operating practices;
Advantages and disadvantages of a cooperative;
General risk capital (equity) and financial requirements; and
Various forms of member-user commitment needed.

One approach is to have one member of the leadership group discuss the need and another summarize how the proposed cooperative might solve it. In addition, a representative of a successful cooperative might explain its operations, benefits, and limitations.

Allow plenty of time for discussion. Prospective members should be encouraged to express their views and ask questions. All issues raised should be addressed, although answers may be delayed until later meetings when more information becomes available.

**Steering Committee Formation and Duties**

If the group wants a more detailed study after discussion is completed, it should select a steering committee. This group should have a keen interest in the cooperative, be well-respected within the community, and have sound business judgment. Committee members often become the initial organizers and members of the cooperative's first board of directors.

The first function is to select officers of the steering committee, usually at the close of the general informational meeting. Next, establish a deadline for completing a business analysis, including a target date for surveying potential members. Periodic progress meetings retain interest of prospective members.

The steering committee, with the help of one or more advisers, determines if a cooperative is feasible. First, it judges whether the proposed cooperative is likely to succeed and benefit its members. Second, if the proposal passes this test, the committee prepares a specific, detailed business plan for the new cooperative.

Assistance from specialists in law, accounting, finance, economics, engineering, and cooperative business operations is critical during the business analysis phase.

 Economic need is fundamental to the formation and successful operation of any cooperative. The committee should examine what products or services the cooperative could provide, those needed from other sources, and whether costs would be reduced or quality improved. Intangible functions also should be considered. Will the cooperative provide a needed service, preserve a market, stabilize prices, or encourage more orderly marketing?

 Is the projected initial investment (equity) within the financial ability of the potential members involved?

The committee should consider alternatives to starting a new cooperative. Could similar services be provided by another nearby cooperative, either directly or by establishing a branch? If forming a new cooperative is the best alternative, the group should consider linking with regional cooperatives to obtain additional benefits.

 A new cooperative should initially limit services to avoid elaborate or costly facilities above those absolutely needed. If successful, services can later be expanded.

1. **Member-User Survey**

Formal survey techniques are best for estimating potential membership. The adviser usually drafts the survey questionnaire for the steering committee to review. The following list gives a general idea of the needed information:

1. Volume of need or use in an appropriate unit of measure for the most recent or

 typical year;

2. Member-user experience and capabilities-years in present location, overall success,

 demand specific to the cooperative venture, and production and marketing success;

3. Variety of products or services to be offered or needed;

4. Period of need or services;

5. Current unit value-sales price or cost per unit;

6.Member-user--location of use or need;

7. Familiarity with and use of other cooperatives and willingness to join, finance, and use.

While the questionnaire is being prepared, the steering committee should develop a list of potentially interested members. When the questionnaire is completed and approved, the committee interviews potential members.

Steering committee members might travel with the adviser or advisers to locate potential users or otherwise fix locations on a map. But the adviser, not committee members, should conduct the survey interview to preserve confidentiality of information provided. Such occasions should be carefully assessed beforehand.

The adviser should also discuss and answer questions about the proposed cooperative venture. Surveys also can be conducted at scheduled group meetings at a central location.

Estimates of both membership and volume should be conservative. Not all persons interested will join initially and some may wait to join later. And, unfortunately, not all who join will make the fullest use of the cooperative's services.

The adviser analyzes the survey, prepares a report, and presents it to the steering committee.

1. **Discuss Survey Results**

After the analysis is made, the results and implications are then discussed at a meeting of all persons surveyed. Survey results should reveal how potential members identify the economic need and the degree of interest in a cooperative to fulfill that need. The survey should indicate the level of support in terms of business volume and if financial commitment is sufficient to organize and successfully operate the cooperative. The final action at this meeting is a vote on whether to continue.

1. **Market, Supply Sources, Cost Analysis**

A vote to continue challenges the steering committee and adviser to identify suitable markets, sources of supply, and service providers and their requirements. Here are some ways to gain this information:

 1. Use previous research and industry common knowledge.

2. Survey market, supply, or service provider sources. Although the advisor

should be primarily responsible for developing the questionnaire, this phase should be a joint effort. Contact users of the services, potential buyers or suppliers, to determine their requirements.

3. Ask State and/or Federal offices (such as the Rural Development offices, Extension Service, or community action agencies), universities, cooperative centers, commodity organizations, or private consulting firms to conduct the research and use their findings.

The adviser analyzes the survey results. This process may determine the scope of the cooperative's activities. Contacts are then made, either by the adviser or steering committee members, with engineers, equipment dealers, real estate agents, and others for cost estimates on establishing and operating the cooperative's physical facilities.

The adviser reports on the potential markets or supply sources to the steering committee.

1. **Discuss the Results of the Analysis**

Once the report is approved, the steering committee calls the third general meeting. The adviser presents the preliminary market or supply estimation and cost analysis. Both are subject to change.

After the market or supply report is discussed and accepted, the group should vote by secret ballot on whether to continue the organizational process. By now, the steering committee and adviser should have a good idea of the minimum volume of business, number of members, and financial commitment needed to justify starting the cooperative. Where support is questionable, the token investment should be refunded.

 Supporters should sign a pre-membership agreement. This agreement helps determine the extent of serious interest in the proposed cooperative. The signer agrees to join, patronize, and furnish a specific amount of initial risk capital.

Initial investment by members should be in proportion to their intended use of the cooperative, but start at a minimal amount such as 10 percent of potential risk capital (equity) needed to operate. This goal should be met before continuing organizational efforts.

Potential members should be given a written statement about how their investment will be used and procedures for returning unused funds if the project is terminated or the individual later decides not to join. The money should be deposited in an interest-bearing account and records kept of investments and expenditures. Generally, this money is used for organizational costs like supplies, postage, phone bills, and attorney fees.

1. **Feasibility Analysis**

The emerging picture of the size and scope of the cooperative now permits the adviser and the steering committee to develop basic operating assumptions. Together, they consider facilities needed, operating costs, capitalization, and financial requirements.

An important part of the feasibility analysis is to review the sensitivity of the business to changes in volume or operating costs. For example, what impact will a 25-percent decrease in product sales, perhaps due to adverse weather, have on profitability? Other key factors might include wage rates, operating efficiencies, interest rates, etc.

The adviser determines operating efficiencies, estimates labor needs, develops service and payment schedules, and gathers other cost data. The steering committee will have to contact with an engineering firm or equipment dealer, for instance, to obtain specialized data on facilities, equipment, and labor costs.

Facilities needed may include land, buildings, and equipment. The committee bases estimates on the expected business volume by the probable members, plus some allowance for future expansion. The cost of buying or leasing existing facilities and equipment should be investigated. Professionals and skilled technicians should be consulted to determine the need for new facilities and assess the value of any existing facilities being considered.

Operating costs include employee salaries, utilities, taxes, depreciation, interest, and costs of office and other supplies. The adviser, with help of the committee, determines what items to include and their probable cost, based on operating assumptions. If the operating revenues for the projected volume of business show little or no margins over estimated costs, the committee should project the volume needed to produce acceptable margins. In most businesses, per-unit operating costs tend to decline as the volume increases.

A cooperative's lowest possible operating costs occur when its members furnish it with the maximum amount of business it can handle.

1. **Present Results of the Feasibility Analysis**

Result of the feasibility study is presented to prospective members at the 4th general meeting. If participants agree to proceed, decide whether to keep or change the steering committee members.

1. **Prepare legal papers and incorporate**

Perhaps the most important process, other than determining the business feasibility, is drafting articles of incorporation and bylaws. Other legal documents include the membership application, membership or stock certificate, revolving fund certificate, and marketing/purchasing agreements

**Articles of Incorporation**:-

 Incorporation is usually the best method of organizing. Incorporation gives the cooperative a distinct legal standing. Members generally are not personally liable for the debts of an incorporated organization beyond the amount of their investment. The articles indicate the nature of the cooperative business. The articles should specify rather broad operating authority when incorporating even though services may be limited at the beginning.

These articles usually contain the name of the cooperative, principal place of business, purposes and powers of the association, proposed duration of the association, names of the incorporators and information about the capital structure. If necessary, the names of the first officers of the association must be included.

 Filing the articles of incorporation (usually with the Secretary of State) activates the cooperative corporation. After the organizing committee approves the articles, the attorney files for the corporation charter and includes the recording fees. Once chartered by the State, the cooperative should promptly adopt bylaws.

**Bylaws:-**

They state how the cooperative will conduct business and must be consistent with both State statutes and the articles of incorporation.

Bylaws usually have membership requirements and lists rights and responsibilities of members; grounds and procedures for member expulsion; how to call and conduct membership meetings, methods of voting, how directors and officers are elected or removed, and their number, duties, terms of office, and compensation; time and place of director meetings; dates of the fiscal year; requirement to conduct business on a cooperative basis; how net margins will be distributed; process for redemption of members' equity;  a consent provision that members will include the face value of written notices of allocation and per-unit retain certificates as income in the year they are received; distribution of non-patronage income; handling of losses; treating nonmember business; dissolution of the cooperative; indemnification of directors; and the process for amending the bylaws.

Also covered is how the board is structured to represent the membership, given geographical distribution and size of the membership and the scope of business and function of the cooperative. Directors may be selected to represent districts based on membership density, to reflect commodities or services to be handled, or some other basis that provides equitable representation. The organizing committee's recommended management structure should include the basis for director representation, voting methods, and board officers, and their terms.

For marketing cooperatives that lack a marketing agreement, the bylaws specify the extent of members' obligation to market through the cooperative. They outline the terms and conditions under which the products will be marketed and accounting procedures.

The committee prepares the articles and bylaws with the help of an attorney so provisions comply with laws of the State in which the cooperative is incorporated. The committee's role also is to assure the bylaw provisions will not conflict with operating procedures.

**Membership Application:**-

This form has five main parts: **applicant's statement** asking to become a member of the cooperative, **signature of the applicant**, **statement of cooperative acceptance of applicant**, **signatures of the president and secretary**, and a **statement of the duty and intent of the member**.

The application signed by the member and approved by the board of directors, is the legal proof that a patron is a member. A cooperative should have a completed membership application on file from every member. Membership and the amount of business done with members and nonmembers are important factors for certain antitrust and taxation provisions.

A membership certificate may be issued to each member as evidence of entitlement to all of the rights, benefits, and privileges of the association.

**Marketing and Purchasing Agreements:**-

In the marketing agreement, the association agrees to accept specified products of stated or better quality, to market them to the best of its ability, and to return to members all marketing proceeds less deductions for expenses and continuing capital needs. A similar contract with members can be structured for service and supply cooperatives.

 This continuing or self-renewing agreement should specify that after it has been in force for some initial period, it should continue indefinitely unless the member (or the cooperative) states in writing a desire to cancel or modify it. A cancellation request must be made during a specified annual period as noted in the contract.

 An agreement ensures sufficient control over products or services to be delivered so the cooperative can function. This is especially helpful in the first few years of operation when the cooperative is establishing its reputation as a responsible and successful business. Marketing and purchasing agreements have helped some cooperatives get needed outside financial help.

 In some cases, cooperatives that use contractual agreements must file them with the State Government.

**Revolving Fund Certificates:-**

When a cooperative retains funds from business with or for patrons as capital investments, it issues a written patronage refund certificate or a similar document to the member as a receipt for capital investments that will eventually be revolved or redeemed. Meanwhile, the retain is used to finance the business. Member investments may be deductions based on per-unit of product handled or services used, reinvested patronage refunds, or original capital subscriptions, if a non-stock cooperative.

1. **Charter Member Meeting**

Call a meeting of charter members (founding members) and all potential members to review and adopt the proposed bylaws. Elect a board of directors.

According to most statutes under which cooperatives are organized, articles and bylaws must be adopted by a majority vote of the members or stockholders.

 For convenience in organizing, only the persons named in the articles of incorporation, called the charter members, must vote to adopt the bylaws. These persons are regarded as members or stockholders as soon as the articles of incorporation are filed. A good practice, however, is to invite everyone who has signed a pre-membership agreement to the meeting to ratify the bylaws.

A temporary presiding officer conducts this first meeting and reports that the articles of incorporation have been filed. A draft of the proposed bylaws is presented, discussed, and adopted as read or amended.

Further action is usually needed to accept those members or stockholders who have subscribed for stock or agreed to become members but are not named in the articles of Incorporation. Under some statutes, however, the incorporators can adopt the bylaws as incorporators rather than as members or stockholders.

If members of the first board of directors have not been named in the articles of incorporation, they should be elected at this meeting.

Here are some suggestions for selecting the first board of directors:

* Use a nominating committee to develop a panel of candidates for the board;
* select only members as candidates;
* nominate two candidates for each position; and
* vote by secret ballot.
1. **Implementing the Business Plan**

Once the bylaws have been adopted, the board of directors should meet as soon as possible to avoid having to send out legal notices of it to directors. Directors approve various resolutions designed to make the cooperative an operational business and ready to serve members.

Officers of the cooperative are elected and directors assigned to individual or committee responsibilities to implement the business plan. Members may be assigned to committees, but at least one board member should be on each committee to enhance communications. Target dates are established for important events such as groundbreaking, construction completion, dedication or open house, and full-capacity operations.

The board needs to act immediately on some specific items:

* conduct a membership drive; adopt a form of membership application or stock subscription;
* adopt the forms for contractual agreement if used;
acquire capital;
* select a bank in which to deposit funds; initiate steps to hire a manager;
* authorize officers or employees to handle cooperative funds and issue checks;  design and install an accounting system;
* provide for bookkeeping and auditing services;
* print the articles of incorporation, bylaws, and other member documents for distribution to all members;
* bond officers and employees in accordance with bylaws; and
* pick a business location and seek bids for facilities and equipment

 A director training schedule should be established to discuss topics such as legal liability, cooperative finance, management supervision, and member relations. Session topics for the entire membership should include member responsibilities, cooperative operating policies, and tax treatment of patronage refunds.

1. **Conduct a Membership Drive**

A new cooperative must have enough members to start operation and justify its existence. Additional members may be needed to financially strengthen the association or increase its volume.

Cooperatives that provide supplies and services normally have open membership. Those that process and market or bargain for price and contractual agreement or offer limited services may have a selective membership policy. Members should feel a responsibility to recommend others believed to be qualified users. That's why it's important for members to understand what their cooperative is, how it operates, its benefits, and its limitations.

People join cooperatives primarily for economic benefits-services and increased income. Most people want to be shown the advantages of cooperative membership. If those benefits are not evident, few prospects will join and even if they do, they probably won't regularly patronize the cooperative.

New members may be asked to join by purchasing stock or paying a membership fee and signing an application. The applicant should get a receipt for funds collected. The cooperative must follow-up with membership and stock certificates and related material.

Accurate accounting of money is an extremely sensitive issue. The cooperative should retain an independent accounting firm to assist in recording funds prior to any sale of stock or the collection of substantial amounts of money.

1. **Acquiring Capital and Develop a Loan Application Package**

Starting a new cooperative can create a need for substantial capital. A problem develops when trying to operate with limited membership equity capital and sizable total capital requirements. Therefore, member equity must be carefully weighed against projected cooperative capital needs.

The task of financing a new cooperative with member equity alone is usually impossible. Therefore, additional sources for funds are needed. Local area banks are good possibilities. Commercial banks, particularly those in the area where the cooperative will operate, are an important source for loans. Personnel of these banks already are familiar with the economy in the area and probably know many of the cooperative's prospective members. These banks also offer a variety of banking services the cooperative will need once it begins operations. New cooperatives often can get loans with the help of Federal Government agencies or other guarantees. National Cooperative Bank is another source for loans and startup financing.

Cooperative leaders need to carefully develop the loan application to make a good first impression on the potential lender. Lenders will insist on seeing certain key documents before considering a loan request. Special expertise is important in helping prepare these documents, including that of an economist, marketing specialist, attorney, certified public accountant, and perhaps others whose specialty is related to the activities proposed for the cooperative. The most requested documents are:

**Projected Volume of Business:-**

The best source for these projections comes from the potential member survey conducted as a part of the feasibility study. If the business is seasonal, it is important to accurately characterize how production or purchasing and sales occur to determine the appropriate facility and equipment needs.

**Market Information:-**

Lenders don't want to finance a proposed business without a market. They want to know who the customers are, if markets have been located, and expected prices and volumes.

**Cash Flow:-**

Projected cash flow information may be the most important to the lender. It gives a continuous month-by-month cash income and expense prediction. Key items in the final analysis are the net cash flow for the month and the ending cash balance. Lenders are particular concerned with the net ending cash balance. Does the cooperative have sufficient funds to operate and pay bills? Should more equity capital be injected? Is additional borrowed capital needed, particularly for operating during heavy seasonal periods? Can controllable expenses be reduced during periods of low income? Are cash reserves adequate to overcome adverse market swings? And, most importantly, can the cooperative repay its loans?

**Operating Statement:-**

For a new cooperative, the projected operating statement provides an expected picture of operations for one or more years. It contains information on sources of income as well as expenses. The key figure is the "bottom line" that indicates whether net margins (profits) are anticipated. A monthly operating statement provides information to lenders and assists the board in making major policy and management decisions.

**Balance Sheet:-**

For the newly formed cooperative seeking financing from outside sources, the projected balance sheet is extremely important. It projects the future value of the cooperative and indicates its solvency and ability to satisfy creditors' claims when due. In summary, it lists the cooperative's assets, liabilities, and net worth.

**Schedule of fixed asset costs and depreciation:-**

Lenders look for collateral to secure their loans. A condensed listing (Appendix V) quickly conveys what the cooperative needs to purchase or lease. To assure the lender that depreciation has been accurately noted, it is also desirable to outline in table form the classes of assets, cost, life expectancy, and annual depreciation.

**Loan Package:-**

A summary of scheduled financing needs and sources saves the lender time in assembling the various pieces of data for analysis. It should show major items for which loans and member equity will be spent. These items are extracted from the projected cash flow data. A brief resume of the designated manager should be included in the documents given to the potential lender. If a person has not been chosen, the manager's job description should be included.

1. **Hire a Manager**

Hiring the manager is one of the most critical tasks for the board of directors. The success of the cooperative depends more on the manager than any other individual. The manager directs the day-to-day operations.

The organizing committee begins the task of manager hiring by developing a position description. A supplemental statement should indicate the relationship and responsibilities of a manager and the board of directors in a cooperative.

Long and varied lists have been compiled of qualities to seek in a manager, but three areas are suggested-education, experience, and ability to work with people. Manager candidates need to be judged in these areas from three perspectives-commodity expertise, business requirements generally and knowledge of cooperatives in particular because of their unique characteristics.

Finding a manager with both education and experience with cooperatives is important for several reasons. Unlike investor-owned corporations, a cooperative manager should not participate in cooperative ownership. Career decisions could conflict with ownership interests. Cooperatives do not offer managers stock options or profit sharing, although some cooperatives have incentive plans. The candidate needs to understand the special nature of the cooperative's patrons because they're both customers and owners. This dual relationship adds a unique dimension to a candidate's requirements to work with people on a daily business basis.

Good managers are hard to find, especially for cooperatives. The best source is often other cooperatives. Leads may be obtained by contacting the managers of other cooperatives, directors of State cooperative councils, national cooperative organizations, the advisers who helped form the cooperative, and employment agencies.

1. **Acquiring Facilities**

The job that probably takes the most foresight, analysis, judgment, and timing is acquiring a business site, building, machinery and equipment, and other supplies. The steering committee's business analysis is the blueprint. The newly hired manager should participate in facility decisions.

Facilities should be located conveniently for members but enable establishing good distribution links with suppliers, markets, and other business services.

Directors need to study facility requirements thoroughly. Their decisions will influence the cooperative's operations for many years. It's important to avoid using so much capital for fixed facilities and startup that cash flow is jeopardized.

A useful planning tool is an acquisition schedule and budget. It would list items in the logical order they should be acquired, based on need, delivery time, loan requirements, funds available, and other factors. This should be built into the cash flow projection for the startup period. Changes to this plan should be analyzed before enactment.

1. **Begin Operations**

Actually start operating the cooperative business.

## 7.3. Registration of Cooperative

* + 1. **Definition of registration**

Registration of cooperative societies is the process by which a society is officially recognized and accepted as a legal entity (i.e. a body corporate). That is the cooperative society becomes a ‘person’ in the eyes of law after this process of registration, provided that the necessary conditions are fulfilled. The society there after referred to as a registered society is a cooperative society which has been accepted by the appropriate authority and entered into the register of society.

* + 1. **Conditions and procedures for registration**

The conditions for registration vary from country to country, and usually are specified in their cooperative societies’ Act, Rule, and Proclamations. In spite of these variations, there are some major conditions which are necessarily taken in to account by all societies seeking registration. These major conditions are stated below.

Firstly, a society must have for its objectives promotion of the economic interests of its members, in accordance with cooperative principles. Secondly, it must consist of at least ten persons in the case of a primary cooperative society and at least two registered societies in the case of union. In primary society, the age of the persons should be in accordance with the age limits specified in the proclamation, besides the persons should be resident with in the society’s area of operation. Thirdly, Economic appreciation or appraisal should be prepared-a detailed plan on what the cooperative will be engaged in together with other relevant information which may be necessary in assessing the viability of the society. Fourthly, by- laws should also be made for governing its own affairs, finally application form consisting of data regarding the proposed society signatures of its founder members. These are the necessary requirements which any proposed society must fulfil.

After these requirements are made available the next step is preparing Registration Document. This document includes copies of proposed by –laws (the number of copies will be specified by appropriate authority) copies of economic appraisal or appreciation, copies of application form for registration (signed by at least ten (10) persons) and a covering letter. This document will be forwarded to the appropriate authority.

The appropriate authority then examines thoroughly the document. If the detailed report is found to be satisfactory and that if the proposed society is found to comply with the cooperative proclamation and by-laws then the society and its by-law will be registered by the appropriate authority, but if the documents are not satisfactory and that it is believed that there is a possibility, provided that an opportunity is given, of being successful then the society is given a provisional registration certificate for a period of one year. Here, it is worthwhile to note that the provisional registration does not affect the status of the society.

After registration, the representatives who applied for the registration would receive the following documents: a copy of and application form, a copy of the cooperative societies’ proclamation, directives, act and other rules and regulation regarding cooperatives, and a certificate of registration all of which are duly signed and sealed as a proof for registration.

* + 1. **Effects of registration**

Registration of cooperatives society has important impact upon the overall status of the society. Among these effects, the following two are of the major ones. Firstly, the Registration of a cooperative society tenders its status to a body corporate. That is the cooperative society becomes ‘person’ in the eyes of he law, i.e. ‘artificial person’-a person who is not human. The status of being a corporate body enables the society as a natural or juridical person to:

* own property
* enter into contract
* sue and be sued or be taken to courts or take other to court, and
* defend sues and other legal proceedings

Secondly, as a cooperative society assumes legal status through registration it also enjoys perpetual succession. This means that the society continues to exist although members die or leave the society i.e. the departure by some of its founder members will not affect its existence. New members will join and keep the society alive. This characteristic differentiates a cooperative society from that of business organizations where the death of a partner brings also the death and an end to the organization.

* + 1. **Cooperative Societies Proclamation No. 147/98 with regard to registration and formation of cooperatives**

Article 6, 7,8,9,10,11 and 12 of proclamation 147/98 are concerned with formation of cooperative societies, type of societies, name of society, registration of cooperative society, juridical personality and responsibility, by-laws of society, and amalgamation and division of societies. All of these articles are directly or indirectly related to the registration of cooperative societies.

Particularly, Article 9 (registration of a cooperative society) is directly related to registration, sub article 2 of this article, especially, states the particulars which are necessary for registration.

These are:

1. Minutes of the founders meeting
2. the by –laws of the society in three copies
3. names ,address and signature of the members
4. names, address and signature of the members of the management committee of the society
5. a detailed description which proves that the registered members of the society have met the requirements for membership in accordance with the provisions of this proclamation and the by –laws of the society
6. name address and signature of members of the societies above primary level
7. plan of the society
8. documents showing that the amount of capital of the society and the capital has been collected and deposited in place where the appropriate authority has designated
9. the description of the land on which the society operates
10. other particulars that may be specified in the regulations or directives issued for the implementation of this proclamation
	1. **Cooperative Management**

### 7.4.1. Defining cooperative management

***Watzlawick:***

“Cooperative management should be understood as a complex decision making process within the three levels of management pyramid which aims at achieving a proper balance of success of cooperative enterprise as a business unit as well as a social institution.”

***E.V. Mendoza:***

“Cooperative management may be defined as the efficient and effective utilization of the resources of a cooperative as a business organization for the purpose of serving the needs of its members within the context of the accepted cooperative principles.”

The above definitions bring to fore the following features of cooperative management:

* Cooperative management is a complex decision making process, and decisions are made at all the three levels of management pyramid.
* The overriding objective of cooperative management is to serve the needs of members.
* The conduct of all the activities must be governed jointly by the two sets of principles namely, a) principles of management and b) principles of cooperation.
* The creation of proper balance between efforts aiming at commercial success and those aimed at maintaining the institutional goals of the cooperative association.
* Like any other management, it seeks to achieve its aim by means of effective and efficient use of resources.

### 7.4.2. Objectives of Cooperative Management

Cooperative management has the following objectives:

Firstly, the improvement of the operational efficiency is the fore-most concern of cooperative management, so that the organization is able to compete effectively. It must acquire capacity to thrive as a business institution in its own right. Cooperative management aims at evolving methods and techniques on the basis of the principle of management, which will help the managers to avoid mistake and improve their practice.

Secondly, cooperative management aims at improving the viability of the cooperative society. The soundness of its strength, growth potentials and the quality of the service depend on the viability. The organizational effectiveness is the direct result of the viability.

Thirdly, cooperative management should constantly strive to achieve member satisfaction. By providing efficient service to the patron-members on economical terms, cooperative organization can achieve equilibrium, and development member-loyalty and greater patronage. The efficiency and viability of a cooperative organization has no meaning unless it is able to coordinate the objectives of its members and translate the individual objectives into meaningful reality and make visible impact on the people who from the organization.

Fourthly, cooperative organization must also strive for community acceptance by carrying out the social responsibilities expected of it.

Fifthly, cooperative management must also aim at ethical and moral development of the members. The object of cooperative organization is much more than improving the material standards of its members. Ultimately it strives to lift them to higher social and moral standards and enable them to realize higher spiritual potential.

Sixthly, to fulfill the above objective it must develop organizational and management competence by professionalizing management, and by taking up management development program. The task of cooperative management is therefore, to understand the basic concepts, principles and techniques of management and systematically appraise their relevance in the context of their special goals and reconceptualize them so that training and development can be organized effectively.

* 1. **Management Decisions in Cooperatives**

Decision-making is the essence of management so much so the management itself is understood as a decision-making science. Manage­ment is identified with perpetual choice making, where one is continuously engaged in choosing between alternatives. Decision-making is a universal function of all the managers in every part of the organization. The decision-making is an integral part of the management process such as planning, organization, direction, control etc. According to George Terry: "Decision making is selection of one behavior alternative from two or more possible alternatives". In the words of P.F. Drucker: "A decision is a judgment. It is a choice between alternatives."

In the management of cooperative organization decision-making is the bounden duty of directors and managers both in the developmental sphere and in the functional sphere. Decision-making is a vital task to give the activities of the members and employees a goal and direction and to determine how best to use the material resources of the cooperative. The decision-making in a cooperative set up is a complicated task. The decision making should not only conform to rational choice and objective require­ments under various decision situations; but it must also ensure that uniform action is achieved, there is proper participation and collaboration between members and employees in carrying out the decision.

The managerial decisions may vary greatly according to the nature, significance and the levels of decision. E. Dulfer has classified the decision making in cooperative on the basis of the levels.

|  |  |
| --- | --- |
| Kind of Managerial Decision | **Level Authorized to Make Decision** |
| Goal Decision(What is to be reached?)Means decisions (by what means?)Action decision (how?) | Upper management levelMiddle management levelLower management level |

# Process of Decision Making

The decision-making involves logical and sequential steps, which have to be followed in any scientific decision-making process. The decision making have six distinct stages: defining the problem; analyzing the problem, developing alternative solutions; deciding upon the best solutions; converting the decision into effective action, and evaluating the results and bear the responsibility of the outcome.

**1. Developing the Problem**

A manager must continuously scan the environment to identify and perceive the problems of development. In a cooperative organization a manager can get new problems from the orders of superiors, direction issued by Board of Directors, suggestions from members and employees or by analyzing the system of operation and accounting. The common problem areas in management which involve crucial decisions are:

* Extension of the new sphere of activity or new line of business
* Increasing the volume of business
* Taking measures for quick and positive development of the enter prise
* Identifying the limiting factors which slow down development and measures to overcome them.

After the perception of the problem the aim or objective of decision must be formulated. Every decision must contribute to specific goal, for example/increasing the turn over. Such goals make the decision pur­poseful. The objectives of decision-making must be specified as exactly as possible. It must be practicable or applicable to the problem situation.

**2. Analyzing the Problem**

Effective decision-making depends largely on the availability and usability of facts. While decision making we have to consider all critical factors, tangible as well as intangible, internal as well as environmental managerial or technical. Such facts and information are particularly needed

* for fixing the objectives
* to be able to work to attain the objectives
* to measure the results of the enterprise activity

The information and data obtained must be analyzed logically. They should not be too simplified. All the variety of factors and situations must be taken into account and their complex ramification must be understood. The relevant and influential factors must be distinguished from other factors, because considering too many factors leads only to confusion. "He who considers too much will perform too little", is the saying. Such disen­tanglement of pertinent factors is necessary to keep the time and cost factors within the limits. For instance if the management decision-making per­tains to increase in turnover, all related factors such as demand, price, pur­chasing power, distribution system and promotion strategy etc. have to be analyzed.

**3. Developing alternative Solutions**

For reaching the decision goals, there must always be more than one choice. The reality of the goal largely depends on the available means. Development of the alternative ways is based on the factors such as mate­rial, money, manpower, technology, etc., which is available to a cooperative organization. The choice of a course of action depends on that factors which is considered critical. The efficiency of the managerial decision-making lies in developing as many alternative solutions as possible. If there is only one course of action for a particular goal, that course is probably wrong.

**4. Deciding upon the Best Solution**

The alternative courses of action must be classified, compared and analysed. Every course of action must be judged on the basis of the cost and risk involved. The futurity of the decision and its relation to various aspects of business must be assessed properly. The managerial analysis and cost benefit analysis must be made to determine the quantitative outcome of the decision. The quantitative aspects of the decision must also be assessed. For facilitating the objective decision-making in a cooperative organization, E. Dulfar has suggested the following decision, criteria.

* inevitable national economic necessities;
* the necessary speed in solving the problem;
* economic criteria, for example, with regard to expenditure and result;
* quantitative characters which are to be attained;
* social criteria; for example, the necessity of maintenance of work places;
* economic, political objectives of superordinate bodies

Based on the above criteria the decision must be arrived at by competent bodies particularly in respect of cooperative organizations, where inner democracy has to be preserved. Every decision must have the democratic sanction.

**5. Converting the Decision into Effective Action**

This is a crucial stage, which transforms the mental action into physi­cal action. Decisions are made effective only by their implementation. The managers must ensure that the decisions are carried out. In the process of implementation the possible errors must be gauged, and remedial actions and corrective measures must be taken as quickly as possible. The mang­ers must recognize the chain reaction in the decision-making, as one deci­sion is likely to lead to a series of decisions. Furthermore each decision is inter-related to other aspects and extends beyond the boundaries of one de­partment or section. The time factor must also be taken into account in the implementation. Each decision, to be effective, must be implemented within the specified time.

**6.** **Evaluate the Results and Bear Responsibility for the Outcome**

Responsibility for the outcome of the decision rests with decision maker. It is difficult for the managers to avoid decision-making; it follows that they must bear the responsibility.

 Not every decision will be a perfect one. Careful observation, gathering additional data and information as well as analysis can help to modify and improve the future decisions, and allow corrections to be made.

* 1. **Functions of Cooperative Management**

Overall, management embodies four functions-planning, organizing, motivating, and controlling.

**Planning** determines where the organization is going and how it will get there. It sets organizational objectives and goals, forecasts the environment in which objectives must be accomplished, and determines the approach by which objectives and goals are to be accomplished. Planning is used to determine a policy and the procedures for putting it into effect.

Planning usually considers several alternatives. Each should be judged on the basis of its economic or competitive effect and accompanying problems. Also, it must be consistent with cooperative principles and the association’s objectives. Planning helps a manager shape the future of the organization rather than being caught in an endless trap of reacting only to current crises or problems.

**Organizing** is concerned with determining the specific activities needed to accomplish the planned objectives and goals; grouping the activities into a logical pattern, framework, or structure; assigning the activities to specific positions and people; and providing means for coordinating the efforts of individuals and groups.

Organizing is a bridge connecting the planned objectives to specific projects for accomplishing these objectives.

**Motivating** concerns the people side of the organization. Cooperatives are people-driven organizations, from the standpoint of both employees and members. Managers must have leadership skills and be effective communicators. The manager’s ability to influence members through leadership will help determine the extent to which both individuals and the entire organization accomplish their goals.

A manager spends up to 95 percent of the time communicating. Good communication is essential to coordinating the organization’s human and physical elements into an efficient and effective working unit.

In **controlling**, management monitors the progress of planned activities. If progress is lagging, necessary adjustments are made. Controlling is the checkup part of a manager’s job.

* 1. **Organization Structure and organs of a Cooperative Society**

#### Functions

Sets the society’s objectives: decides bylaws: exercises ownership control over the society’s growth.

Interprets objectives in specific details: formulates specific policies to achieve objectives: studies management reports and evaluates progress: provides leadership to management and membership: approves salary ranges for jobs at all levels.

As chairperson of the board and ex officio member of all committees, provides the link between board and management.

Manages the business in line with board policies; establishes operating procedures; sets out jobs to be done; engages, supervises and trains staff; fixes salaries within ranges established by the board.

Manages the department; provides specialized technical know-how for the department; supervises and trains staff; enforces operating procedures for the department.

Provides services to the cooperative in the line with established policies and operating practices.

#### Responsibilities

Uses the services of the cooperative; elects capable directors; provides capital for operation and expansion; studies board’s and auditor’s reports.

Elects president and appoints manager; is responsible to membership for results of operation; operates within the by-laws of the society and abides by its own policies.

Has the responsibility of enforcing board policies and providing guidance to the general manger between board meetings; is responsible to the board for all actions.

Responsible to the president between board meetings; reports to the board at meetings; provides factual information so that the board can make policy decisions.

Responsible to the general manager for departmental operations.

Responsible to the manger of the department; has to acquire understanding of the society and technical know-how in the department.

General body

Membership elects

Board of directors

President

Appoints

General Manager

Manager of department

Manger of department

Staff staff

**CHAPTER 8: The Role of Government and NGOs in Cooperative Promotion and Development**

## 8.1. The need for government and NGOs involvement

* to have a strong and effective coop organization;
* to motivate and encourage the community to organise themselves in coop society to get the advantage from it. This can be undertaken by introducing the importance of coop organization.

## 8.2. Areas of government and NGOs involvement

**1. Legislative role**

* to legalize coop action
* to provide rules by which such associations will cooperate in a coop basis and
* to promote coops as a method enabling entrepreneurs, farmers & consumers to compete with others in the economy

**2. Training and education**

* for members of the coop with free of charge or minimum payment
* government facilitates the training and educational activities by constructing schools and training centers.

**3. Managerial assistance**

* By assigning individuals with a good management skills & knowledge or;
* gives technical and managerial advice for the management committee of the society
	+ this makes them be more effective successful in controlling the society & to give sustainable services for members.

**4. Financial assistance**

* government may provide the initial capital in the form of credit or aid.

**5. Partnership**

* Gov’t can act as an independent business organization & make cooperation with coop societies;
* both will share the overall activities & the returns among themselves.

**6. Administrative role**

* in some cases, gov’t may have administrative control over coop organization.