

How to Enhance the Performance of Cooperative Banks in Ethiopia? A Pragmatic Appraisal

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Abstract

Agriculture sector is the primary source of food supply in Ethiopia where the small-scale farming dominates the overall economy and the sector is characterized by limited use of improved input and depends on rainfall. Besides, the agricultural productivity continued to be poor and failed to meet the food demand of the ever growing population. To overcome this, cooperative banks were established with the view of enhancing the agricultural production and productivity by providing different services to the farmers so that their living standard can be enhanced. However, empirical evidence about the performance of cooperative banks in the study area is yet scanty and required to have research in order to realize their potentials in filling the vacuum. Hence, this paper focuses on examining the performance of cooperatives union and the challenges so as to forward suitable strategies to improve the quality of services. To address the objectives, multi-stage stratified proportional random sampling technique was used to identify 7 primary cooperative banks and the respondents for the interview purpose. To arrive the sample size of 112 members, Yemane (1967) formula was used. Primary data was collected through semi-structured questionnaires and secondary data was used to assess the functional, growth and financial performance. Collected data was analyzed using ratios, mean and paired T Test with the help of Statistical Package for Social Science (version 20) to arrive the meaningful results.

Results showed that a good progress was observed in terms of functional, organizational and growth performance since the multipurpose farmers' cooperative union establishment. Union helps members in providing agricultural inputs like improved seeds, fertilizers and chemicals with fair price and credit in which progress has been observed year to year which contributes to enhance productivity. However, the low loan repayment behavior of members also found in the study area and this will have negative impact on continuity of loan for members which will have direct influence on overall performance of the cooperative banks. The members of the cooperatives are satisfied with the services rendered by the cooperatives and the union. Based on the findings recommendations are forwarded to enhance the performance of cooperative banks.

Keywords

Financial Performance, Functional Performance, Cooperative Banks, Services

Introduction

In sub-Saharan countries like Ethiopia, where the small-scale farming dominates the overall national economy, agricultural production and productivity is very poor. Ethiopia has a total area of 1.222 million square kilometers and has more than 93 million population (World Bank, 2014) of which 85% is engaged in rural and agricultural based economic activities. The agricultural sector is the primary source of food supply, which is characterized by fragmented small farms operated by farming families. Most of the agriculture is characterized by limited use of improved input and backward cultural practices and depends on rainfall. Besides, the agricultural productivity continued to be poor and

failed to meet the food demand of the ever growing population. The factors attributing for poor productivity are recurrent droughts, environmental degradation, poor infrastructure both in quality and quantity and backward cultural practices, considerable loss due to poor practices of post harvest handling and limited use of appropriate post harvest technologies (MoFED, 2005).

Moreover, due to the weak markets characterized by high transaction costs, high risk, and inadequate communication and transport infrastructure, people living in food deficit areas continue to face famine and food insecurity while producers in surplus regions endure unattractively low producer prices (Eleni et al, 2005).

Ethiopia began transforming its agriculture in the mid 1990s after the existing government formulated a development strategy centered on agriculture. The strategy which is known as the agricultural

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development led industrialization (ADLI) sets out agriculture as a primary stimulus to generate increased output, employment and income for the people, and as the springboard for the development of the other sectors of the economy (Samuel, 2006). Depending on this strategy, the government has given emphasis to the development and promotion of cooperative banks to facilitate agricultural marketing activities. Smallholder commercialization through agricultural cooperative banks and rural welfare are closely linked concepts (Timmer, 1987; Fafchamps, 2005). Cooperative banks as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities (Smith and Ross 2006).

With the tremendous growth in size, operations and complexity of agricultural marketing, cooperative banks are facing big challenges from both their members and management and the competitors. It is found that multipurpose cooperative banks have limitations by meeting efficiently the needs of their members. It is apparently known that if cooperative banks fail to meet members' demand or members do not get any definite benefits from the existing cooperative banks due to their poor performance, they do not keep on their membership or cease to participate in the activities of cooperative banks.

Shashemene district of Ethiopia has been affected by drought almost every year as many other districts in the region. Multi purpose farmers' cooperative unions are supposed to bring significant changes on the living standard of rural people in different ways through better performance. However, due to lack of proper documentation, researches and assessments, the performance of unions are not known. Hence an assessment is required to understand their performance in terms of functional, operational and financial aspects.

Objectives

The overall objective of this paper is to assess the overall performance of Uta Wayu multi-purpose farmer's cooperative union in achieving its objectives. The specific objectives are;

1. To understand the types of services that members are obtaining from the union.
2. To assess the performance of multi-purpose farmers cooperatives union.
3. To examine the members satisfaction towards the services rendered by the union.
4. To identify the major challenges faced by the union in rendering services.

Research Methodology

It is becoming increasingly popular for researchers to employ mixed method designs to investigate different aspects of the same phenomenon (Sarantakos, 1998). This research is descriptive nature based on both qualitative and quantitative information. To address the objectives, both primary and secondary data were used.

Secondary sources were annual reports of the cooperative banks and the union. Primary data was collected through face-to-face interview with structured, pre-tested interview schedule from the sample members of the cooperative banks.

Multi stage sampling procedure was followed to select the union, districts, primary cooperative banks and the members. Uta Wayu multi-purpose cooperative union has been rendering services for four districts and 113 primary cooperatives banks having total members of 29,666 with 3,816 female and 25,850 male (Union Annual Performance Report, 2014). At the first stage, the districts under the union were classified into two agro climatic condition (high land and low land) in order to have proportional representation. From each stratum, one district has been selected randomly. Thus, Shashemene from low and Wondo from high land districts were selected through purposive sampling. There are 38 primary cooperatives banks in Shashemene and 9 primary cooperatives banks in Wondo district. 12% of primary cooperative banks from each district were selected by simple random sampling. Using the members list of the selected sample banks, the intended sample size was determined by using the formula ($n = \frac{N}{1+N(P)^2}$)

which was designed by Yemane (1967). Thus 112 sample members were arrived from total 1302. Finally, probability proportional to size sampling technique was applied to select the sample members from sample cooperative banks.

In order to examine and summarize the assembled data in to understandable and meaningful form, the collected data were entered into micro-soft excel and descriptive (mean and percentages) and tabular analysis were carried out. The performance of the union was assessed in different angles such as functional, growth and organizational performance based on input-output marketing, credit service provision, capital accumulation, membership, profit and loss using percentages and financial ratio analysis. To assess the satisfaction level of members' on the service provided by the union, different indicators such as, price difference, demand orientation, timing of input supply, cost of services and quality of services were considered. Data analysis was carried out by using Statistical Package for Social Science (SPSS) version 20.

Performance of union and the types of services rendered

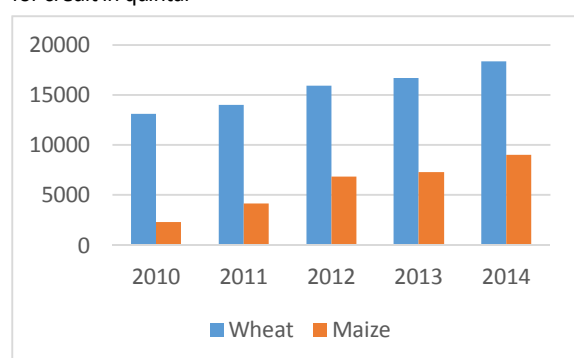
The performance of the union has been assessed in different angles such as functional performance, growth performance and financial performance.

Functional performance of the Cooperative Union

Cooperative unions and primaries are supposed to help the members in providing agricultural inputs like improved seeds, fertilizers and chemicals with fair price and credit which contributes to enhance productivity. The main functions and services of sample union are agricultural inputs distribution

(fertilizer and improved seeds), availing market information and credit provision to their members (Table 1). All the respondents (100%) confirmed that their cooperative union is trying best to supply improved seed varieties. The trends of improved seed supply by the union shows that 2,340 quintal maize and 13,150 quintal wheat was supplied during the year 2010 which increased to 9,068.5 quintal maize and 18,366.5 quintal wheat in 2014 and shows the progress in its growth rate within the five years (28.40% and 74.19%). However members have complained on the timely distribution of the improved seeds. This is an indication that the cooperative union role in input distribution needs improvement in the study area.

Figure 1: Volume of wheat and Maize supplied by the union for credit in quintal

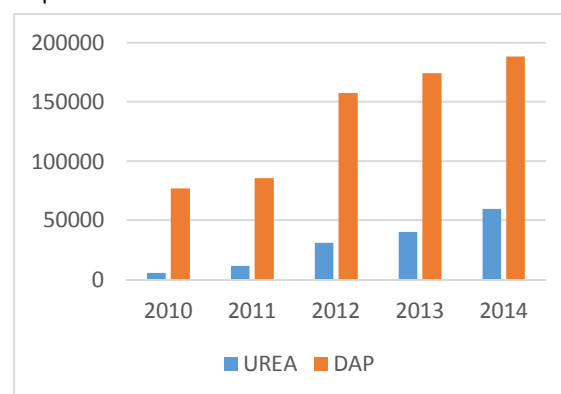


Source: Union Annual Report (2014)

The other main service of union is fertilizer distribution for both members and non-member

farmers and the members are eligible to purchase fertilizer on credit basis. According to the sample, fertilizer is the most important business activity of the union and cooperative banks in the study area. Such provision increases the members' protection against additional cost for inputs. Based on the data (Table 1) the trend of fertilizer distribution is growing year to year and was 77,275 quintal and 600 quintal in 2010 and it reaches to 188,356 quintal and 59,678 quintal for DAP and UREA respectively in 2014 and its growth rate within the five years was 58.97% and 89.94%. However, members have complained on the timely distribution of the fertilizer. Therefore, union and primaries need to adjust their time of distribution not to affect farmers' time of farming.

Figure 2: Volume of fertilizer supplied by the union for credit in quintal



Source: Union Annual Report (2014)

Table 1: Summary of Input supply by Union for Credit in Quintal

Product/Year	2010	2011	2012	2013	2014
Fertilizer					
DAP	77,275	85,787.5	157,708.5	174,494.5	188,356
UREA	6,000	12,000	31,121	40,405	59,678
Improved seeds					
Maize	2,340	4,212	6,876	7,326.5	9,068.5
Wheat	13,150	14,068	15,975	16,707.5	18,366.5

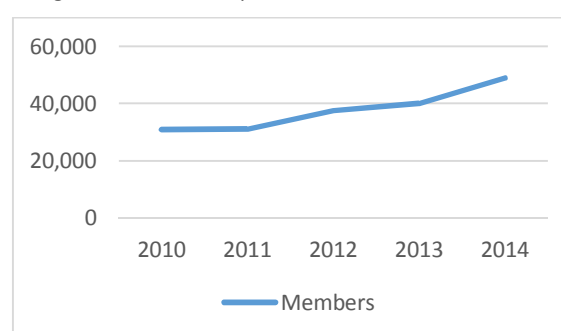
Source: Union Annual Report (2014)

Growth performance of Cooperative Union

To build members' confidence and to retain them, significant changes in terms of service should have to be provided and have to bring change in terms of members' number, capital and the services in terms of quality, quantity and time frame of the schedule. The assessment includes the training provided for members.

According to the data obtained from the union (Figure 3) shows that there is a growth in terms of number of members from year to year means that members of the union in 2010 were 30,768 and it reaches to 49,100 in 2014.

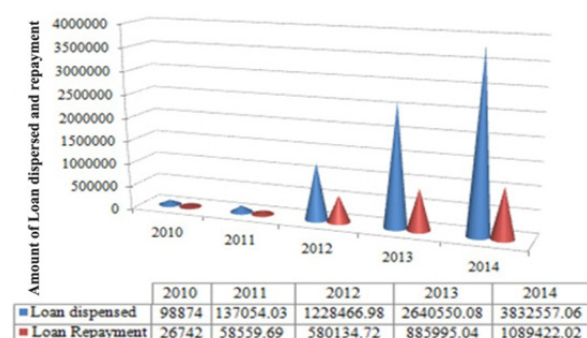
Figure 3: Membership trend of the union in numbers



Source: Union Annual Report (2014)

Concerning the loan provision and market information services, the members are well satisfied with their cooperative union and primaries. All the respondents witnessed that they are well privileged with credit system from their cooperative banks and union. Further, members appreciated their cooperative union in updating them with the market information because it is always available in the notice board. The credit from the cooperative banks and union is only allowed for the members where as market information is for both the members and non-members.

Figure 4: Amount of Loan Dispersed and Repayment by the Union in Birr



Source: Union Annual Report (2014)

Table 2: Growth Performance of Cooperative Union

Description		2010	2011	2012	2013	2014
Loan in Birr	Dispersed	98,874	137,054.03	1,228,466.98	2,640.550	3,832,557
	Repayment	26,742	58,559.69	580,134.72	885,995	1,089,422
Capital	Birr	3,151,259.6	6,072,149.1	6,262,035.27	8,862,928	14,978,250
Members	Numbers	30,768	31,098	37,470	40,131	49,100
Training	Numbers	5,600	8,400	11,580	15,370	19,231

Source: Union Annual Report (2014)

Financial Performance of Cooperative Union

According to Liebrand (2007) cited in Yemane (2010), the task of measuring the financial performance of cooperative banks is made problematic by the nature of the cooperative form of business. Many of the commonly used financial measures do not account for the cost of using members' equity in financing cooperative's operations. According to Poznanski, Sadownik and Gannitsos (2013), ratio analysis is a useful management tool that will improve our understanding of financial results and trends over time, and provide key indicators of organizational performance. The result of ratio analysis is more accurate and it can be used as a basis for future decisions.

A cooperative bank is deemed to be financially sound, if it is in a position to carry its business smoothly and meets all its obligations both long-term and short-term without any difficulty. In this paper, different financial ratios such as credit worthiness ratios (liquidity or current ratio), financial leverage ratio (debt to equity ratio), profitability ratio

The results in figure 4 shows that there is a growth in terms of loan disbursement means 98874 Birr (National currency) dispersed in 2010 and it reaches to 3,832,557 Birr in 2014, but weakness on loan repayment.

Even if the performance of growth shows positive in terms of loan, capital, and members but the failure of repayment will have bad consequence on the sustainability of the cooperative banks and member's livelihood. The data gathered from union show that the total amount of capital in the year of their establishment was 172,000 Birr. However, the amount increased to 3,151,259 Birr in 2010 and it reaches 14,978,250 Birr in 2014 which indicates that the union has registered a positive performance growth in terms of capital. Apart from capital growth, the union was evaluated in terms of their member growth and provision of training which shows a positive trend.

(return on sales, return on equity, return on total etc.) with the view to evaluate the financial performance of sample union.

Credit worthiness ratio: The significance of the credit worthiness ratio is to indicate liquidity position of the cooperative union and adequacy of working capital as well as margin of safety for short-term creditor. The ratios that measures credit worthiness include liquidity/current ratio and financial leverage management ratio (debt-equity ratio).

Liquidity/Current ratio: It is a quick measure of cooperative banks' ability to provide sufficient cash to conduct business and settle its debts in the short run. It establishes the relationship between total current assets and current liabilities during a particular period. Liquidity ratios measure the ability to fulfill short-term commitments with liquid assets. Such ratios are of particular interest to the cooperative short-term creditors. These ratios compare assets that can be converted to cash quickly to fund maturing short-term obligations. The results of assets to current liabilities

ratio is considered one among the key factors to decide the cooperative union's short-term financial policies. Current ratio can be calculated by the formula, *Current ratio = Current Asset/ Current Liabilities*.

According to Anderson and Vincze (2000), Nevue, (1985), cited in Yemane, (2010), the benchmark and the satisfactory rate of liquidity/current ratio that is accepted by most lender institutions as condition for granting or continuing commercial loan is 2:1. A ratio of less than desired standard indicates that cooperative banks cannot readily pay to the creditors in the short run. The higher the ratio the faster creditors can expect payment and can also indicate excess inventory, too much idle cash or a very lenient to meet current obligations. With this benchmark, five years (2010 – 2014) data of the union was reviewed, and the results show that the union performed below the required standard. The average current ratio was 1.09, 1.15, 1.11, 1.20 and 1.10 during the year 2010, 2011, 2012, 2013 and 2014 respectively.

While observing the performance, there was a decrease in the liquidity ratio in the year 2010 as compared to 2011. This implies that the union's current liabilities were rising than its current assets. In most cases, the union has credit access both from Commercial Bank of Ethiopia and other financial institutions via the regional government collateral arrangement and from NGOs in the form of revolving credit fund. However, the ability to get credit by their own to meet their short-term demand for money (to purchase farmers' output or input) is endangered. Lenders may not be willing to extend short-term loan to the union, as the financial institutions require current ratio to remain at or above 2.00 as a condition for providing loan. In general, the current ratio of the union was relatively constant below the accepted standard.

Financial Leverage Management Ratio: It is the long-term interest bearing debt and preference share capital along with equity share capital and reflects the cooperative's capacity to meet long-term debt obligations. The ratios are computed either by comparing earnings from the income statement to interest payments or by relating the debt and equity items from the balance sheet. Creditors value these ratios because they measure the capacity of the cooperative banks' revenue to support interest and other fixed charges, and indicate if the capital base is sufficient to pay off the debt in the event of liquidation. In terms of debt load, the more predictable the returns of the union and cooperatives, the more debt will be acceptable, because the cooperative will be less likely to be surprised by circumstances that prevent fulfilling debt obligations. This can be measured by.

Total Liability to Patrons' Equity: This ratio measures the amount of finance supplied by creditors versus the amount provided by member patrons. A ratio of 1:1 is generally accepted as a desirable objective.

The lower liability to patrons' equity ratio is preferable because a higher value signifies heavier borrowing and increased financial risk. Total liability to patrons' equity can be calculated by the formula, *Total Liability/Total Capital*. The total liability to patrons' equity ratios observed during the year 2010 and 2014 was 10.3, 5.37, 7.6, 2.04 and 14.14 respectively. When we observe the performance of the union, there was increasing liability ratio in the year 2010 and 2014 which implies that creditors contributed more finance than the owners do. In the years 2011 and 2013 the owners contributed more than the creditors relatively.

Owners' Equity to Total Assets: This ratio measures the extent to which the member patrons own all of their assets. The higher the ratio, the better position a union is in overlooking debt financing and the union is not taking advantage of its debt financing capacity. It is calculated by the formula, *Total Capital/Sales*. The owners' equity ratios of the union were 0.1, 0.11, 0.73, 0.14 and 0.1 for the years 2010, 2011, 2012, 2013 and 2014 respectively. This implies that owner members own less proportion of the union's assets in 2010, 2011, 2012 and 2013 while greater amount (73% of the union's assets) in 2012. This implies that, in the year 2012 the union did not take advantage of its debt financing capacity.

Fixed Assets to Patrons Equity: This ratio measures the extent to which the member patrons' equity in the cooperative bank is tied in non-liquid fixed assets. In general, the higher the ratio, the fewer owners' equity is available for working capital. The lower the ratio, the more liquid the patrons' equity and the greater the protection from creditors is. Fixed Assets to Patron's Equity is calculated by the formula, *Fixed Asset/Total Capital*. The results of union shows that for every 1 Birr in patrons' equity, the union has Birr 0.10, 0.21, 0.20, 0.10 and 0.20 in the fixed assets during the years 2010, 2011, 2012, 2013 and 2014 respectively. This implies that there was increasing in its fixed assets from the year to year except 2013 and creditors contributed more finance than the owners during the years 2010, 2011 and 2014 and the reason behind for decreasing the fixed asset ratio in the year 2013 was the owners contributed more than the creditors.

Profitability ratios: According to Yemane (2010), profitability ratios measure the success of the cooperative bank in earning net return on its operations. Cooperative banks must operate profitably, although their definition of profit might differ from an Investor Owned Firms. Patronage refund policies have a dramatic effect on cooperative profitability ratio analysis. Some cooperative banks return patronage at the end of the operating year shows significant profits on the closing statements. Other cooperative banks have different operational policies and may show end-of-the-year profits. Lending institutions not

familiar with these businesses may shy away from cooperatives with low reported net income. This will be especially true for pooling cooperatives that generally report a minimum amount of income at the year-end. The basic ratios that measure profitability of cooperatives include: Gross Profit Margin and Net Profit Margin.

Gross Profit Margin Ratio (GPMR) is calculated by subtracting the cost of goods sold from net sales and then dividing this amount (gross margin) by net sales. A small change in the gross margin has a tremendous impact on local savings. It indicates the cooperative union and cooperative banks pricing policy and cost of goods offered for sale. GPM measures the percentage of each sale of Birr remaining after the cooperative union had paid for the goods and show how effectively the management can adjust operations to annual changes. Gross profit margin is calculated by the formula, *Gross Profit/Sales*. The GPM ratio of union was 9%, 6%, 2%, 5% and 5%, during the years 2010, 2011, 2012, 2013 and 2014 respectively. This means the union remained with 0.09 Birr, 0.06 Birr, 0.02 Birr, 0.05 Birr and 0.05 Birr from each Birr sales after deducting cost of goods sold from net sale. A higher GPM is an indicator of good performance of management. The

results reveal that the union was not consistent in generating gross profit during 2011 and 2012 but increasing consistently for 2010, 2013 and 2014; the reason behind the decreasing trend was the pricing policy of the union was not in the right track.

Net Profit Margin Ratio (NPMR): This is the percentage of total sales that net profit or income which measures the effectiveness and efficiency of the organization's operation. A higher value represents a firm that is efficient in its production and operations. A lower net profit margin may reflect insufficient operations and poor management, as well as the firm that would be at risk financially if sales were declined. NPMR measures the percentages of each sales in Birr remaining after all costs and expenses, including interest and taxes have been deducted. Net profit margin is calculated by the formula, *Net Profit/Sales*. The assessment results indicate that the net profit margin has contributed Birr 0.06, 0.05, 0.02, 0.03 and 0.03 during 2010, 2011, 2012, 2013 and 2014 respectively for each Birr sales. The profit margin was indicating a fluctuating trend due to the problems in product pricing, making sales and controlling cost of sales and hence the net profit margin fluctuates between 0.02 and 0.06 in the five years audit report.

Table 3: Summary of Financial Performance of the Union in terms of Ratio Analysis

Ratios		Year				
		2010	2011	2012	2013	2014
Liquidity ratio	Current ratio	1.09	1.15	1.11	1.20	1.10
Leverage ratio	Total liability to patron's equity	10.3	5.37	7.6	2.04	14.14
	Fixed Assets to Patron's Equity	0.10	0.21	0.20	0.10	0.20
	Gross profit margin	0.09	0.06	0.02	0.05	0.05
Profitability ratios	Net profit Margin	0.06	0.05	0.02	0.03	0.03

Source: Union Annual Report (2014)

Satisfaction level of members towards the services rendered by cooperative union

Satisfaction of members is a cumulative effect of opportunity and provisions that they receive from their cooperative banks and the union including

effectiveness of leadership; input supplies; amount of products sold, timing of supply, quality of the service, price difference and market access and the assessment results are summarized in Table 4.

Table 4: Members satisfaction level towards service rendered by union (n=112)

Indicators	Shashemene District						Wondo District					
	HS	S	N	NS	HNS	Total	HS	S	N	NS	HNS	Total
Price	32	57	07	-	-	96	07	09	-	-	-	16
Difference	(33.33)	(59.37)	(7.29)			(100)	(43.8)	(56.2)				(100)
Demand	38	44	14	-	-	96	07	07	02	-	-	16
Oriented	(39.6)	(45.8)	(14.6)			(100)	(43.8)	(43.8)	(12.5)			(100)
Effectiveness	16	64	16	-	-	96	02	11	03	-	-	16
of leadership	(16.7)	(66.7)	(16.7)			(100)	(12.5)	(68.8)	(18.8)			(100)
Timing of	01	48	28	19	-	96	-	11	04	01	-	16
input supply	(1.0)	(50.0)	(29.2)	(19.8)		(100)		(68.8)	(25.0)	(6.2)		(100)
Quality of	49	38	09	-	-	96	12	03	01	-	-	16
services	(51.0)	(39.6)	(9.4)			(100)	(75.0)	(18.8)	(6.2)			(100)
Cost to use	30	57	09	-	-	96	05	11	-	-	-	16
the service	(31.2)	(59.4)	(9.4)			(100)	(31.2)	(68.8)				(100)

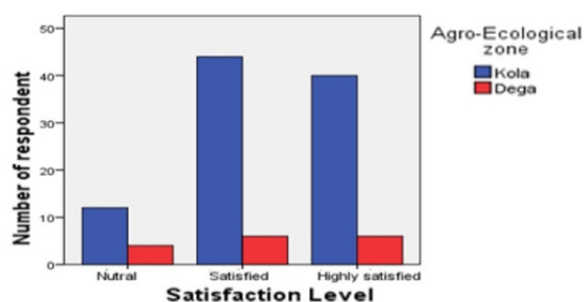
Source: Computed data

Note: Figures within parenthesis show percentages.

HS=Highly Satisfied, S=Satisfied, N=Neutral, NS=Not Satisfied, HNS=Highly Not Satisfied

The survey results (Table 4) show that most of the sample respondents in the study area are highly satisfied or satisfied while some of them having no opinion with the opportunity and services provided by their cooperative banks and union. Figure 5 witnessed that about 41.1% of the respondents are highly satisfied while 44.6% are satisfied and only 14.3% had no opinion. The result in general is an indication that there is difference in the level of satisfaction of the union and cooperative banks' services among the members in the study area.

Figure 5: Members overall Satisfaction Level



Source: Computed data

Perceived constraints of union towards rendering services

There are a number of challenges, which inhibit co-operative development and adversely affect their

performance. Low standards of performance, bad management, financial failure, corruption and misuse of funds, use of co-operative banks for political ends are the common features of co-operative enterprises in several areas. In order to examine the challenges of union towards rendering its services, 30 key informants were selected including five cooperatives' Board of Directors, four leaders, six active participant members, six passive participant members and the rest (9) from different position. For simplicity of analysis, the most important challenges are classified into three categories and discussed below.

Organizational/Internal challenges: As far as internal condition of union is concerned, as seen in table 5 different challenges were forwarded by the key informants and ranked according to the intensity of the problems. The results reveal that failure to notify annual meetings, poor participation of members in decision making, lack of transparency and accountability and limited capacity of board of directors & management were the most important challenges of the union towards rendering the service and the highest score is for failure of members to attend the annual general meeting.

Table 5: Organizational/Internal Problems of Union

Organizational Problems	SA	A	N	DA	SDA	Total	Rank
Limited Capacity of BoDs & Management	13 (43.3)	11 (36.66)	06 (20.0)	-	-	30 (100)	4th
Inadequate initial capital	01 (3.3)	08 (26.7)	14 (46.7)	07 (23.3)	-	30 (100)	8th
Poor participation of members in DM	17 (56.66)	10 (33.3)	05 (16.6)	03 (10.0)	-	30 (100)	2nd
Lack of transparency and accountability	06 (20.0)	17 (56.7)	07 (23.3)	-	-	30 (100)	3rd
Failure to notify annual meetings	12 (40.0)	17 (56.7)	02 (6.66)	01 (3.33)	-	30 (100)	1 st
Knowledge about duties & responsibilities	01 (3.3)	11 (36.7)	14 (46.7)	04 (13.3)	-	30 (100)	7 th
Equal opportunity in passing decision	01 (3.3)	18 (60.0)	01 (3.3)	-	-	30 (100)	6 th
Limitation to exercise their right	13 (43.3)	09 (30.0)	10 (33.3)	01 (3.3)	-	30 (100)	5 th

Source: Computed data

Note: Figures within parenthesis show percentages.

SA= Strongly agree, A=Agree, N =Neutral, DA=Disagree, SD= strongly disagree

Besides, lack of equal opportunities to all members was due to the effect of limited capacities of the board and management including their limitation in transparency and accountability on the steps used to pass decisions. Co-operative banks often work in markets and geographical areas considered as marginal in terms of profit potential. This being the case, the salaries, working conditions and work locations that they are able to offer fail to attract

quality managers. Therefore, the internal constraints requires due attention to improve the quality of service rendered through cooperative union.

External Problems: The external environment is beyond the control of cooperative banks. The constraints listed in Table 6 are assumed to represent external problems. The survey results reveal that the major problems faced by the union were the interference from local and district

administrators, promoters and other individuals who have vested interest on the expenses of cooperative banks. On the other hand, existence of unfair competition, increase of agricultural input price over

time, small and fragmented land holding and high cost of production were the most important problems observed by the key informants.

Table 6: External challenges affecting union role in rendering its services

External Problems	SA	A	N	DA	SDA	Total	Rank
Small and fragmented farm holdings	18 (60.0)	09 (30.0)	03 (10.0)	-	-	30 (100)	3 rd
High- influence of vested interest	19 (63.33)	11 (36.66)	-	-	-	30 (100)	1 st
Price increase for agricultural inputs	18 (60.0)	12 (40.0)	-	-	-	30 (100)	1 st
Existence of other competitors	16 (53.33)	08 (26.7)	06 (20.0)	-	-	30 (100)	4 th
Low price of produces	12 (40.0)	16 (53.3)	02 (6.7)	-	-	30 (100)	2 nd
High cost of production	18 (60.0)	10 (33.3)	02 (6.70)	-	-	30 (100)	2 nd

Source: Computed data

Note: Figures within parenthesis show percentages.

SA= Strongly agree, A=Agree, N =Neutral, DA=Disagree, SD= strongly disagree

Infrastructural Problems: Increase in the agricultural production should be achieved through the use of improved technologies. At the same time, farmers should have access to market for their produces. All agricultural input and output requires transportation facilities, road networks, adequate ware houses, proper way of post harvest handling and other infrastructural facilities. Most frequently, due to remoteness and marginalization of the rural areas, infrastructure tends to be deficient. There is lack of appropriate roads, communication means, transportation and storage facilities. This resulted into significant increase of cost of transactions. High transaction costs coupled with seasonal nature of demand and supply for agricultural input and output, it is usually evident that price

increases during peak demand period to input and decreases in supply peak period for the produces. The survey results (Table 7) indicate that most of the respondents witnessed that union and cooperatives role and performance is highly affected due to infrastructural development problems while some of them have no opinion and the rest are refused to accept. Besides, the respondents agreed on the shortage of trained man power, lack of information on market oriented production, communication facilities, marketing infrastructure, storage and transportation facilities, access to irrigation facilities, linkage with financial institutions, and electrification have effect on the cooperative banks and union in rendering the service.

Table 7: Infrastructure Problems

Infrastructural Problems	SA	A	N	DA	SDA	Total	Rank
Lack of trained man power	05 (16.7)	22 (73.3)	03 (10.0)	-	-	30 (100)	3 rd
Lack of Information on market oriented production	16 (53.33)	14 (46.66)	-	-	-	30 (100)	1 st
Lack of Communication Technology	07 (23.3)	10 (33.3)	07 (23.3)	06 (20.0)	-	30 (100)	5 th
Insufficient Marketing Infrastructure	08 (26.7)	20 (66.7)	02 (6.7)	-	-	30 (100)	2 nd
Lack of storage and transportation facility	04 (13.3)	21 (70.0)	05 (16.7)	-	-	30 (100)	4 th
Low Linkage with Financial institution	04 (13.3)	23 (76.7)	03 (10)	-	-	30 (100)	3 rd
Lack of Electrification	01 (3.3)	05 (16.7)	14 (46.7)	10 (33.3)	-	30 (100)	6 th

Source: Computed data

Note: Figures within parenthesis show percentages.

SA= Strongly agree, A=Agree, N =Neutral, DA=Disagree, SD= Strongly disagree

Conclusion & Recommendations

Ethiopia is one of the world poorest countries where agriculture is the major source of living and backbone of the economy. Establishment of cooperative banks and unions are as a means to bring changes in the agricultural sector so as to improve the livelihood. Although much remains to be studied, the information obtained in this research offers baseline information on how the union and the cooperative banks involved in input and output services in the study area. Also indicate that the performance of the union is satisfactory. However, complaints regarding delay in service delivery, employment creation and credit scheme increment have to be taken seriously in order to strengthen the performance. Based on the findings, following recommendations are made to enhance the performance of union and the policy makers.

- Training on improved agricultural technologies and complementary interventions are pivotal for success of cooperative banks.
- Awareness creation is required about the cooperative principles, member's rights and responsibilities for the local people in order to increase membership.
- Participation of women in cooperative banks is too low and it needs attention.
- The concerted effort of Government and NGOs is required to capacitate the union management so as to assess the opportunities and potentials of their locality in preparing business plan. Involvement of members in planning, implementation and evaluation is imperative.
- Federal as well as the regional Governments should invest on marketing infrastructure, appropriate communication technologies, roads, power supply, water supply etc.
- To bring change on gaps in the performance of the cooperative union in the study area the involvement and close follow up of cooperation promotion office is necessary.
- The role of cooperatives in promoting quality and standardization is vital and it is useful to the farmers to have access to high value market.

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