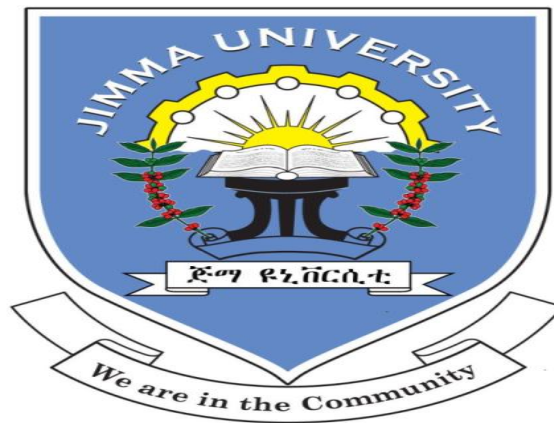


# **ASSESSMENT OF CORPORATE GOVERNANCE OF COOPERATIVE SOCIETIES**

**A case study of Jimma Zone Cooperative Societies**



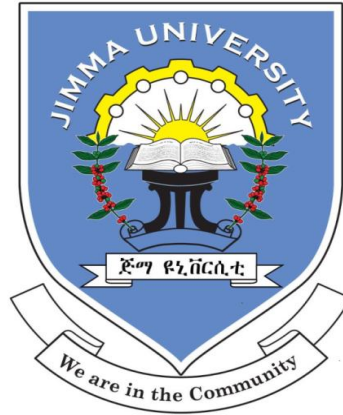
*A Senior Thesis submitted for the partial fulfillment of  
requirements for completion of LL.M in Commercial and  
Investment Law*

**Submitted by: Shimelis Marara**

**SUBMITTED TO SCHOOL OF LAW, COLLEGE OF LAW AND  
GOVERNANCE, JIMMA UNIVERSITY**

**Jimma**

**June 2017**



*A Senior Thesis submitted for the partial fulfillment of  
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**Advisor: Mr. Sintayehu Demeke (Ass. Professor)**

**SUBMITTED TO SCHOOL OF LAW, COLLEGE OF LAW AND  
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BY

Shimelis Marara

Approved by:

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## **DECLARATION**

I, the undersigned, declare that this thesis entitled “ASSESSMENT OF CORPORATE GOVERNANCE OF COOPERATIVE SOCIETIES: A case study of Jimma Zone cooperative societies” is my original work, and has not been presented by any other person for an award of a LLM in this or any other University.

**Declared by: - Shimeles Marara**

Signature \_\_\_\_\_

Date \_\_\_\_\_

**Confirmed by: - Sintayehu Demeke (Ass. Prof.)**

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Date \_\_\_\_\_

## **Acknowledgement.**

I have great thanks to Sintayehu Demeke (Assistant professor) for his advice and guidance to write this thesis. Similarly, I have thanks to Ato Bedasa Lamesa (LLB) who helped me in editing the thesis.

## **Abstract**

This case study is devoted to assessing and identifying the challenges and constraints of effective corporate governance of cooperative societies in Jimma zone. In order to achieve the objective of the study qualitative research method is used. Focus group discussion (FGD) was done to solicit information on the challenges and constraints of effective corporate governance of the societies. Experts of cooperative promotion agencies (CPAs) of four districts of Jimma zone (Gomma, Gumay, Omo-Nadda and Manna) and Jimma zone CPA who serve as cooperative inspectors, auditors, legal officers and organizers were participated in the FGD by using purposive sampling method.

The enforcement of internal and external governance system of the societies has been evaluated by the FGD in light of the law. The strictness of the cooperative proclamation in protecting the interest of members by providing governance and regulatory strategies to minimize agency problem has also been assessed. Additionally court cases have been collected from the above districts and Jimma zone high court and have been analyzed in comparison with the information obtained at the FGD.

The study revealed that the corporate governance of cooperative societies in Jimma zone is very weak. The internal and external governance system is not strictly enforced due to poor participation of members in decision making and controlling their societies, as they do not have adequate awareness, knowledge and skill. The cooperative inspection and audit made by CPAs is also very weak, shallow and less frequent. The cooperative proclamation has also not provided strong regulatory strategies to protect the interest of members by addressing agency problem that is happening by management committee (MC) members. These are identified as the main causes of corruption, loss of properties and abuse of power in the societies. Legal actions being taken against these problems are also insufficient. Finally, the study has suggested that the governance system has to be strengthened by building the capacity of the members to control their societies and that of CPAs to enforce the cooperative laws and regulations. The legal lacuna in the cooperative proclamation regarding agency problem has also been identified.

## **Acronyms And Abbreviations**

<b>ANRS:</b>	Amhara National Regional State
<b>BOD(s):</b>	Board of Directors
<b>CC(s):</b>	Control Committee
<b>CPA:</b>	Cooperative Promotion Agency
<b>GA(s):</b>	General Assembly
<b>FCA:</b>	Federal Cooperative Agency of Federal Democratic Republic of Ethiopia
<b>ICA:</b>	International Cooperative Alliance
<b>MC(s):</b>	Management Committee
<b>OCPA:</b>	Oromia Cooperative Promotion Agency
<b>OECD:</b>	Organization for Economic Co-operation and Development
<b>ONRS:</b>	Oromia National Regional State
<b>SNNP:</b>	South Nation and Nationality People
<b>FGD:</b>	Focus Group Discussion
<b>AAU:</b>	Addis Ababa University
<b>AMC(s):</b>	Agricultural Marketing Cooperatives
<b>MA:</b>	Masters of Arts
<b>MBA:</b>	Masters of Business Administration
<b>MPMP:</b>	Masters in Public Management and Policy
<b>HC:</b>	High Court
<b>WC:</b>	Wereda Court

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## **Chapter One: Introduction**

### **1.1. Background of the study**

People cooperate to solve their common problems and achieve their common goal, which they cannot do individually. Some of these common problems and benefits are economic and social. Cooperation is an association of individuals who join for a common benefit.<sup>1</sup> Forming cooperative societies is one form of such cooperation. In Ethiopia, the formation of modern cooperatives was started by cooperative decree No. 44/1960 to accelerate agricultural economy during the feudal regime. Cooperative proclamation No.241/66 has also been issued by the regime to give legal framework for the establishment of all types of cooperative societies in the country. The derg regime has also issued cooperative proclamation No.138/1978 to support the building of socialist economy. However, the formation of cooperatives by these legal frameworks was not based on the cooperative principles, which are adopted by ICA and internationally accepted. The principles are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training & information, cooperation among cooperatives and social concern of cooperative societies. The present government has enacted cooperative proclamation No 147/1998 and its amendment proclamation No 402/2004 based ICA principles to promote and foster cooperatives in solving social and economic problems of the country and citizens.

Oromia National Regional state is also promoting cooperatives using these proclamations, as it has not yet enacted its own legislation. Accordingly, there are about 1075 different types of cooperative societies in Jimma zone currently as indicated in the annual report of 2008 E.C of Jimma zone CPA, which are established to reduce the social and economic problems of the members and the community. However, problems such as internal disputes, corruption and losses of properties and funds usually happen in most of them. This research stems from the assumption that these problems reflect limitations of the cooperatives in enforcing corporate governance systems provided in the relevant laws.

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<sup>1</sup> (Bryan A. Garner (Ed. In Chief), Black's Law Dictionary, 9th Ed, (Thomson Reuters Publishing, 2009), Page 412.

Thus, this research explores the constraints and challenges of corporate governance of Jimma zone cooperative societies and accordingly, the structure of the thesis goes on as follows. The first chapter covers statement of the problem, objectives, research questions, significance, scope and method of the study.

Review of relevant literature is made under chapter II. Chapter III is the analysis part and as such, the law of corporate governance of cooperative societies (Articles 20-27, 36-39 and 46-52 of the Federal Cooperative Societies Proclamation No. 147/1998, its regulations and directives) is discussed. Information gathered by focus group discussion concerning the enforcement of the law, the causes of internal disputes, corruption and losses of properties in cooperative societies of Jimma zone will be analyzed in light of the laws. Furthermore, Court cases collected from four wereda courts and Jimma zone high court are discussed and analyzed. Finally, the conclusion and recommendation of the study are given under chapter four.

## **1.2. Statement of the Problem**

Cooperatives are an almost universal form of organization today found in practically all countries and used by people in many ways. They are formed to secure low cost credit, to purchase supplies and equipment for farming and household needs, to market products, and services of different kinds. Currently, Ethiopia recognizes cooperatives as an important instrument for the socioeconomic improvement of the communities. Oromia national regional state also promotes cooperative societies for this purpose. Jimma zone, which is one of the Zones of the region, constitutes many cooperative societies. However, it is usually observed that internal disputes happen between the cooperatives and their management bodies, which are often taken to courts. Losses of the properties of the cooperative societies and corruption are common issues in most of the societies. This research stands on the premise that these and other problems happening in cooperatives in Jimma zone could be reflections of limitations in the governance system of cooperatives.

### **1.3. Objectives**

#### **1.3.1. General objective**

The general objective of this thesis is to explore problems of corporate governance of cooperative societies in Jimma zone and the challenges to effective implementation of the laws.

#### **1.3.2. Specific objectives**

The specific objectives of the study are:

- To examine the enforcement of the corporate governance of cooperative society's law (Articles 20-27, 36-39 and 46-52 of the Federal Cooperative Societies Proclamation No. 147/1998, its regulation and directives) and the challenges in Jimma zone,
- To assess the flaws and limitations of the governance system which cause losses of properties and funds, corruption, agency problems and internal disputes in the societies in light with the relevant laws,
- To examine whether the cooperative society law being used by Oromia national regional state (Federal Cooperative Societies Proclamation No. 147/1998) has adequately addressed agency problems or not.

### **1.4. Research questions**

The main questions to be answered by the research are:

- Is the corporate governance of cooperative societies in Jimma zone properly enforced according to the law?
- What are the challenges to effective enforcement of corporate governance of the societies?
- What are the defects and limitations of the governance system, which cause internal disputes, corruption, agency problems and losses of properties and funds of the societies, which are usually happening and taken to courts?

- Have the corporate governance system of cooperative societies adequately addressed agency problems?

### **1.5. Significance of the study**

Well-functioning cooperative societies are antidote to problems faced by consumers by mitigating unfair trade practice. They also have a potential of regulating inflation and other market failures. This work is meant to unravel problems of governance of cooperative societies and thereby offer relevant feedback for stakeholders and the community to effectively manage and oversee governance issues of cooperative societies.

### **1.6. Scope of the study**

This study is limited to examining:

The governance of cooperative societies in the laws and regulations enforced in Oromia National Regional state, the enforcement of the laws, its regulations and directives. Spatial scope of the study will be Jimma zone only.

### **1.7. Research method**

The research follows a qualitative research method, as such, relevant laws and regulations as well as court cases have been examined, analyzed, and the practical enforcement of the cooperative laws have been studied. Beside, different research tools like interviews and focus group discussion have been used to solicited information. Four weredas (Mana, Gomma, Gumay and Omo Nada weredas) of Jimma zone were selected using purposive sampling method. 23(20 male & 3 female) experts who serve as legal officers, auditors and inspectors of the cooperative promotion agencies of these weredas and Jimma Zone are used as focus groups. 18 cases of internal disputes in cooperative societies decided at these wereda courts and Jimma zone high court since 2005 E.C have been observed and analyzed.

## Chapter Two: Theoretical Framework and Literature Review

### 2.1. Theoretical Framework

#### 2.1.1. Definition of Cooperatives

There are numerous and various definitions of cooperatives. Cooperatives are defined as autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.<sup>2</sup> It is also defined as an organization or enterprise owned by those who use its services.<sup>3</sup> In these two definitions, there are basic features and identities of cooperatives. The first is that cooperatives are autonomous association of persons. This shows that they are legal entities entitled with rights and duties, which enable them to be independent in their operations protecting them from unnecessary and unlawful interferences.

The second element is that they are made by voluntary unification of persons to achieve their common economic, social and cultural needs and aspirations. The members come together by their free consent and combine their resources to strengthen their power to address their common economic, social and culture needs which they are unable to achieve being scattered and alone.

The third nature of cooperative societies is that they are collectively owned and democratically controlled by members. Members are both owners and managers of their cooperatives. The members are also the users of the services of their cooperatives. This shows that cooperatives are created to serve their owners unlike other businesses organizations which basically are meant to serve third parties.

States define cooperative societies differently in their laws. Ethiopian cooperative societies proclamation No, 147/1998 defined cooperative societies as “*a society established by individuals on a voluntary basis to collectively solve their economic and social problems and to*

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<sup>2</sup> ICA1995 Cooperative identity statement available at <[http://www.uwcc.edu/info/intl/daman\\_prin.pdf](http://www.uwcc.edu/info/intl/daman_prin.pdf)> accessed 4/8/2017

<sup>3</sup> Supra note 1, Page 412

*democratically manage the same*".<sup>4</sup> The elements of this definition provided by the proclamation are more or less the same with what has been explained above.

Cooperatives operate very much like other business organizations even though there are distinctions that make cooperatives different. In other business organizations like companies the owners (the shareholders), the persons who manage the corporations and the customers of the corporations are separate and distinct organs. In small private business, the condition is much better because of the close relationship between owners and management. In cooperatives, these three organs are combined together and not distinct from each other; those who own, those who manage and those who use the services and products of the cooperatives are primarily the members of the societies themselves.

### **2.1.2. Types of cooperatives**

Different types of cooperative societies can be established in Ethiopia based on their purpose and nature of their operations.<sup>5</sup> A society may engage in either production or service rendering activities or in both.<sup>6</sup> The field of activities to be engaged in by any society is determined by the by-laws of the society.<sup>7</sup>

Consumer`s cooperative societies are one form of cooperative created to supply good quality products at reasonable prices to the members by purchasing goods in bulk directly from the wholesalers and sell them to their members thereby avoiding middlemen who raise prices to get high profits.<sup>8</sup>

The second type of cooperatives are producer`s cooperative societies.<sup>9</sup> It consists of producers who want to produce inputs for production of goods, which meet the demands of consumers. It increases the bargaining power of the small producers by resisting monopolist producers.

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<sup>4</sup> Federal Negarit Gazeta of The Federal Democratic Republic of Ethiopian, Cooperative Societies Proclamation No.147/1998, article.2(2)

<sup>5</sup> Supra note 4, art.2(1), see also art.12 of the regulation

<sup>6</sup> Ibid, art7(1)

<sup>7</sup> Id, art7(2), see also art.8 of the regulation

<sup>8</sup> Federal Cooperative Agency(FCA) Consumer`s Cooperative Societies Organization Directive No.II to provide for the implementation of Cooperative Societies Proclamation No. 147/1998, art.4.12

<sup>9</sup> Councils of Ministers Regulation No.106/2004 to provide for the implementation of Cooperative Societies proclamation No. 147/1998, art.9

The third type is marketing cooperative societies, which are formed to help small producers in selling their products to obtain reasonable price for their output by eliminating intermediaries.<sup>10</sup> Farmer's cooperative societies are the fourth type which can be formed as farmer's producer cooperative societies, farmer's marketing cooperative societies or farmer's service cooperative societies.<sup>11</sup>

Credit cooperative societies are the fifth type formed to provide easy credit on reasonable terms to the members who seek financial aid in the form of loans by defending the members from exploitation by lenders who levy high rates of interest on loans.<sup>12</sup> These societies grant loan to members from the amounts collected as capital and from deposits received from members thereby enabling levy low rates of interest.

Cooperative Housing Societies are another type formed to aid people with limited income in constructing house at reasonable price to produce residential accommodation at lower costs and solve housing problems of members by constructing houses and giving an option of paying in installment.<sup>13</sup>

### **2.1.3. Guiding Principles of Co-operative Societies**

There are internationally accepted guiding principles adopted by ICA for what cooperative are and how they should operate.<sup>14</sup> These principles are also recognized in Ethiopian cooperative societies.<sup>15</sup> The principles are:

**Voluntary and open membership:** This principle shows that members to collectively solve their economic and social problems form cooperatives voluntarily. The membership is open to all persons without any form of discrimination such as gender, social, racial, political and religious

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<sup>10</sup> FCA Farmer's Marketing Cooperative Societies Directive No.002 to provide for the implementation of cooperative societies proclamation No. 147/1998, arts 4.1&5

<sup>11</sup> FCA Farmer's Cooperative Societies Directive No.001 to provide for the implementation of Cooperative Societies Proclamation No. 147/1998, arts 8&9

<sup>12</sup> FCA Credit Cooperative Societies Organization Directive No.007 to provide for the implementation of Cooperative Societies Proclamation No. 147/1998, art.7

<sup>13</sup> Supra note 4, art.2(1)(b), <[gradestack.com/class-11-commerce/forms-of-business/](http://gradestack.com/class-11-commerce/forms-of-business/)> accessed 5/27/2017

<sup>14</sup> Supra note 2, page 14

<sup>15</sup> Supra note 4, art.5



bases.<sup>16</sup> All persons who are able to use their services and willing to accept the responsibilities of membership are allowed to be members.

**Democratic member Control:** cooperatives are democratically controlled organizations by their members who actively participate in making decisions and setting policies having equal voting rights irrespective of the amount their share.<sup>17</sup> Thus, each members have only one vote.

**Member Economic Participation:** members have the right to obtain economic benefits and services based on their participation and contribution.<sup>18</sup> They also equitably contribute to the capital of their cooperatives and allocate surplus for developing them.

**Autonomy and Independence:** Cooperatives are legal persons having independent autonomy. They exercise their independence and autonomy while they enter agreements with other organizations including governments or raise capital from external sources in a manner that ensure democratic control by their member and their autonomy<sup>19</sup>.

**Education, Training and Information:** Cooperatives are required to provide education and training for their members, elected representatives, managers and employees to enable them to contribute effectively to the development of their societies.<sup>20</sup> They are also required to inform the public, particularly the youth about the nature and the benefit of societies.

**Cooperation among cooperatives:** cooperatives are needed to cooperate with each other at different levels such as local, regional, national as well as international level in order to most serve their members and strengthen society's movement.<sup>21</sup>

**Social Concern:** Even though cooperatives are formed to solve the social and economic problems of their members, they are not limited only to work for their members' interest. They

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<sup>16</sup> Supra note 2, page 14, Supra note 4, art.5(1)

<sup>17</sup> Supra note 4, art.5(2)

<sup>18</sup> Ibid , art.5(3)

<sup>19</sup> Id, art.5(4)

<sup>20</sup> Supra note 2, page 14, Supra note 4, art.5 (5).

<sup>21</sup> Supra note 4, art.5(6)

are required to work for sustainable development of their community through policies approved by their members.<sup>22</sup>

These principles lead cooperatives to meet their purpose at all levels. Each principle plays a key role in achieving the social and economic objective of cooperative societies to meet the need of their members and the public as a whole at local, regional, national and international level. Therefore, they should be followed properly to make cooperatives effective.

#### **2.1.4. Corporate governance**

Before dealing with the phrase corporate governance, it is essential to define the two terms separately. *“Corporation is defined as an entity having authority under law to act as a single person distinct from the shareholders who own it and having rights to issue stock and exist indefinitely; a group or succession of persons established with the legal rules into a legal or juristic person that has legal personality distinct from the natural persons who make it up, exists apparently from them, and has legal powers that its constitution gives it.”*<sup>23</sup> This indicates that corporate is a legal person having rights and obligation given by law. *Governance is applying policies, proper implementation and continuous monitoring typically done through or by organization`s governing body.*<sup>24</sup> It is about authority, decision making and accountability. It is a very general concept that may refer to all manner of organizations. The actual meaning of the concept depends on the level of governance needed, the objective to be met and the approach being followed.

Likewise corporate governance is defined as applying policies, proper implementation and continuous monitoring typically done through or by organization`s governing body.<sup>25</sup> It refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled. It describes the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which corporation, and those in control, are held to account.

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<sup>22</sup> Ibid, art.5(7)

<sup>23</sup> Supra note 1, page 419

<sup>24</sup>Featuring Black's Law Dictionary Free online Legal Dictionary 2<sup>nd</sup> Ed.<[thelawdictionary.org/governance](http://thelawdictionary.org/governance)> accessed 5/27/2017

<sup>25</sup>Ibid



## 2.2. Review of Related Empirical Literatures

Good governance is now accepted as a vital to achieving the sustainable development goals and as a pre-condition for sustainable economic growth.<sup>26</sup> Cooperatives have always faced complex governance challenges.<sup>27</sup> As in other business sectors improving governance standards for cooperatives is now becoming a priority and is increasingly debated within cooperative movement.<sup>28</sup> Therefore, issues of corporate governance of cooperative societies and related problems have become a topic of studies at global and national levels to ensure the social and economic development for which cooperatives are established. Different scholars have made various empirical studies on governance issues of cooperative societies operating in different parts of Ethiopia and abroad.

Shimellis Yimam has conducted an empirical study on cooperative governance in Ethiopia, a case study of two cooperatives in Amhara National Regional State (ANRS) in 2010. In his study he selected two primary cooperative societies, Ankerka Vegetable Producers' and Tigle Frie multi-Purpose Farmers' service, from the total of 71 primary cooperative societies found in two woredas using purposive sampling method and collected data using interviews, focus group discussion and observation methods to assess the constraints faced in the governance of the studied cooperatives which was one of the objectives of the research. The outcome of his case study revealed that negative intervention of local governments and government officials, weak organizational capacity of cooperative promotion bureaus (CPBs), passive member participation in the decision making and economic activities of the cooperatives, lack of adequate education and training of members and members of management committee (MC) and employees and membership unaccountable MC and employees are some of the constraints faced in the governance of the studied cooperatives.

Teshome Argeta has also made an empirical research on the factors affecting managerial effectiveness of cooperatives as local development actors; the case of Becho Weliso Farmers' cooperative union in 2015. The findings of his study revealed that there have been various

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<sup>26</sup> Linda Shaw, Over view of corporate Governance Issues of cooperatives, Discussion Paper, The Co-operative College, Manchester, UK November 2006

<sup>27</sup> Supra note 26

<sup>28</sup> Ibid

problems limiting the cooperative union from fully playing its role in local development of the woreda. The problems include leadership gap related and problems emanating thereof such as lack of competence and commitment of leaders, incomprehensiveness of the bylaw of the cooperative union, lack of established communication system, lack of well-developed system/standard of accountability, lack of shared view on the cooperative principles and laws, weak member participation and weak enforcement of rules and regulation by government.

There is another research conducted on the performances and challenges of cooperatives in Ethiopia, the case of Were Multipurpose Cooperative Union in central zone of Tigray by Yemane Teweldemedhin in 2010. Regarding the challenges constraining the performance of the union, the study has pointed out that embezzlement, limitation in the capacity of management committee or board of directors (BoDs), lack of capital, unhealthy competition from private traders, absence of education and training of members are the main ones.

Ephrem Dejene has also conducted an empirical study on members' perceptions towards factors influencing the success of cooperative, a survey of agricultural cooperatives in Becho woreda in 2014. The study found that mutual trust among members, willingness of members to provide equity capital and good individual motivation and drive of member commitment factor and member participation in cooperative governance, influencing the decisions in the society and participation of members in technical training are the most influential factors for the success of AMCs. It argues that members should pay attention for their mutual trust and active participation in cooperative governance to be successful.

Studies made so far thus have shown the existence of problems of cooperative governance and management. However, the studies have not dealt with corporate governance of cooperative societies in relation with: the enforcement the governance provisions of cooperative societies' proclamation, its regulations and directives, the causes of internal disputes and corruption as well as losses of the properties of the societies and whether the law is strict enough to minimize agency problem. Therefore, this study is devoted to assess the corporate governance of cooperative societies in the case of Jimma zone focusing on these issues.

## **Chapter Three:- Corporate Governance of Cooperative Societies in**

### **Jimma zone.**

Ethiopia aspires to see cooperatives which play a vital role for the wellbeing of members and economic development of the country by 2022 as stated as in Federal Cooperative Agency' (FCA) vision. The country has been devoted to expand and foster cooperatives which are capable of solving social and economic problems of their members and which play their decisive role in the socio economic development of the country so that legal frameworks and policy attention are given. Cooperative Promotion Agencies are established at federal and state government level to support and promote cooperative movement. Regarding the legal framework cooperative society's proclamation No. 147/1998 and its regulations and directive are being enforced by the federating National Regional States of the country except the three states: ANRS, SNNP and Tigray National Regional states that have enacted their own laws; however the country has enacted new cooperative societies proclamation recently which shall enter into force on the date of publication in the Federal Negarit Gazette but not published yet. This research analyses proclamation No.147/1998 and its regulation which are also being enforced in Oromia regional state which is yet to enact its own laws regarding cooperatives. Basic contents of the laws are analyzed here below.

### **3.1. Internal Governance Structure of Cooperative Societies**

#### **3.1.1. General Assembly**

The supreme organ of any society shall be the general assembly (GA).<sup>29</sup> A GA is the highest policy-making body of the co-operative and is the final authority in the management and administration of the affairs of the co-operative in Ethiopian law. General Assembly "*means a meeting of members of the Primary Cooperative society or representatives of societies above primary level*".<sup>30</sup> Any member of a society shall have the right to participate in the meetings of the society and to vote.<sup>31</sup>

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<sup>29</sup> Supra note 4, art.20

<sup>30</sup> Ibid, art.2(4)

<sup>31</sup> Id, art.14(1)(b)

Every member has equal voting rights and accordingly one member shall have one vote.<sup>32</sup> Co-operative societies are controlled by their members who actively participate in setting their policies and making decisions. Regardless of the number of shares he/she has, every member shall have only one vote at the meeting of the society.<sup>33</sup> Therefore, the voting right of members in cooperatives is not attached to the amount of their share unlike in the case of companies. The GA shall meet at least once in a year.<sup>34</sup> An emergency meeting may be held by giving 15 days prior notice if the management committee or one-third of the members of the GA requires a meeting to be called.<sup>35</sup> The appropriate authority shall call an emergency meeting where the management committee fails to call an emergency GA meeting.<sup>36</sup>

Through the above mechanisms, the GA exercises the ultimate power of control over the cooperative societies in order to ensure the interest of the cooperatives and the members as well. Therefore, this enables us to understand that legally the ultimate control over the cooperative societies is in the hands of the members to ensure their interest. However, this doesn't mean that the interest of the members is protected only by this mechanism. Thus, the researcher further examines other practical possibilities by which the members may be affected even if the GA is the supreme organ to decide on any issue of the cooperative society.

### **3.1.2. Control Committee**

Below the GA, there is the second organ called Control Committee (CC) which is accountable to the GA and the number of which shall be specified by the by-laws of the society.<sup>37</sup> The term of office of members of the committee is three years. No members of the CC shall be elected for more than two consecutive terms. The GA may while in term of office, dismiss them.<sup>38</sup>

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<sup>32</sup> Supra note 4, art.5(2)

<sup>33</sup> Ibid, art.18(1)

<sup>34</sup> Id, art.22(1)

<sup>35</sup> Id, art.22(2)

<sup>36</sup> Id, art.22(3)

<sup>37</sup> Id, art.25(1)

<sup>38</sup> Id, art.25(2)

### 3.1.3. Management Committee

The third organ in the governance of cooperative societies in Ethiopian law is management committee (MC) which is also accountable to the GA. The number of members and manner of election is determined in the by-laws of the society like the CC.<sup>39</sup> Like that of the CC, the term of office of members of the MC shall be three years.<sup>40</sup> Similar to the CC members of the MC shall not be elected for more than two consecutive terms. The GA may also dismiss them while they are in term of office.<sup>41</sup> The law has not given any criteria or skill of members to be elected as an MC member and conditions which prohibit a member to be elected as a MC member. It raises only the manner of election, which is to be decided in the bylaws of the cooperative societies. However, this organ plays a key role in the success and failure of the cooperative societies since it is involved in the day-to-day activities. The members of the committee should be elected carefully taking into account their key function for the successful operation of the cooperative societies.

Even though the law stated that other sub- committees might be established pursuant to the by-laws of the society, the law has not put the other basic organizational structure such as set of officers and hired managers/paid employees. Among the basic organizational structures, which are needed for day-to- day operation of cooperatives, the law has put only the two structures, the general assembly and different committee systems those are CC, MC and other sub committees. However, the law has stated that the by-laws of cooperative societies should contain the manner of employment of workers. Thus, this indicates that cooperatives can employ workers in addition to the committee systems. However, the law does not make the employment of workers mandatory except requiring the manner of the employment to be made clear in the by-laws to make the employment.

In addition to this, under the list of powers and duties of the GA and the MC these issues are not raised as a power of these organs to create additional structures and employ professional staffs

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<sup>39</sup> Supra note 4, art.23(1)

<sup>40</sup> Ibid, art.23(2)

<sup>41</sup> Id, art.23(3)



and managers necessary for the proper operation of the societies.<sup>42</sup> However, as the law stated powers and duties of the MC shall be determined in pursuance of the by-laws.<sup>43</sup> Thus, the MC may acquire such power and duty through the by-laws even if the law is silent.

In Ethiopia, cooperative societies may be established as Primary Cooperatives, Cooperation of Cooperatives (Cooperative union), National Cooperative Federation, and Cooperative league.<sup>44</sup> Ten or more individuals voluntarily form primary societies. Two or more voluntary primary societies form a cooperative union when there are problems that cannot be solved by primary societies. Two or more voluntary Cooperative unions, which have similar objectives at Federal level, establish national Cooperative Federation. Similarly, two or more voluntary National Cooperative Federation establishes Cooperative league. Since cooperative federations and cooperative leagues are established at national level by interstate cooperative unions and cooperative federation respectively, there cannot be cooperative federations and cooperative leagues at national regional states. Therefore, in Oromia National Regional state cooperatives exist only at the level of primary societies and cooperative unions.

#### **3.1.4. Distribution of Power Among Governance Organs of Cooperative Societies**

Governance structure is designed to make the interest of shareholders as a class and is used as instrument for dealing with basic agency problems.<sup>45</sup> When the number of owners of a corporate is large, authority and responsibilities will be delegated to agents to manage the corporate for the success and interest of owners. However, some decisive mandates, which may fundamentally affect their interest, are usually reserved for members only. Based on this corporate governance aspect, the distribution of power among governance organs of cooperatives is examined as follows.

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<sup>42</sup> Id, arts.21&24

<sup>43</sup> Supra note 4, art.24

<sup>44</sup> Supra note 9, arts.3-6 , art.6 of the proclamation

<sup>45</sup> Henry Hansmann & Reinier Kraakman, Basic Governance Structure, page 33

### **3.1.5. Powers and duties of the General Assembly**

The powers and duties of the GA are listed under article 21 of the Ethiopian cooperative societies proclamation No, 147/1998. Accordingly the GA shall: pass decisions after evaluating the general activities of the societies: approve and amend the by-laws and internal regulations of the society; elect and dismiss the members of the MC, CC and when necessary the members of other sub-committees; determine the share of the society, decide on how the annual net profit of the society is distributed; give decision on the audit report; hear work reports and give proper decision; decide that a society either be amalgamated with another society or be divided in pursuance of the proclamation; approve the annual work plan and budget, and decide on any issue submitted by the MC and other committees. Retaining these powers to the general assembly is appropriate since delegating these powers could fundamentally affect the interest of the members if they are delegated and abused by agents. Therefore, it is reasonable to argue that this organ is given the appropriate governance power by the law.

### **3.1.6. Powers and duties of the management committee**

Stating that the powers and duties of the MC shall be determined in pursuance to the by-laws, article 24 of same proclamation lists the particular powers and duties of the committee to be included. These are: maintaining the minutes of a meeting in writing, the documents and books of accounting of the society; preparing the annual work program and budget of the society; implementing same upon approval; calling general assembly in accordance with the by-laws; executing decisions given by the GA and submitting reports on the activities of the societies. From these listed powers and duties of the committee , it is possible to observe that some of the powers such as maintaining the minutes of a meeting in writing, the documents and books of accounting of the society, preparing the annual work programmer and budget of the society are routine duties which should have been done by professional managers or other employees. Furthermore, the law should have imposed responsibility on the committee to control and supervise the activities of managers and hired staffs, who operate the day-to-day activities of the society.

### **3.1.7. Powers and duties of the control committee**

As its name indicates, the CC is given the controlling power as listed under article 26 of the cooperative society's proclamation no 147/1998. Accordingly it follows up that: the MC is carrying out its responsibilities properly, the funds and the property of the society is properly utilized; the various activities of the society are carried out pursuant to the by-laws and internal regulations of the society and performs other duties given by the GA.

### **3.1.8. Agency problem and Legal Strategies**

*“The authority to act on behalf of another may derive from the law or a contract.”*<sup>46</sup> This indicates that one can be an agent of another person in two ways. The first way is by the power given by a law while the second way is by a contractual agreement made between an agent and a principal. One or more persons may engage another person or persons to perform some service on their behalf which involves delegating some decision making authority to the agent by agency relationship.

In this relationship, the agent is expected to act to the best interest of the principal as required by the law or the contract that creates the agency. However, there is a circumstance by which the agent is motivated to self-interest which contradicts with that of the principal as the agent is benefited at the cost of the principal. This causes what is known as agency problem.

This problem occurs in corporate as they make agency relationship with agent which can be made by contract or law. The relationship is made for corporate governance and management services in which agents are delegated to run the corporate to the best interest of the owners. However, this relationship is also potentially subject to agency problem as the agents commonly have better information than does the principal about the relevant facts. The owners cannot easily assure that the agents performance is precisely what is promised.

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<sup>46</sup> The 1960 Civil Code of Ethiopia, art.2179

Corporate establishes the structure of corporate form and attempts to control conflict of interest between principals and agents.<sup>47</sup> In addressing agency problems, the law gives legal strategies to mitigate the vulnerability of principals to the opportunism of their agents. Legal strategies for controlling agency problems have two sub sets which are termed as regulatory strategies and governance strategies.<sup>48</sup> Regulatory strategies list substantive terms that govern the content of the principal-agent relationship, tending to constrain the agents` behavior directly by commanding them not to make decisions that would harm the interest of the principals.

On the other hand, governance strategies facilitate the principals` control over the agent`s behavior. These give the principal the power to select or remove directors or managers which makes them responsive to their principal. It also expands the power of principals to intervene in the firm`s management and decision rights which grant the principals to initiate and ratify management decisions.

Having discussed this much about agency problems and legal strategies, the researcher examines the extent to which this problem is addressed in corporate governance of cooperative societies and its enforcement as cooperative societies operate very much like other business organizations even if there is distinction between them.

### **3.1.9. The Power of members in controlling their agents in cooperative societies**

As discussed earlier, the organizational structure of cooperative societies is the GA, which is composed of all members, the MC which is accountable for the GA, and the CC, which is also accountable for the GA.<sup>49</sup> There is no other organ in the governance structure of cooperatives given by the law.

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<sup>47</sup> John Armour, Henry Hansmann, Reinier Kraakman, Agency problems, Legal Strategies and Enforcement, Discussion Paper No.6447/2009, Harvard Law School < [http://www.law.harvard.edu/programs/olin\\_center/](http://www.law.harvard.edu/programs/olin_center/) > accessed 5/20/2017

<sup>48</sup> Henry Hansmann, Reinier Kraakmann, Basic Governance Structure, pp33-55

<sup>49</sup> Supra note 4, arts.20-26

Since the GA is composed of the members, it is obvious that this organ holds all the owners of the cooperative society which it represents.<sup>50</sup> All the owners are included in GA. Therefore, the power of the owners to control agents emanates from this organ. The agents to the owners are the MC and the CC since they represent the entire members and perform the activities given to them by the law and by-laws. This is because all owners cannot be the members of the committees at once even though all of the members of the committees are elected from the owners. They serve the society being the agent of the whole owners. There can be employees who are also agents of the owners of cooperatives based on the agreement they make with the cooperatives.

The powers and duties of the MC which are: maintaining the minutes of a meeting in writing, the documents and books of accounting of the society; preparing the annual work program and budget of the society; implementing same upon approval; calling general assembly in accordance with the by-laws of the society; executing such other decisions given by the GA and submitting reports to the GA on the activities of the societies are for the interest of the owners not for themselves. These are not the only powers and duties of the members. The MC members operate and perform all activities of cooperatives where there are no employees.

Similarly, the powers and duties of the CC which are following up : that the MC is carrying out its responsibilities properly, the funds and the property of the society is properly utilized as well as the various activities of the society are carried out pursuant to the by-laws and internal regulations of the society and performs other duties given by the GA show that they serve as agents of the owners.

One of the powers of owners to control these agents is through election and dismissal of the members of the committee.<sup>51</sup> Even though the term of office of the members of both the management committee and the control committee is three years, the GA may dismiss them at any time.<sup>52</sup> There is no ground and procedure of dismissal given by the law in exercising this power. This makes the GA more powerful as a member of the committees cannot raise any defense against the GA not to be dismissed since the ground of dismissal is not mentioned in the

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<sup>50</sup> Ibid, art.20

<sup>51</sup> Supra note 4, art.21(3)

<sup>52</sup> Ibid, arts. 23 (2), (3), 25(2)

law. This means the GA can dismiss them without good cause. This makes the agents responsive to the cooperative owners who are principals.

The other mechanism by which the GA may control the agents is through the power of adopting and amending the by-law and internal regulations of the cooperative society.<sup>53</sup> Since adopting and amending the by-laws and internal regulations of the society is in the hands of the GA, the assembly may adopt strict by-laws and internal regulations of the society which give it more controlling power over the agents. Additionally, the assembly can exercise its power of electing and dismissing other sub committees when necessary.<sup>54</sup> This has a decisive role in ensuring the interest of the members by making the committee to act in the interest of the members.

### **3.2. Legal Strategies to control agency problem in corporate governance of cooperative societies (proclamation No.147/1998)**

Although Corporate Governance has emerged as a way to manage modern joint stock corporations, it is also significant in state-owned enterprises, cooperatives, and family businesses.<sup>55</sup> In corporate governance of the cooperative societies, the proclamation makes at least two agents namely the management committee and the control committee who are accountable to the general assembly.<sup>56</sup> Others such as sub committees, employed managers and workers who may be employed based on the bylaws of the cooperative may also exist as agents.

Therefore, the researcher has examined whether the cooperative societies law has sufficient legal strategies to address and minimize agency problem, which may happen in the governance system of the societies, as it may be one of the causes of internal disputes, losses of properties and corruption for the problem under this study.

Regarding the governance legal strategy, it is important to trace the provisions of the law, which facilitate the principals' control over the agents. As stated above, the GA in which all the owners of the cooperative societies are there, is the principal.

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<sup>53</sup> Id, art.21 (2)

<sup>54</sup> Supra note 4, art.21 (3)

<sup>55</sup>Corporate governance <<http://www.eiod.org/uploads/Publications/Pdf/Corp.%20Governance-1.pdf>> accessed 5/14/2017

<sup>56</sup> Supra note 4, arts.23 (1), 25(1)

The MC, the CC, and other sub committees as well as the workers which are employed based on the by-laws are the agents of the owners who ought to perform their duties to the best interests of the owners following the by- laws and internal regulations as well as the cooperative laws and regulations. The governance legal strategy gives the owners the means to control the agents in order to make these agents responsive to the interest of their principals. These mechanisms include the way the agents are appointed and removed. Electing the members of these committees, including sub committees is under the powers given to the assembly as well.<sup>57</sup> The assembly is authorized to dismiss these members of the committee without good cause as discussed earlier.<sup>58</sup> The powers of the assembly to approve and amend the by-laws and deciding that a society either be amalgamated with another society or be divided are very crucial mandates to minimize agency problem.<sup>59</sup>

Therefore, this shows that the law has provided governance legal strategy for the owners, which enable them to control their agents. But the governance structure set by the law is left on the assembly and the committees, however it may be extended in by- laws. The law puts mandatory provision that the by-laws shall include the employment of workers.<sup>60</sup> However the law doesn't show the way the members may control the other agents such as workers and managers. In this regard the law is silent unless the members fill the gap by making bylaws which address such issues since these organs are more tied to the day-to-day activities of the societies and have more information about the society than any one.

Concerning regulatory strategies, the law should have dictated substantive terms which limit abuse of power of agents particularly that of MC members and other employees who perform core business of cooperatives by listing prohibiting and procedural rules to minimize agency problem. However, there are no such provisions in the law. In Ethiopia, different types of cooperatives may be established. They may be engaged in either production or service rendering activities or in both.<sup>61</sup> As discussed in the previous section, cooperatives can be establish at

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<sup>57</sup> Supra note 4, art.21(3)

<sup>58</sup> Ibid, arts. 21(3), 23(3) &25(2)

<sup>59</sup> Id, art. 21(2), 21(8)

<sup>60</sup> Id, art.11 (2) (1)

<sup>61</sup> Id, art.7 (1)

different levels. They can be established as: primary cooperative society, primary cooperative societies having similar objective may establish union, unions having similar objectives at Federal level may establish a Federation, Primary cooperative societies, unions, and federations may establish a league.

It is obvious that as the level of the cooperatives increase the structure of cooperatives governance and delegation of powers increase since the number of members, the economic activities and capital of cooperatives increase as well. As a result, agency cost and the probability of agency problem increases. On the contrary, the law has no any regulatory provision, which imposes procedural rules and prohibitive rules on the act of agents such as the committees, managers and other workers when they discharge their duties and responsibilities.

The law does not address the liability of the committees. There is no provision that address the issue of remuneration, which is one of the methods of minimizing agency problem. The other issue which should have been addressed in the law is self-dealing. For the purposes of this thesis, self-dealing is to mean a transaction between the society and an agent which may be a member of a committee or an employed manager or between the society and a third party where ever an agent has a personal interest in the welfare of the other person involved in the transaction, or in certain collateral consequences of the transaction. The law should have either banned self-dealing totally or put conditions of disclosure and approval by proper organ. However, the law has neither prohibitive nor prescriptive provisions on this important issue, which may open a door for agency problem. Thus the law has not arranged adequate regulatory strategies to protect agency problem.



### **3.3. Enforcement of the Corporate Governance of Cooperative Society's Laws of Ethiopia**

#### **3.3.1. The Role of Government in the Enforcement of the Corporate Governance of Cooperative Societies**

The government plays its governance roles to promote and assist cooperative societies through cooperative promotion agency established at different levels. Cooperative promotion agencies (CPAs) are established at different levels of regional and federal government. The mission of Federal Cooperative Agency (FCA) is to enable cooperatives of rural and urban society in different type and level based on their will and resource: build the capacity, empower the market share in order to solve their economic and social problems governed under rules and regulations for the assured members' benefit.<sup>62</sup> Having similar objective CPAs are established in regional states at district, zone and regional levels. They play the following governance roles to enable cooperatives to meet their social and economic goal.

##### ***3.3.1.1. Initiation of General Assembly meetings***

Under article 22(3) of the cooperative society's proclamation no.147/1998, an appropriate authority is authorized to call GA to conduct an emergency general meeting when the MC fails to do the same. Accordingly, the cooperative promotion agencies established at district, zone, regional and federal levels initiate and support cooperatives to conduct regular and extraordinary general meetings on regular time basis with the aim of promoting members' participation and decision-making in cooperatives. Conducting such meetings timely and properly has its own significance in protecting agency problem since the assembly can make appropriate decisions and policies which strengthen internal regulations to solve problems identifying their causes.

##### ***3.3.1.2. Provision of Cooperative audit Service***

Article 36(1) of Cooperative proclamation No. 147/1998 provides that the appropriate authority shall audit or causes to be audited by a person assigned by it, the accounts of any society at least once in a year. This is being done by the cooperative promotion agencies even though it is

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<sup>62</sup> Set Vision, Mission and Values of FCA, < <http://www.fca.gov.et/>> accessed 2/18/2017

difficult to imagine that all such several cooperatives are being properly audited annually. However, if it is done properly it is not controversial that it exerts its force on the mal administration and losses of the properties of cooperatives, which may result from agency problem. This is due to the fact that the audit report will be presented for general assembly, which is the supreme organ of the cooperative, which can take a proper measure as per article 36(2)&(3) of same proclamation.

### ***3.3.1.3. Provision of Cooperative inspection service***

Under article 37(1) of same proclamation, it is provided that the appropriate authority may make or cause to be made by such person to be assigned by it an inspection to the organization, work execution, documents and financial condition of a society. To realize this provision, cooperative promotion agencies have established a department for this purpose recently. Formerly it had been done in fusion with auditing service. In each quarter year report, activities of inspection and discovered results are displayed. This function of the agency plays a decisive role in protecting problems related with agency problem by enabling the cooperatives and policy makers to take corrective and legal measures as per article 39 of the proclamation.

### ***3.3.1.4. Provision of Legal Service***

Even though the provision of legal service to cooperatives is not provided in the proclamation, cooperative promotion agencies have legal service department, which gives legal service to cooperatives. Legal officers of CPAs provide the service by providing advice to initiate lawsuits, bringing lawsuits by delegation; providing legal advice when cooperatives are under formation and liquidation; training cooperative members on legal issues concerning cooperatives. This also plays a key role in enhancing the governance of the societies by making liable those individuals who cause losses of properties and corruption due to maladministration.

## **3.4. Enforcement of the Corporate Governance of Cooperative Society's Law, the case of Jimma zone cooperative societies**

The corporate governance system of cooperative societies is listed under chapter four of the federal cooperative society's proclamation No.147/1998 starting from article 20 to 27. The management bodies, their powers and their duties are mentioned in these provisions of the

proclamation. This part of the proclamation puts the systems and the mechanisms of cooperative governance, which are to be internally exercised by cooperatives themselves independently and autonomously without any interference of government organs except initiating and calling an emergency GA meeting when the MC fails to do this.<sup>63</sup>

The other governance system is the external one, which is made by the government through cooperative promotion agencies established at different levels: at federal, regional, and zone and district levels.<sup>64</sup> This is done by auditing and inspecting cooperative societies, which extends to taking actions against losses of property or fund of the society based on the audit and inspection reports.<sup>65</sup>

This governance system is also applied in Oromia National Regional State (ONRS) since the region has not yet enacted its own cooperative law and using the federal proclamation. Therefore, the researcher has conducted FGD concerning the enforcement of internal and external corporate governance system of cooperative societies in Jimma zone. The FGD was conducted with CPA experts of four districts: Gomma, Gumay, Omo Nada and Manna districts as well as with Jimma zone CPA experts.

It was conducted at each districts and zone for an average of three and half hours regarding the implementations of internal and external governance systems of cooperative societies in the districts particularly and in the entire societies of Jimma zone in general as follows.

### **3.4.1. Enforcement of internal governance system**

#### ***3.4.1.1. The diligence of GAs in exercising their power and discharging their duties***

As the GAs are the supreme organs of cooperative societies, the first points of discussion in the FGD was about the commitment of GAs in exercising their powers and discharging their duties as provided in the law. Because, the implementation of these powers and duties decides the fate

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<sup>63</sup> Supra note 4, art. 22(3)

<sup>64</sup> Ibid, arts. 36-39

<sup>65</sup> Id, art. 39

of the society. Their success, failure, existence, independence and autonomy are highly dependent on the proper and strict exercise and discharge of the powers and duties of GAs.

To exercise their powers and discharge their duties, the GAs should be able to meet as frequent as possible. As provided in the proclamation, the GA should meet at least once in a year.<sup>66</sup> In this regard, the first questions forwarded at the FGD were how frequent the GAs meets in a year, do they respect the minimum requirement of meeting, which is at least once in a year? What are the challenges observed in the implementation of this requirement and their causes?

The FGD made with Gomma district CPA experts revealed that most cooperative societies do not respect this requirement. One of the participant expert argued that the societies of the district, which conduct GA meeting once in a year, do not exceed 5%. Another participant also mentioned that, the GAs fail to conduct their meeting even having called their members for more than three times. It is very difficult to get the required number of members to conduct a meeting, as the law requires.

According to this FGD, the societies which conduct their annual meeting are very few. The participants also argued that, those GAs which conduct their meeting properly do not follow up the implementation of the decisions passed at the meeting. Most of the cooperatives do not conduct their annual meeting due to the lack of sufficient awareness on the importance and purpose of the GA meeting. When loss of property or fund of the societies occurs, they keep silent to avoid conflict with the person who caused the loss.

Same response was obtained from the FGD made at Gumay district CPA except their response on the frequency of GAs meetings . The estimated percent of the societies, which carry out the annual meeting, is agreed to be less than half of the total societies of the district as argued at the FGD. Even if this is better than the previous district, similar problems are faced as the GAs do not follow up the implementation of the decisions and the activities of their societies closely.

The information obtained from the FGD made with Omo Nada district CPA is also consistent with that of Gomma district. The participant experts of this FGD argued that almost all of the GAs of the societies of the district have not conducted their annual meetings for the past three

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<sup>66</sup> Supra note 4, art. 22(1)

years. However, some of them have started the meeting this year as the participants said. They have begun requesting audit reports to evaluate and give appropriate decision. Except such progress observed in the Societies in this direction, the GAs activities were very poor in exercising their powers and discharging their obligation likewise GAs of cooperatives in Gomma and Gumay districts.

The FGD made with Manna district CPA experts shows that GAs meet more frequently than those of the previous districts, as the awareness of the members on the purpose of GA in controlling their cooperatives is somehow better. However, there are many societies in the district, which fail to conduct GA meetings regularly as much as required to strengthen their internal governance. More awareness and initiation is expected to reach the required amount of participation of members in controlling their cooperative societies as the FGD participants expressed.

The last FGD conducted by the researcher on these issues is the FGD made with the experts of Jimma zone CPA. The evidence obtained from this discussion shows that most GAs of cooperative societies are very weak in exercising their powers and discharging their duties to control their societies. They cannot meet regularly to evaluate the activities of their societies and pass necessary decisions to enable them to meet their purpose. As experts informed, only very few cooperatives with large capital actively participate in controlling their societies by conducting GA meeting to evaluate and make the decisions needed. The rest are passive and have poor awareness and unwilling to participate actively in controlling their societies.

This can be expressed in terms of lack of sense of ownership of cooperative societies by their own members. As cooperatives societies are meant to offer benefits for their members, their success or failure depends on the diligence of the GA. The FGD participants strongly argued that this is the corner stone for all problems such as loss of properties and funds as well as corruption which are occurring in the societies.

#### ***3.4.1.2. Election of MCs and their effectiveness & ethics in discharging their duties***

It is an obligation to have a MC for every society.<sup>67</sup> Therefore, cooperative societies cannot avoid this structure since it is not an option to have the committee. This organ is given lots of powers and duties, which are directly attached to the core operations of societies. In the societies, which do not have employed workers, the committee runs all the operations of the societies. Most societies in Jimma zone do not have employed workers due to the lack of economic power to afford salaries to employees and lack of emphasis given to the issue as the FGD participants confirmed. Those societies which have employees delegate some of their powers and duties to their employees.

As the evidence obtained from the FGD indicated, all societies in Jimma zone have established their MCs. The committees have seven members having one chairperson who acts as a manager in the absence of employed manager, one secretary and one cashier within themselves. The rest four act as a member. Based on the type of the society, there will be storekeeper among the MC members. The manager, the secretary, the storekeeper and the cashier have their own job description given in the bylaws. Since cooperatives are member controlled, all MC members are also members of the societies. The manner of election of the committee members is provided in the bylaws. The GA is authorized to elect these and other committees without any interference and influence as provided in the proclamation.

In addition to the powers and duties given by the proclamation, the MC has other responsibilities provided in the bylaws and perform many activities which are very sensitive and decisive to the success and existence of the societies. The election of the MC has to be based on the interest of the members and made carefully following the procedure put in the bylaw being free from any direct and indirect interference. The MC members have to be honest enough and accountable to their other fellow members of the societies.

Having this in mind, the researcher has made an assessment of the manner of election and the flaws observed in election, the capacity and accountability of elects in discharging their responsibilities.

Concerning the independence of the members in electing MC members, the participants informed that even though the election is formally made by GAs, informal interference and

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<sup>67</sup> Supra note 4, art. 23(1)

influence of local authorities in the process of election is observed. They influence the process to insert the person they want in the MC. This opens a room for corruption and abuse of power by both an MC member elected in such manner and the local authorities. Some local authorities make the members to elect MC members whom they easily manipulate as they want for their own interest harming that of entire members and the societies.

As expressed at the FGD, there are situations of extending the term of office of some MC members up to nine years violating the law and the decision of GA due to the influence of local authorities and lack of strict follow up and implementation of GA decision. The other problem which is caused by this interference is electing cooperative members who are also members of local authorities at kebele administrations. This has affected the impendence of many cooperatives as it is against cooperative principle which recognized by ICA and cooperative proclamation of the country as strongly argued by the experts at the FGD.

This also creates obstacles in taking legal action when such MC members cause the loss of properties and fund of societies. On the contrary, there are cooperatives which elect their MC members being free from such unnecessary interference and relevant problems.

Having discussed the flaws related with the election system this much; the other issue evaluated in detail in the FGD was the effectiveness and ethics of the MC members in delivering their service and discharging the responsibilities given in the law as well as the bylaws. What is obtained from the discussion made on this issue is that, the MC members elected without unnecessary interferences are usually observed while they strive to serve their societies honestly with good ethics. However, they commit technical errors in discharging their duties due to lack of necessary knowledge and skill to perform their activities. The main errors usually committed are failure to record debts and credits using lawful books of accounting, identify lawful and unlawful expenses and perform their duties based on their job description and interfering in the mandates and duties of one another.

As the experts strongly argued, many MC members who serve as a manager, cashier and storekeepers are usually made liable and are required to pay the lost properties and funds which happen due to their lack of knowledge and skill. The other problem is that, most MCs do not

follow regular and uniform working principles given in the bylaws. Even though they prepare annual work plan, they do not observe them in practice.

Lack of knowledge and skill of MC members is not the only cause of loss of property and fund in many societies. There are MC members who deliberately defraud their society having knowledge and skill to serve with integrity. These members join the MC deliberately by creating informal relationship with local authorities to collect unlawful benefits from the societies. The bylaws of cooperative societies give the chairman of MC the mandate to: work on many issues including: making different contractual agreements to meet the goal of the society, buying, selling and renting different movable and immovable properties of the society when decided by GA and signing checks and debt accounts being with those members who are given mandate to sign representing the society. If these mandates are not exercised with integrity and in a transparent manner, they can be easily abused and cause damage on the societies. The risk becomes high in cooperatives with weak internal regulation. The participants of the FGD strongly argued that these mandates are usually abused and caused loss of properties and funds of the societies since internal regulation and participation of members in many cooperatives are weak.

Generally the performance of most MCs in: maintaining the minutes of meetings in writing, maintaining the documents and books of accounts, preparing annual work program and implementing same upon approval, executing decisions given by GA and submitting reports on the activities of the societies as required by the law is very poor due to lack of awareness, knowledge and skill of members. Weak control and internal regulation as well as poor participation of members in the operation of their societies are the main reasons of the poor implementation of the law as agreed at the FGD. This aggravates the losses of properties and corruption since external interferences and fraud mentioned earlier use this as good opportunities. Therefore, lack of competency and agency problem are the main problems observed among MC members of many societies.



### ***3.4.1.3. Effectiveness of CCs in Discharging their Controlling Role***

The law also imposes an obligation on cooperative societies to have a CC which is accountable to the GA and the number of which should be specified in the by-laws.<sup>68</sup> This committee is given the mandates and duties to: follow up closely whether the MC is carrying out its responsibilities imposed by the law and the by-laws properly or not, to control the property and funds of the society to make them properly utilized in conformity with the objectives of the society and to regulate various activities to be implemented pursuant to the by-laws and internal regulations as described earlier under 3.1.8.

It is not controversial that other members of the societies cannot control these funds, properties and various activities much closer than the CC. The CC is the closet organ to control such matter acting as an agent of GA. If it does not discharge its purpose strongly and actively, it is clear that these societies will be left without an internal regulation. Therefore, having strong and active CC equipped with sufficient knowledge and skill is the backbone for every society especially in situations where the external government regulation is poor and weak.

Taking this into consideration, the researcher made these issues a topic of discussion in the FGD. The number of members of CCs is determined to be three in the by-laws. It is confirmed by the FGD that all societies have established CCs having the required number of members. But what is confirmed on the contrary is that the CCs are not practically discharging their controlling role depending on their mandates and duties provided in the law almost in all cooperative societies. The CC members are far from controlling the funds, properties and various activities of the societies just like ordinary members of the societies. However, they should have discharged these responsibilities actively and closely by full dedication as provided in the cooperative proclamation, regulations, directives as well as in the by-laws.

They are inactive because of their unwillingness to discharge their responsibilities due to fear of conflict with those individuals who do not carry out their duties properly and cause loss of properties and fund of the society and lack of awareness, knowledge and skill to discharge their responsibilities as required as the experts argued. This indicates that the CCs of almost all

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<sup>68</sup> Supra note 4, art.25(1)

corporative are completely ineffective and nonfunctional to play their controlling role. Their establishment practically is only nominal as they are not really in to their obligations.

The ineffectiveness of this organ in exercising its powers and discharging its duties has aggravated and complicated the problems of corporate governance of most cooperative societies in Jimma zone and has resulted the loss of properties and funds; and exposed them to corruption and agency problem posing additional problem to those created in the MCs and GAs as discussed earlier.

Thus, it can be summarized that the enforcement of internal governance system is very poor and weak in cooperative societies operating in jimma zone due to the shortcomings in the internal management bodies. The main flaws usually observed on the side of GA are failure to closely evaluate the activities of the societies and pass necessary decisions as well as taking measures to nurture the strong sides and discourage the unnecessary ones, approve and amend the by-laws and internal regulations which foster strong internal governance system by eliminating the maladministration which causes loss of properties and funds, corruption, agency problem and relevant internal conflicts.

Limitations of independently electing the members of MC and CC due to external interference by local authorities and dismissing them when necessary based on their performance and ethics, hearing audit and work reports regularly and giving appropriate decision and deciding any issue submitted by CC timely are the other problems. These all shortcomings occur due to the poor awareness and knowledge of members as well as lack of sufficient training and education before and after the establishment of the societies.

The other limitations are those which are observed on the sides of MCs and CCs. The major weakness of MCs are failure to: use and maintain lawful documents and books of accounts of the society, properly record debts and credits, identify lawful expenses, work their activities based on their job descriptions without unlawfully interfering in one another and serve the society genuinely having good ethics while that of the CCs is completely being inactive and nonfunctional to dispose their responsibilities which are the key activities for the success and existence of the societies.

### **3.4.2. Enforcement of External Governance System and the Defects**

As discussed under 3.3.1 and 3.4, there is an external governance system of cooperative societies, which is made by the government to foster their role in socio economic development of citizens and the country. The law accordingly establishes an agency named Cooperative Promotion Agency having different internal structures with the required qualifications of manpower, which enables it to achieve its vision by accomplishing its mission.<sup>69</sup> There are specific departments in the agency, which are directly devoted to the external governance of the societies. These are the inspection department, the audit department and the legal service department. As it can be observed from the federal cooperative society's proclamation and their job description, these departments are directly involved and dedicated in the external governance of the societies.

ONRS has also established its own institution named Oromia Cooperative Promotion Agency (OCPA), for the same purpose, which is expanding cooperative societies in the region to solve the socio economic problem of the members and the region in general. Its mandates are inspecting and auditing the societies as well as taking or making legal actions to be taken based on the findings of the audit and inspection. To what extent this mandate is properly enforced to protect the interest of members by avoiding mal administrations which may open a door for loss of properties and funds, corruption and agency problem in the societies in Jimma zone is part of the question to be answered by this study. Accordingly, detail and broad discussion was made on these issues to identify the implementation of these mandates and its limitations observed with the experts involved in the FGD.

#### **3.4.2.1. Enforcement of cooperative inspection and its limitations**

Inspection is an evaluation of an institution's general activity, performance and process of performance in terms of time, quality, cost, implementation of plan, coverage and other measurements set by the institution.<sup>70</sup> It is a mechanism by which every activity of an organization is controlled in every aspect based on the objective, rules and regulations to be

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<sup>69</sup> Supra note 4, art.2(7), Supra note 9, art.2(4)

<sup>70</sup> FCA Cooperative Inspection Manual, art.2(1)

followed by the organization. It does not only measure the performance but it is also concerned with the process of performances, which leads the organization to success or failure.

Likewise cooperative inspection is defined as evaluating cooperative societies in an organized or lawful manner based on the pre- set standards including performance and comparison of general behaviors.<sup>71</sup> This is evaluating the organization, management and performance of the societies relative to standards and confirming whether their performance meets the standards or not. The purpose of the inspection is to enhance cooperative societies by evaluating their organization, management and performance to enable them to meet their objective by working as per cooperative proclamations, regulations, directives and the by-laws.

The main activities to be inspected by cooperative inspection are organization and registration of cooperative societies, their management and performance, the implementation of audit and inspection finding reports as well as dispute settlements and their outcome.<sup>72</sup> These activities are required to be inspected in a very detail and exhaustive manner.

Under the inspection of internal management of cooperative societies, there are many activities to be inspected. These are confirming that: the societies have annual work plan and budget approved by GA, the societies are working based on the approved annual work plan and budget, GA meetings are conducted in accordance with the law and the minutes of the meetings are maintained and signed properly, decisions are passed by the required number of GA members in accordance with the law<sup>73</sup>.

The second issues to be inspected under the inspection of internal management of societies are concerned with MC. These are confirming that: the GA elects the MC, the term of office of the MC has complied with as the proclamation, the MC is controlled in accordance with the law, it is working complying with its delegated power given in the by-law, and it conducts meetings maintaining minutes and passes decisions by majority vote.

The third issues of inspection are related with CC. These are confirming that: CC is established as required by the proclamation, the term of office of the CC is limited complying with the law,

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<sup>71</sup>FCA Cooperative Inspection Directive No. 16/2002, art.4

<sup>72</sup> Ibid, art.6

<sup>73</sup> Id, arts.9-12

it conducts meetings maintaining minutes as required in the by-law, it contained the required member as determined in the by-law, and it is functioning as its powers duties and submitting reports to the GA in order to make decisions passed based on the report.

Similarly, under the inspection of performance of cooperative societies, there are several matters to be inspected deeply and strictly.<sup>74</sup> Inspecting books of accounts with financial performance and property management and administration is part of the inspection.

Under the inspection of books of accounts and financial performance, the matters to be inspected are confirming that: the society has accounting directive and the financial activity is complying with the directive, they have necessary books of accounting and documents, debit and credit accounts are recorded properly and accounting documents are approved by appropriate organ having the mandate and maintained.

The property management and administration inspection is devoted to confirming that: whether the society has directive for property administration or not, a property obtained by any means is registered and inventory is made at least once in a year.

The inspection of the implementation of audit and inspection reports is to assure that: the audit report is submitted to GA and approved; the recommendations made by the audit and inspection reports are implemented.

#### ***3.4.2.2. Measures to be taken against the faults found by inspection***

The measures to be taken on the faults found by inspection vary based on the kind of fault committed in the society.<sup>75</sup> To put only few of them, which are very relevant to the problems under the study, a society which does not conduct GA meeting shall be given a warning letter to adjust itself within a year. Failure of a society to adjust itself causes suspension, which also causes cancellation of registration if removal of suspension is not requested within a month. An MC not elected by GA will be cancelled and warning letter shall be given to elect another committee. If it fails to do this, suspension follows which cause cancellation of registration if removal of the suspension is not requested within a month. Violating the term of office of MC

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<sup>74</sup> Supra note 70, arts. 13-17

<sup>75</sup> Ibid, art.24

and failure of MC and CC to discharge their responsibilities shall also cause similar measure to be followed. Almost similar actions shall be taken on the societies, which do not have directive for accounting, and on those, which do not comply with their directive of accounting. Having discussed this much about activities of cooperative societies to be inspected and the measures to be taken, the next issue is to what extent this inspection is enforced in societies operating in Jimma zone.

The importance of cooperative inspection is to make cooperative societies assure that the members are benefited by working strictly based on the cooperative laws and regulations enacted by the state and those made by the cooperatives themselves.<sup>76</sup> This can be achieved only if the inspection is made strictly and strongly as required by the laws and regulations of cooperative inspection. As indicated in the inspection manual, the inspection to be done on each issue is very detail and exhaustive. Specially the inspection required on the cooperative management organs, property management and administration and accounting with its performance is very broad and crucial to protect loss of properties and fund, corruption and internal disputes, which may result from maladministration of the societies. One of the core responsibilities of CPAs at all levels is delivering strong and detail inspection service for the societies they stand for.

Unless this kind of inspection service is made with great commitment and high quality, it is uncontroversial that the societies will be exposed to many problems especially weak internal regulation, corruption, agency problem and maladministration of resources. Therefore, strong inspection is very decisive for cooperatives to achieve their goal for which they are established.

Taking this into consideration, the researcher made a discussion in the FGD regarding the strength and quality of inspection made to cooperatives existing in the districts of Jimma zone relative to the laws and regulations as well as inspection manuals. What is obtained from the discussion is that the inspection being made is very weak, less frequent and shallow which focuses only on debit and credit accounts of the societies. Only very few cooperatives get such inspection while most of them are left without such inspection for years. The inspection being made is mostly devoted in counting the number of the societies neglecting their organization,

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<sup>76</sup> Supra note 70, art.2.2

work execution, documents and financial conditions. This kind of inspection itself has begun recently as there were no inspectors employed in the districts few years ago.

The main factors, which cause such poor and weak inspection, are lack of the required man power in CPAs at both district and zone level, scarcity of budget for inspection, less attention and low commitment given to inspection. The human resource structure for inspection is two inspectors at district CPAs and three inspectors at Zone CPA.

However, the current manpower employed at district CPAs and zone CPA is only 32.43 percent of the required manpower as the data obtained from human resource department of Jimma zone CPA indicates. According to the structure, there should have been 34 inspectors for the seventeen districts of the zone. But only nine of them have employed inspectors. Among these nine districts, only two districts have filled the required structure of manpower for inspection, which is two inspectors for CPAs at district level while the rest seven have employed only half of the needed number of inspectors.

The rest eight districts of the zone have not yet employed inspectors in their CPAs. This implies that they are not delivering the inspection service for the societies operating in the districts. Even those districts which have employed inspectors, do not make the inspectors to fully devoted to their inspection duties. Rather, they use these inspectors for ordinary administrative field works giving less emphasis to their inspection role. Likewise, there is only one inspector while three inspectors are required at zone level. Having this status of manpower for inspection, CPAs in Jimma zone could not deliver strong and detail inspection for cooperative societies for which they are established for as required by the law and the regulations. This made poor enforcement of inspection as ordered by the proclamation, regulation and directive.

However, as indicated in the 2008 annual report of Jimma zone CPA, some of the identified faults of the inspected cooperatives are: working without an approved annual work plan by GA, failure to present audit reports to GA, weak audit, weak property management and administration, poor quality of purchased materials, providing loans without necessary documents and evidences, and weakness of management bodies, GA, MC & CC, in discharging their responsibility as required by the law. The other defect is failure to take appropriate measures based on inspection reports and findings as the law and regulation as well as the

directive require. The lack of this strong, quality and comprehensive inspection has caused corruption, loss of properties and funds, internal disputes and other related agency problems in many societies as the FGD confirmed.

### ***3.4.2.3. Enforcement of cooperative audit and its limitations***

Cooperative audit is offering audit recommendation by examining financial declaration of the cooperative society based on the national and international cooperative laws and conventions following internationally accepted audit standards by auditors having professional knowledge being free from any influence.<sup>77</sup> The objectives of this audit are: confirming that the society has supplied reliable financial declaration and working based on its lawful structure, displaying significant errors which may cause significant change on the financial declaration of the society and significant deceptions, indicating weak performance regulations, identifying the weakness of performance of individuals, providing recommendation for the improvement of the performance of the societies and confirming that the societies are working based on the cooperative law. The audit includes management, financial and material management audits.<sup>78</sup>

Any organization has to utilize its resource properly. This has to be applied in special condition in cooperative societies. The reason is that the primary activities of the societies are not to get profit. They are to satisfy the demand of their members with limited source of income. Cooperative audit confirms that cooperative societies be successful institutionally by utilizing this limited resource properly.

#### ***3.4.2.3.1. Scope of cooperative audit***

Governments support cooperative societies financially, technically, by law or in other aspects by making policy by which cooperatives are led without affecting their independence. Similarly as discussed under 3.3.1.2, one of the supports of the government made to cooperative societies in Ethiopia is cooperative audit . Controlling and collaboration supports are made for the societies by enacting appropriate laws to enforce the policy and by providing trainings. Based on this

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<sup>77</sup> FCA Cooperative Audit Manual, arts. 1.3.1 & 1.3.2

<sup>78</sup> FCA Cooperative Audit Directive No.13/2001, art.14



cooperative auditors carry out two activities. These are confirming that the societies are working following the law and making control.<sup>79</sup>

Regarding the scope of cooperative audit, the audit is made on any type of cooperative society whether it is production or service rendering or both regardless of the level of the society.<sup>80</sup> Thus, CPAs at all levels are given power and duty to audit or cause to be audited by a person assigned by them, the account of any society at least once in a year.<sup>81</sup> This audit shall include the examination and verification of overdue debts, if any, and cash balance, securities, assets, and liabilities as stated in the cooperative proclamation.

As indicated in the cooperative audit manual, a cooperative auditor observes the general activities of the societies giving emphasis on performing the following activities. These are examining the account document and the process of account control, confirming the validity of finance declaration prepared by the management of the cooperative society comparing with supportive finance documents and account registration, identifying the asset and debt listed in the account chart, confirming that there is no clear difference in the finance declaration comparing with the current and previous years and other similar type of societies, examining documents out of account registration such as minutes and the like, discussing the general activities of the society with management or board members, confirming that the society has carried out its activity based on cooperative law, proclamation, regulation, directive and by-law and obtaining written confirmation for each idea for the question he/she asks during the examination from the management.

The auditor has to follow ethical principles, which are independence, reliability, impartiality, confidentiality and professional competence while he/she discharges his/her responsibility. He/she has the right to see the records, minutes, account information, income and debt vouchers and other supportive documents of the society to be audited. He/she can see and confirm any information, which helps him/her to conduct the audit such as agreements and account code minutes. He/she has also civil and criminal liability for his/her failure to carry out the audit

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<sup>79</sup> Supra note 78, art.1.5

<sup>80</sup> Supra note 78, art.1.5

<sup>81</sup> Supra note 4, art.36

properly.<sup>82</sup> Having discussed the purpose, process and activities of cooperative audit to this extent, the researcher made discussion in the FGD on the enforcement of this cooperative audit by CPAs in Jimma zone in comparison with the cooperative proclamation, directive and the audit manual as well as the limitations and challenges faced in the enforcement.

The information obtained from the FGD reveals that the enforcement of cooperative audit made by CPAs at both district and zone level of Jimma zone is very weak, poor and usually frustrated by different challenges. Even though it is mandatory to audit each society at least once in a year, this could not be implemented effectively as the societies fail to perform their activities strictly based on the cooperative law, regulation, directive, by-law and accounting principles using mandatory financial documents.

As they do not have professional and skilled accountants, the transactions of most cooperatives are not being properly registered within the appropriate time as stated in accounting directive No.006. The transactions are left unregistered for two up to four years making the audit impossible, as the audit cannot be made without this evidence. This happens because the inspection and control made is very weak and less frequent in making the societies to follow the necessary accounting principles and use mandatory financial documents in their financial performance and activities based on the directive.

In the absence of this and other comfortable conditions, it is very difficult to audit all the societies once in a year. The participants of the FGD argued that even half of the societies are not being audited properly once in a year as required by the law. Most of them are being left without being audited for two and above consecutive years.

The other limitations of enforcement of cooperative audit are related with the lack of sufficient manpower at CPAs of districts and zone level. Most of the CPAs at district level began the audit recently starting from the past two and three years as they have not employed cooperative auditors earlier. As a result, auditors of Jimma zone CPA were making the audit on only few societies.

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<sup>82</sup> Supra note 77, art.3.2

The human resource structure of cooperative audit provides three auditors for CPAs at district level and six auditors at zone level. But the human resource department data of Jimma zone CPA shows that, currently only CPAs of five districts (Limu kosa, Omo nada, Chora botor, Mana and Tiro afeta districts) have filled the required number of cooperative auditors which is three auditors for each district. Five of CPAs at districts level (Kersa, Shabe sombo, Gomma, Gera and Setema districts) have filled only two third of the required cooperative auditors which is two auditors for each. The rest of districts have employed only one third of the required man power for cooperative audit that is having only one auditor while the structure needs three auditors. There are only four auditors at zone CPA while six auditors are required.

Generally, the total number of cooperative auditors required at all of the seventeen district CPAs of Jimma zone is fifty-one. But the number of auditors currently available is only thirty-two, which is about sixty-three percent of the required man power for the audit. The availability of full number of the required auditors at CPAs is very decisive for the success of cooperative societies as it leads them toward their goals. Beside this insufficient number of cooperative auditors in CPAs, there are no employed internal auditors by the cooperative societies themselves. With this insufficient man power, the CPAs could not deliver external cooperative audit for the whole societies once in a year as the law makes it mandatory.

As most of the employed cooperative auditors of the CPAs are fresh graduates, the other problem is lack of experience of the auditors to conduct the cooperative audit properly. The cause of this problem is that CPAs at district level employ auditors with zero year experience due to budget constraint for salary. Low emphasis given to cooperative audit among administrative organs at both district and zone level is also another constraint of enforcement of cooperative audit in Jimaa zone. They do not allocate sufficient budget to the audit service. They also make this inadequate number of cooperative auditors to serve other ordinary administrative field works like what is done in the case of inspection neglecting the purpose for which they are employed.

The other challenge of cooperative audit is deviation from ethical requirement of cooperative auditors. The legal officers of CPAs participated at the FGD strongly argues that some cooperative auditors create an obstacle violating their professional ethics by refusing to submit

the audit report to the GA within appropriate time that is within a month after the audit is made.<sup>83</sup> Changing the actual findings of the audit and making it not accessible to take proper legal and administrative actions based on the report is another ethical problem observed among some cooperative auditors as the FGD shows. They make this challenge to collect unlawful benefit by bargaining with individuals who cause deficits and misappropriate the resources of the societies. The final problem concerning cooperative audit identified by the discussion is lack of implementation of audit recommendations and reports by the societies due to poor commitment and unwillingness of the management bodies of the societies themselves and weak cooperative inspection. These challenges and limitations all together have made the enforcement of cooperative audit very poor and weak. This in turn has usually caused corruption, loss of properties and disputes in cooperative societies as it exposes the societies to agency problem.

### ***3.4.3. Measures taken to combat misappropriation of properties and funds and the challenges***

The cooperative proclamation states that where a person who has been given a responsibility to manage a society or who has been an officer or an employee of a society has been found to have: made any payment contrary to the proclamation, regulation or by-laws; caused any damages to the assets of a society or misappropriated the properties of a society by breach of trust or willfully or negligently, a report should be made to MC or GA or an appropriate authority by cooperative inspector or auditor.<sup>84</sup> Then the authority who receives the report shall take the appropriate legal measure after giving the person concerned an opportunity to defend him/herself within fifteen days and if the person has been found responsible for the misappropriation of the fund or the property of the society and not willing to return or pay the same with interest including compensation.

However, the measures which CPAs can directly take without lawful delegation by a society, are those, which are based on the inspection report.<sup>85</sup> The other legal measures based on the audit report are taken by the societies themselves in accordance with the dispute settlement systems

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<sup>83</sup> Supra note 78, art.16

<sup>84</sup> Supra note 4, art.39

<sup>85</sup> Supra note 71, arts.23&24

and procedures set by the cooperative proclamation and the directive.<sup>86</sup> In order to make cooperative societies settle their disputes saving the time and cost needed in court litigation process, a society shall settle its dispute regarding the organization, management or operation which arise between: members, members and any officer, agent or employee, members and MC; and the society and any other society, through conciliation and arbitration process.<sup>87</sup> When they fail to settle the dispute by conciliation, they shall be referred to arbitration. However, the arbitration is made when the parties agree to settle their dispute by arbitration and submit their case to be bound by the decision.<sup>88</sup> Appeals on the decisions given by the arbitrators may be instituted at federal or state high court where the society is situated.

The arbitrators shall have the same power with regard to the cases as a civil court for summoning of witness, production of evidence, the issuing of orders or taking of any legal measure. Hearing and litigation in the arbitration is done according to the civil procedure law.<sup>89</sup> Any decision, order or award made on the cases by the arbitration shall be taken as though made by a civil court, and where appropriate, the court shall have jurisdiction to order the enforcement of any such decision, order or award.<sup>90</sup> CPAs are also given the mandate to submit such decision to appropriate court for execution.<sup>91</sup> They are also authorized to inspect the process and the result of dispute settlement.<sup>92</sup> Having highlighted the process and procedure of dispute settlement, the next discussion will focus on how much actions are being taken using alternative dispute resolution or court process on disputes arising from losses and misappropriation of properties and funds of cooperative societies and the challenges faced in the process.

The alternative dispute settlement mechanism set for cooperative societies as it is preferable and cost effective as it saves time and expenses needed in court litigation system. It also maintains good relationships among disputing parties and members of a society as it follows win-win

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<sup>86</sup> Supra note 4, arts. 46-52, see also FCA Directive No.12/2001 for Settlement of Disputes in Cooperative Societies by Arbitration & Conciliation.

<sup>87</sup> Supra note 86

<sup>88</sup> FCA Directive No.12/2001 for Settlement of Disputes in Cooperative Societies by Arbitration & Conciliation, art.18(1)

<sup>89</sup> Ibid, art.22(1)

<sup>90</sup> Supra note 4, art.51

<sup>91</sup> Supra note 88, art.24(2)

<sup>92</sup> Supra note 71, art.6(5)

principle. However, the information acquired from the FGD confirms that this mechanism is not effective in the societies, since it is not being utilized properly. Cooperative societies are almost not using conciliation and arbitration to return their lost and misappropriated properties and funds as the members do not initiate the process and prefer to be passive and silent even if they knew the fact. They do this to avoid conflict personally with those individuals who misappropriate and cause loss of properties and funds of the societies due to agency problem.

There are also other various reasons, which make conciliation and arbitration less effective in returning the lost and misappropriated properties and funds of the societies. Even if the conciliation and arbitration processes are rarely initiated for this purpose, the parties at dispute, conciliators and arbitrators do not have adequate skills and awareness on the process and importance of the dispute settlement system. Due to this reason, those individuals who misappropriate and cause loss of properties and funds of the societies are not willing to submit their case to conciliation and arbitration. When parties reach consensus and submit their case to arbitration, the arbitrators do not dare to decide on the issue and make the case to delay and leave without rendering decision. On the other side, those who misappropriate and cause loss of properties and funds of the societies exert different pressures using different informal systems and chains to stop the initiation of conciliation and arbitration, interrupt the process or affect the decision to be made as much as they can. Therefore, action being taken against losses and misappropriation of property and funds through alternative dispute resolution system are rare and less effective due to these and other related challenges and limitations as confirmed by the FGD.

Since conciliation and arbitration are not being used effectively, disputes, which arise from losses and misappropriation of properties and funds of the societies, are usually taken to courts. Even though the chairpersons of MCs are authorized to sue and be sued representing the societies by the by-laws, they are not usually taking legal actions before courts to make the lost and misappropriated properties and funds returned to the societies by suing those individuals who cause the losses and misappropriations due to lack of knowledge, skill, initiation, commitment and willingness to take such actions as argued by the legal officers of CPAs participated at the FGD.

As a result, societies delegate legal officers of CPAs to institute such cases to courts. This itself has also been begun recently like inspection and audit service as the CPAs of districts employed legal officers recently. Currently only seven CPAs of districts of Jimma zone and CPA at zone level have employed legal officers while the rest ten CPAs of districts have not yet employed these officers. The human resource structure for legal officers is one officer for both CPAs at zone and district level.

In addition to providing legal advices to cooperative societies, these legal officers are playing significant role in bringing legal action before courts for the losses and misappropriation of the properties and funds of the societies taking lawful delegation from the societies. As mentioned in the FGD conducted at Gomma district CPA, the legal officer of the CPA has brought many such cases to the wereda court two years ago and made decisions to be rendered for all of the cases successfully even though many challenges have been occurred.

Similarly, other CPAs at district level, which have legal officers, are also giving this service to support cooperative societies in taking legal actions for the losses and misappropriations of the properties and funds of societies occurring in their districts. CPA of Mana district has made about three hundred thousand birr misappropriated to be returned to the societies within a year in 2008 E.C by bringing legal actions before court.

However, the FGD made at Jimma zone CPA revealed that the legal actions being taken are very few as compared with the properties being lost and misappropriated in societies operating in the zone due to corruption, cheating, weak internal regulation, weak cooperative inspection and audit and maladministration. The same argument is made in the FGD conducted at CPAs of districts as there are several and complicated challenges being faced in taking the legal action.

There are many challenges, which hinder the process of taking actions against losses and misappropriations of properties and funds of cooperative societies which take place due to corruption, negligence, weak internal regulations and agency problem. Like in the case of conciliation and arbitration, there are internal and external challenges in taking such cases to courts. The internal challenges are poor initiation and collaboration of societies and their members in the process of taking legal actions even if they delegate legal officers and lack of active participation and willingness in organizing and making accessible necessary evidences.

They need external pressure to collaborate ignoring that the actions being taken are for their own benefit due to lack of awareness and related problems. The external challenges are those related with obstacles made by those individuals who are liable to the losses and misappropriations of the properties directly or indirectly due to their participation in the unlawful benefit and act. They cause challenges to hinder the process of legal actions to be taken by making different systematic and invisible chains and systems with local authorities and other executive organs.

The other challenges are related with the lack of admissible evidence due to the gaps of cooperative audit, inspection and performances violating accounting directives and principles. In some cases, even though audit reports indicated losses and misappropriations of properties and funds, it becomes difficult to obtain written confirmation signed by those individuals who are liable to the act. This situation makes the evidences required to bring legal action insufficient. These evidences are concealed or changed by the individuals who are unlawfully benefited from such act including some cooperative auditors and local authorities as informed at the FGD.

In addition to these problems, lack of seasonal, strong and adequate cooperative audit and inspection has caused lack of admissible evidences to bring such cases before court. As discussed under 3.4.2.1 and 3.4.2.2, cooperative societies in Jimma zone are not being audited and inspected properly as it should have been done according to the cooperative proclamation, regulations, directives, manuals and by-laws. This has created absence of evidences to legal actions against losses and misappropriation of properties and funds of the societies.

The weakness of internal regulation is also another limitation. As discussed under 3.4.1, the management bodies: GAs, MCs and CCs, are not discharging their responsibilities properly. Financial activities are not performed strictly following basic accounting principles using lawful financial documents and evidences due to lack of skilled and professional accountants. The MC members particularly those who serve being managers, cashers and store keepers do not respect their job descriptions given in the by-laws and interfere in one another without delegating each other lawfully. This causes difficulty in identifying the MC members who misappropriate and cause losses of properties and lack of evidence to make them liable. These all problems make things complicated to obtain necessary evidences for legal actions to be taken before courts. Therefore, even though the legal officers of CPAs of Jimma zone are striving to take legal



actions against losses and misappropriations of properties and funds and providing legal advices, the challenges mentioned above have made the actions being taken insufficient as compared to the cases happening. This situation has also increased a room for agency problem.

### **3.5. Causes of Losses of Properties and Internal Disputes in Cooperative Societies**

One of the main causes of losses of properties and funds of cooperative societies in Jimma zone as informed at the FGD made with the participant experts is lack of essential skills and awareness of MC members to discharge their responsibilities. Since most of the societies are being operated by the MC members who act as managers, cashiers and storekeepers and whose level of education is not above primary education, they are not capable to discharge their responsibilities as per their job descriptions, rules and regulations set by the law and by-laws. As a result, they usually make payments and withdraw properties contrary to these rules and regulations. They do not properly register their daily transactions using the necessary financial documents. They do not make bank reconciliations regularly within an appropriate time intervals. They also act without their job description and often times it is observed that the managers act as a cashiers and storekeepers. Due to these and other related problems, they are easily deceived, cheated and cause damages to the assets of the societies for which they become liable at the end of the day. The participants of the FGD argued that much of the losses occurring are due to these reasons and innocent individuals are made to pay such losses without causing them intentionally.

The other cause of losses of assets of societies is misappropriating the assets by breach of trust or willfully using the weak internal and external regulations as a good opportunity. This emanates from agency problem. As discussed earlier, the internal regulation made by CCs is almost none. The cooperative audits and inspections done by CPAs are also weak and inadequate. The participation of members in controlling and managing their societies through GA meetings is also weak and insufficient. The MC particularly the chairpersons who act as a managers in the societies which do not have professional employed manager are given a mandate to conclude contractual agreements representing the society without any restriction and transparency requirement by the by-laws. Using these gaps as good opportunities some MC members acting as managers, cashiers or storekeepers cause damages to the assets and misappropriate them by

breach of trust and willfully forming different chains of corruption with external organs such as local authorities and law enforcing government organs to escape from their civil and criminal liabilities and hinder the legal actions to be taken against them.

The deceptions happening are not limited to the properties in the hands of MC members but also extend to withdrawal of money from the bank accounts of the societies. What happened in Gomma district recently is a tangible evidence for this problem as the legal officer of the CPA of the district argued at the FGD. When CPAs write supportive letters to a bank for MC members to withdraw money required for the activities of the society, money is being withdrawn twice by increasing the amount ordered by tens of thousands with the same letter by changing the date of the letters cancelling it with hand writings and fraud checks which could have been identified by a banker easily without further investigation. As the researcher observed from the argument and copies of such fraudulent documents, the cheating cannot be done by the MC members alone without the involvement external individuals who know such criminal techniques and without collaborations of bankers. There is a pending case at Jimma zone high court from Gomma district currently on this act as confirmed from the legal officer.

In order to see some practical cases related with agency problem and causes of losses of properties and internal disputes in cooperative societies, the researcher has collected few court decisions on the issues as indicated in the table below and analyzed it as follows.

<b>N o</b>	<b>Case No. &amp; type</b>	<b>court &amp; year of rendition</b>	<b>plaintiff</b>	<b>defendant</b>	<b>Dispute</b>	<b>Judgement debtor</b>
1	MMAG O-3121 (civil)	Gomma WC In 2008	Ilu buna cooperati ve society	Mohamed A/zinab (MC member & cashier)	Deficit and Misappropriation of <b>10,203.21birr</b> obtained by audit deficit	Defendant to pay <b>6,203.21birr</b> misappropriated & 700birr

						cost
2	26642 (civil)	Gomma WC In 2006	Chedaro suse cooperati ve society	Kemal A/samba <b>(MC member)</b>	Deficit and Misappropriation of <b>3527.50 birr</b> obtained by audit deficit	Defendant to pay <b>3527.50 birr</b> misappropriated & 300birr cost
3	26462 (civil)	Gomma WC In 2007	“	Jihad A/bulgu <b>(MC member &amp; casher)</b>	Deficit and Misappropriation of <b>11,356.47birr</b> obtained by audit deficit	Defendant to pay <b>356.47 birr</b> misappropriated
4	26464 (civil)	Gomma WC In 2006	“	A/jihad A/mecha <b>(MC member &amp; casher)</b>	Deficit and Misappropriation of <b>2639.86birr</b> obtained by audit deficit	Defendant to pay <b>2639.86birr</b> misappropriated
5	26466 (civil)	“	“	Husen A/milki <b>(MC member)</b>	Deficit and Misappropriation of <b>2347.50birr</b> obtained by audit deficit	Defendant to pay <b>2347.50birr</b> misappropriated
6	08109 (civil)	Gumay WC in 2005	Agayo haro sana cooperati ve society	Jihad A/bor <b>(MC member)</b>	Deficit and Misappropriation of <b>5592.50birr</b> obtained by audit deficit	Defendant to pay <b>5592.50 birr</b> misappropriated with legal interest 531.25birr

7	08082 (civil)	Gumay WC in 2005	Agayo haro sana cooperative society	Nuru A/milki (MC member )	Deficit and Misappropriation of <b>2941.44birr</b> obtained by audit deficit	Defendant to pay <b>2941.44 birr</b> misappropriated with legal interest 279.50 and 200birr cost
8	08080 (civil)	“	“	Milki A/gidi (MC member )	Deficit and Misappropriation of <b>2000 birr</b> obtained by audit deficit	Defendant to pay <b>2000 birr</b> misappropriated with legal interest 190 and 200birr cost
9	34651 (civil) (from Mana wereda)	Jimma zone High court(HC) in 2008 (from Mana wereda)	Aneso lemi general agriculture cooperative society	Amin A/fita (MC member & cashier)	Deficit and Misappropriation of <b>59,920.68birr</b> obtained by audit deficit	Defendant to pay <b>59,920.68 birr</b> misappropriated
10	34401 (civil)	“	“	Zakir Gidi (MC member & storekeeper)	Misappropriation of <b>2,622kg coffee</b> estimated money value of <b>130,714.4birr</b> , and <b>109.5 kuntal fertilizer</b> estimated money value of <b>49,096.5birr</b> totally	Defendant to pay <b>179,810.93 birr</b> misappropriated and 500birr cost

					<b>179,810.93birr</b> obtained by audit deficit	
11	010474 (civil)	Sokoru WC in 2007	Bore general agriculture cooperative society	A/faji A/fogi <b>(MC member &amp; storekeeper)</b>	Deficit and Misappropriation of <b>22,059.15 birr</b> obtained by audit deficit	Defendant to pay <b>22,059.15 birr</b> misappropriated and 300birr cost
12	30879 (criminal) (from Dedo wereda)	Jimma zone HC In 2007	Jimma zone public prosecutor	1.Tesfaye Mamo <b>(MC member &amp; storekeeper)</b> 2.Jihad A/mecha <b>(MC member &amp; cashier)</b> in Waro kolobo cooperative society	-the first defendant (Misappropriation of <b>2,139 kuntal fertilizer</b> estimated money value of <b>199,222.195birr</b> -the second defendant Deficit and misappropriation of <b>29,606.8birr</b> obtained by audit deficit	- the first defendant <b>three &amp; half years rigorous imprisonment</b> -the second <b>one &amp; half years rigorous imprisonment</b>
13	28862 (civil) from Gumay wereda	Jimma zone HC In 2006	Biftu bore cooperative society	Ismael Hasen <b>(MC member &amp; cashier)</b>	Deficit and Misappropriation of <b>64,166.81 birr</b> obtained by audit deficit	The defendant <b>set free</b> due to lack of satisfactory evidence
14	29107 (civil)	“	Chedero cooperative society	Husen A/fita <b>(MC member &amp; cashier)</b>	Deficit and Misappropriation of <b>54,825.85 birr</b> obtained by audit deficit	Defendant to pay <b>54,825.85 birr</b> misappropriated with legal

						interest
15	29236 (civil)	Jimma zone HC In 2006	Goga kemise cooperati ve society	Mahamed Sh/Ahmed (store keeper)	Deficit and Misappropriation of coffee estimated money value of <b>170,230.59 birr</b> obtained by audit deficit	The defendant <b>set free</b> due to lack of satisfactory evidence
16	29752 (civil)	Jimma zone HC In 2007	Bikiltu anja cooperati ve society	A/oli A/gisa (MC member & cashier)	Deficit and Misappropriation of <b>82,856.29 birr</b> obtained by audit deficit	Defendant to pay <b>64,356.29 birr</b> misappropriate d
17	31134	“	Choche cooperati ve society	Kemal Haji (MC member & cashier)	Deficit and Misappropriation of <b>130,725.14 birr</b> obtained by audit deficit	Defendant to pay <b>130,725.14 birr</b> misappropriate d
18	36479	Jimma zone HC In 2009	Jimma zone public prosecuto r	Haji Kemeru A/Nono (manager, MC member, cashier and store keeper)	Deficit & misappropriation of 92 kuntal fertilizer estimated mone value of <b>278,678.10 birr</b> obtained by audit deficit	The defendant <b>set free</b> due to lack of satisfactory evidence and poor management

*Table1. Prepared by the researcher*

As indicated in the above table, the losses of properties and cash deficits are identified by audit, which is used as evidence in all of the cases decided by the courts. All of the cases have happened in primary agricultural cooperatives which are being run by MC members as they have no professional employees. The cases have occurred repeatedly within a society up to three times within a year (2005 E.C) at Gumay district by different MC members. Similarly, among five

cases collected from Gomma district CPA, three cases have occurred in a society in 2006 E.C. by different MC members at Gomma district. Another case has occurred in the same society in 2007 E.C. by other member. Two cases have also happened in 2008 E.C. within a society at Manna district by MC members who served as a cashier and store keeper . These repetitions of deficit and misappropriation of money within a society in a year indicates that the internal and external regulations being made are weak. It also indicates that there is no administrative remedy being taken to avoid the problems such as improving the regulation mechanism by both the societies themselves and the CPAs of the districts in which such cases are happening. The frequency of the offences being committed shows that attention given for corporate governance issues of cooperative societies is very weak. It also indicates that there is a wide opportunity for agency problem.

The members of the societies who were functioning being MC members caused the cash deficits and the losses of properties. Among the fifteen MC members, accused of causing cash deficits, nine (60%) of them are MC members who served their societies are cashers. The rest six (40%) of them are ordinary MC members who were neither cashers nor storekeepers. There are four storekeepers accused of causing losses of properties of the societies under their control.

There are no chairpersons of MC members accused of such cases. This can be due to the fact that the challenges to take the legal actions against them when they make corruption and cause losses of properties of the societies forming informal relationship with local authorities and other organs who enforce the cooperative law during and after their election are difficult as argued at the FGD.

There is no hired manager or other employee who is accused of such cases in the collected cases. This strengthens the argument raised at the FGD that MC members commit corruption and losses of properties of cooperative societies either by deception or due to lack of essential skills in managing the properties and discharge their duties effectively.

### **3.6. Initiation to Improve Corporate Governance of Cooperative Societies**

As stated under chapter three, The Federal Democratic Republic of Ethiopia has proclaimed new cooperative societies proclamation( proclamation No.985/2016) to replace the existing cooperative societies proclamation. The proclamation shall enter into force on the date of its

publication in the Federal Negarit Gazette and not published yet. Based on this, the researcher has assessed the initiation provided in the proclamation to improve the corporate governance of cooperative societies as follows.

The proclamation states that, “it is necessary to establish and strengthen cooperative societies are directed and managed by members and also ensure their rights, owners and benefit of them.”<sup>93</sup> This is a new idea as it has not been stated in the preamble of the existing proclamation. As identified in this study, the challenges and constraints as well as agency problems in the corporate governance of cooperative societies of Jimma zone emanate from weaknesses of the societies as they are not well directed and managed by members to ensure their rights, ownership and benefit. Therefore this is a tremendous initiation as the proclamation shall apply to cooperative societies established in the country.<sup>94</sup>

There are also some improvements in the corporate governance system of cooperative societies provided by the new proclamation. In the existing proclamation, the GA has to meet at least once in a year. But it has to meet at least twice in a year.<sup>95</sup> If this is effectively implemented, it improves the governance of the societies to some extent. The other progress is that any cooperative society shall have professional workers accountable to the manager and perform day-to-day activities of the society according to the new proclamation.<sup>96</sup> It is not mandatory to employ professional workers in the existing proclamation. The proper enforcement of this obligation of cooperative societies will improve their corporate governance problems related to lack of skills.

It is also stated in the new proclamation that any cooperative society shall have an MC which are loyal and respectful and also can overcome their responsibilities.<sup>97</sup> As observed in this study, lack of loyalty and skill is the main problem of MC in discharging their responsibilities. Therefore, having loyal and skillful MCs improves the corporate governance of cooperative

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<sup>93</sup> Federal Negarit Gazette of Federal Democratic Republic of Ethiopia, Cooperative Societies Proclamation No.985/2016, preamble para four.

<sup>94</sup> Ibid, art.3

<sup>95</sup> Supra note 93, art.33(1)

<sup>96</sup> Ibid, art.39(4)

<sup>97</sup> Id, art.34(1)



societies. But this should be realized by providing the details to establish such MC in the regulation. The other new provision provided in the proclamation is regarding auditors` ethics. It states that any audit report result produced by an auditor shall represent the right status of the cooperative society.<sup>98</sup> It also makes liable an auditor who produce a report which does not represent the right status of the cooperative society.<sup>99</sup> As pointed out in this study, manipulation of audit report due to ethical problem of auditors is one of the problems in the corporate governance of cooperative societies. Hence, this provision is significant to solve this problem somehow.

However, the proclamation has not made a change on the structure, powers & duties of management bodies and governance system of cooperative societies. It has also not addressed agency problems in a better way than the existing proclamation. Any how the above progresses have their own significant role in improving corporate governance of cooperative societies if they are supported by regulations and directives and well enforced.

## **Chapter Four: Conclusion and Recommendations**

### **4.1. Conclusion**

The evidences obtained by this study reveals that the corporate governance of cooperative societies in Jimma zone is very poor and weak due to the weak enforcement of internal and external governance system of cooperative law. The enforcement of internal governance system is very loose as the management bodies do not exercise their powers and do not discharge their duties properly and effectively as provided in the cooperative proclamation, regulations, directives and by-laws.

The members of the cooperative societies are not controlling the operations of their societies since they are not actively participating in decision making and do not closely follow up and evaluate the activities of their societies through GAs and CCs. GAs do not conduct their regular

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<sup>98</sup> Id, art.51(1)

<sup>99</sup> Id, art.51(2)

meetings and do not pass necessary decisions evaluating the general activities of their societies. This has left the societies to be run by few MC members alone who act as manager, cashers and storekeeper without having basic and adequate knowledge and skills due to lack of education and trainings.

Besides, the CCs are not functional although formally established. They do not follow up the fact that the MCs are carrying out their responsibilities properly and the funds and properties of the societies are properly utilized. They also do not control the various activities of the societies whether they are carried out pursuant to the laws and internal regulations or not. These shortcomings have made the societies to be left with weak enforcement of internal governance system and regulations set by law. Poor participation of members in controlling their societies, lack of awareness, education and skill to run the societies pursuant to laws and regulations are the internal challenges and constraints to effective corporate governance in Jimma zone. This has exposed the societies to corruption, losses of properties and funds, agency problems and internal disputes between MC members and the society. It has also affected their independence and autonomy by exposing them to unnecessary external interference of individuals seeking unlawful economic benefit using their public power inappropriately.

The poor enforcement of external governance system, which is done by the government through CPAs, is another big challenge to effective corporate governance of cooperative societies in Jimma zone. CPAs at district and zone level are not providing strong and sufficient cooperative audit and inspection due to lack of adequate manpower, budget and emphasis. The accounts of most societies are not strictly audited at least once in a year as the law says. The organization, work execution, documents and financial conditions of the societies are not being frequently inspected in detail covering all societies operating in the zone. The implementation of audit recommendation and inspection report is also weak due to this loose enforcement of internal and external governance system. This is another cause for agency problems, losses of properties and corruption in the societies. The law has also not adequately addressed agency problems as it is not stringent enough to mitigate the vulnerability of members to the opportunism of their MC members, as it has not provided regulatory strategy deploying substantive law, which prohibits them from abusing their power to benefit themselves hurting the interest of the society. However, other laws such as law of agency and by-laws of the societies can be used to fill this gap.

The legal actions being taken against losses and misappropriation of properties are insufficient as challenges arising from the maladministration of the societies cause difficulties. Shortage of admissible evidence, low collaboration of members and the obstacles made by those who are liable for losses and misappropriation of properties are the main identified challenges of taking legal actions against losses and misappropriation of properties of cooperative societies in Jimma zone.

#### **4.2. Recommendations**

Based on the identified defects and limitations of corporate governance of cooperative societies in Jimma zone, the researcher has given the following recommendations.

- The local government, CPAs and other stakeholders have to support and mobilize the members of the societies to actively participate in setting policies and making decisions to effectively control their societies and maintain their independence and autonomy as provided in cooperative principles set in the ICA and Ethiopian cooperative proclamation by promoting the awareness of the members and building their capacity through continuous and intensive education and training to strengthen their internal governance system;
- Strong and frequent inspections and audit have to be made on the societies by giving proper emphasis and building the capacity of CPAs at district and zone level by the required man power and budget to enforce the cooperative law and regulations;
- Technical and legal trainings have to be given to the management bodies particularly for members of MC and CC in order to enable them to exercise their powers and discharge their duties properly. Especially MC members who serve as managers, cashers and store keepers in the societies who do not have professional employees have to be trained on basic accounting skills and property management to manage their finance and properties in accordance with laws and internal regulations.
- The gap of the cooperative law in mitigating the vulnerability of members of the societies to abuse of power by MC members has to be bridged by the by-laws by providing regulatory strategies deploying substantive and procedural laws. Strict legal actions have to be taken against MC members and other external collaborators who commit corruption and misappropriate the

properties of the societies deliberately and intentionally using the skill and information gap of members in managing their finance and properties.

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## **5. Appendix**

### **Focus group discussion semi-structured interview questions**

1. Does the general assembly exercise its powers and discharge its duties as per art.21 of proclamation No.147/1998 and by-laws? What are the challenges and limitations?
2. Are there management committees established as per art 23, exercising their powers and duties as per art.24 of proclamation No.147/1998 and by-laws? What are the challenges and limitations?
3. Are there control committees established as per art 25, exercising their powers and duties as per art.26 of proclamation No.147/1998 and by-laws?
4. Are cooperative societies audited properly as art 36 & 38 of proclamation No.147/1998, the regulations, directives and audit manuals? What are the challenges and limitations?
5. Are cooperative societies inspected properly as art 37 of proclamation No.147/1998, the regulations, directives and inspection manuals? What are the challenges and limitations?
6. What are the causes of internal disputes, corruption and losses of properties and funds usually occurred in the societies?
7. Are actions taken for the losses of property or funds of the society properly as per art 39 of proclamation No.147/1998 and the regulation? What are the challenges and limitations?
8. What do you suggest to improve the corporate governance of the societies?