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**Factors affecting sustainability of Agricultural
Cooperatives: Lessons from Malawi**

**A thesis presented in partial fulfillment of the
requirements for the degree of Master of
AgriCommerce at Massey University, New Zealand**

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ABSTRACT

Incorporation of small-scale farmers into agricultural commercialization has led rural communities to form cooperatives for better access to markets. However, sustainability of these cooperatives has been a great challenge. This thesis explores the sustainability problems affecting agricultural cooperatives in Malawi, and develops testable proposition for use on a larger sample. A multiple case study was used to investigate factors that contribute to the unsuccessful performance of agricultural cooperatives. Four cooperatives were selected by a combination of market failure and a-priori sustainability criteria. Basing on the market failure assumptions two cooperatives, from a district close to the major city of Lilongwe and two from a district far away from the city, were selected. In each district one sustainable and one less sustainable cooperative were selected based on the ranking prepared by Ministry of Agriculture and Food Security. The sample was further validated by the experts from local NGOs. Sixteen face to face interviews were conducted on location. Members of cooperatives, board members, the management of cooperatives and key informants were interviewed.

It was found that most farmers joined cooperatives to improve their livelihood, through better access to capital and product markets, and for family food security. The farmers have managed to obtain input loans at small scale, despite their dissatisfaction with their cooperatives failure to access product markets. The general consensus for the participants in all the four cooperatives was that in their current state these cooperatives are not sustainable. Although, all the members interviewed were satisfied with the idea of having a cooperative and perceived it to be a good idea for addressing their needs, they were skeptical of their survival. The participants highlighted lack of market access, poor governance and a lack of managerial skills as the main problems affecting their cooperatives. These problems are aggravated by the complexity of the market environment in which these cooperatives are operating, that underscores the significance of the managerial capabilities and the cooperatives capacities. The study indicated that Malawian agricultural cooperatives are essential but still need a lot more support in the area of produce marketing.

These findings draws propositions in relation to factors which led to Malawian agricultural cooperatives sustainability problems that can later be tested on a large sample in the other parts of the country or region. From such experiences and lessons, it is recommended to establish an apex organisation or secondary level cooperative at district level to address governance, management and market access problems, in order to improve the performance of cooperatives. Further, community sensitization is needed to increase memberships. In addition, policy interventions such as provision of the infrastructure necessary for accessing market information and supportive regulatory framework that would allow competitive market environment.

Key words: Malawi, agricultural cooperatives, sustainability, market access, governance, managerial skills and small-scale farmers

Title: Factors affecting agricultural cooperatives' sustainability: Lessons and experiences from Malawi

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ABBREVIATIONS

ADMARC	Agricultural Development and Marketing Corporation
APIP	Agricultural Productivity Investment Programme
EPA	Extension Planning Area
EU	European Union
FINCOOP	Finance Cooperative Limited
ICA	International Cooperative Alliance
IDEAA	Initiative for Development and Equity in African Agriculture
IOF	Investor Owned Firm
LIWEZA	Lilongwe West Zone Enterprise Association
MACE	Malawi Agricultural Commodity Exchange
MALEZA	Malawi Enterprise Zones Association
MGDS	Malawi Growth and Development Strategy
MPRSP	Malawi Poverty Reduction Strategy Paper
MRFC	Malawi Rural Finance Company
NFRA	National Food Reserve Agency
NGO	Non-Governmental Organisations
NSO	National Statistics Office
SACA	Smallholder Agriculture Credit Administration
SACCO	Savings and Credit Cooperatives

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CHAPTER ONE: INTRODUCTION

Malawi is classified amongst the world's lowest income economies (IMF, 2007). The country's economy is dependent on agriculture, which contribute about 36 per cent of the national GDP. The smallholder agriculture sector contributes about 70 per cent of total production (IMF, 2007). In order to integrate small-scale farmers in commercialisation, agricultural cooperatives are being promoted as one of the key strategies' to address problems of small-scale farmers' access to markets. However, sustainability of these cooperatives has been a great challenge.

Agriculture is seen as a means of achieving pro-poor growth in Malawi. Almost 85 per cent of the population live in rural areas (NSO, 2008) and are dependent on agriculture as their source of livelihood. It was estimated that 52.4 percent of the population live below the poverty line (World Bank and Malawi Government, 2006). The 'Poverty Vulnerability Assessment', for 2006, reported that the main factors which contribute to poverty at household level include: 1) large household size; 2) lack of access to non-farm employment; 3) limited or lack of access to reliable markets; and 4) poor road infrastructure that limits access to markets (World Bank and Malawi Government, 2006).

In addition, agribusiness in Malawi is in its infancy, because most of the produce is sold as raw materials. Smallholder agriculture in Malawi is associated with inadequate value addition. Small-scale farmers normally produce and sell raw primary commodities, hence the failure to meet the growing demands for both domestic and international markets (Malawi Government, 2009a). Reducing the challenges faced by small-scale farmers and utilising their potential can help to step up growth in this sector — and the economic development of the country as a whole.

The marketing challenges that small-scale farmers are facing in Malawi have been due to the change in the government policies and the liberalisation of the market. Prior to the reforms, agriculture policies favoured the estate sub-sector which produced production of high value crops, whilst the smallholder sub-sector was encouraged to produce staple

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food and cash crops which were being sold through official marketing channels at predetermined prices (Harrigan, 2003; Zeller, Diagne, & Mataya, 1998). The Agricultural Development and Marketing Corporation (ADMARC) is a state marketing agency that was mandated (at that time) to market smallholder food and cash crops and was used as an agent for the implementation of government agricultural pricing policies (Chirwa, 2009).

The implementation of the reforms was meant to address the bias in the previous policies, which were believed to disadvantage the small-scale farmers. In general, the reforms were aimed at increasing the efficiency of commodity marketing; and raising producer prices, which would in turn stimulate production (Harrigan, 2003; Tollens, 2006). This would then, open access for poor farmers to high value markets and (at the same time) create competition.

However, the reforms still did not benefit small-scale farmers. The private traders operating in Malawi are poorly resourced, since most of those involved are small-scale vendors who have simply been exploiting farmers by offering them low prices (Chirwa, Mvula, & Kadzandira, 2005). As a result, no effective competition has been created that would boost producer prices. Studies have shown that marketing margins are quite high, thus reflecting the inefficiency of the private marketing system (Fafchamps & Gabre-Madhin, 2001). There are also high incidences of business malpractice amongst traders, due to the farmers lack of awareness of the evolution of market prices (Chirwa, 2006; Tollens, 2006). As a result, small-scale farmers have not benefited from the potential gains of commercialisation.

In order to address these challenges, the government has been promoting the formation of farmer organisations such as associations and cooperatives. It is envisaged that collective action, through a cooperative would therefore enhance market participation amongst small-scale farmers; strengthen farmers bargaining power in the market; and enhance growth in the rural areas of developing countries (E Chirwa et al., 2005; Markelova, Meinzen-Dick, Hellin, & Dohrn, 2009; Onumah, Davis, Kleih, & Proctor, 2007). It

would also help farmers to access markets further down the chain, by being able to meet contract requirements (Heinemann, 2002; Kirsten & Sartorius, 2002).

1.2 Problem statement

Although significant progress has been made in the establishment of cooperatives, sustainability is a massive challenge for the majority of cooperatives. With respect to the agricultural sector, from 1993 to 2010, 284 agro-based cooperatives were registered by the Ministry of Trade. The current status of these cooperative is presented in Table 1.

Table 1: Number of agricultural cooperatives registered and their current status

Year of Registration	Total number of cooperatives	*Active	*Requires attention	*Dormant or to be liquidated
1993	4	0	0	4
1996	5	1	0	4
1997	10	0	0	10
1998	10	6	1	3
1999	1	0	0	1
2000	3	3	0	0
2001	6	3	0	3
2002	22	7	10	5
2003	15	3	10	2
2004	30	8	18	4
2005	13	0	13	0
2006	15	5	10	0
2007	46	12	34	0
2008	29	15	14	0
2009	51	41	10	0
2010	25	24	1	0
Totals	284	128	120	36

Source: Data from Ministry of Trade and Industry (April, 2010)

*‘Active’ means that they are currently operating successfully. ‘Requires attention’ means that they are operating, but they have problems which could result in a collapse and ‘dormant’ refers to those cooperatives that have actually closed down.

The performance and sustainability of these cooperatives, in Malawi, have been debatable, since the number of cooperatives becoming dormant is increasing over time. Over 70 per cent of the cooperatives rated active have been established in the past three years (Table 1). In addition, a survey conducted by the Ministry of Agriculture and Food Security reported that from a sample of 104 cooperatives, only eight were considered to

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be sustainable, 81 cooperatives had an average sustainability score and 15 were considered not sustainable. The cooperatives' score were based on three sets of criteria: the existence of a business plan (50%); the degree of representation (20%); and governance (30%) (Malawi Government, 2009b). The criterion used is subject to debate, as it lacks an in-depth understanding of the factors that would contribute it cooperatives being sustainable. It is against this background that this study aims to provide an initial exploration of the problems of sustainability of cooperatives in Malawi.

1.3 Research Aim

To understand the problems of sustainability of agricultural cooperatives in Malawi

1.4 Specific Objectives

- To identify, describe and understand the problems affecting the sustainability of farmers' cooperatives in Malawi;
- To develop a theory and testable propositions relating to sustainability, which could be tested on a larger sample of cooperatives;
- To identify lessons learned in relation to policy and to inform future efforts directed at establishing viable cooperatives in Malawi.

1.5 Significance of the study

No studies have been carried out, in order to identify the factors that would make cooperatives sustainable in Malawi. The information generated by this study will be useful for the management bodies of the cooperatives, non-governmental organisations that work with cooperatives and policy makers, in addition to other cooperatives operating under similar conditions. It will also assist in the improvement of cooperatives' survival rates, by suggesting appropriate and relevant measures. This information will help to establish and support cooperatives, by making them more effective when serving farmers, and in so doing, contribute towards achieving Malawi's national goal of poverty reduction. The information generated by this study will also be useful to other researchers, as a stepping stone for further studies on the challenges faced by marketing

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cooperatives in developing countries. It will also add to the knowledge on challenges faced by small-scale farmers' cooperatives in developing countries.

CHAPTER TWO: SMALL-SCALE AGRICULTURE AND COOPERATIVES IN MALAWI

Malawi is a landlocked country with a total area of 118,480 square kilometers, located in the southeast of Africa. It borders Tanzania to the north, Zambia to the west and Mozambique to the east and south (Figure 4). According to a NSO report (2008), Malawi has a total population of 13 million -and the 85 percent that reside in rural areas are engaged in agricultural production, as a source of livelihood. Poverty level are high and 52.4 percent of the population is considered to be poor (World Bank and Malawi Government, 2006). The report outlined the poverty lines for identifying the poor in Malawi as a subsistence minimum based on the cost-of-basic-needs expressed in Malawi Kwacha. However, there are variations in poverty levels across the regions, with the central region having the lowest poverty rate of 44 percent (IHS, 2005).

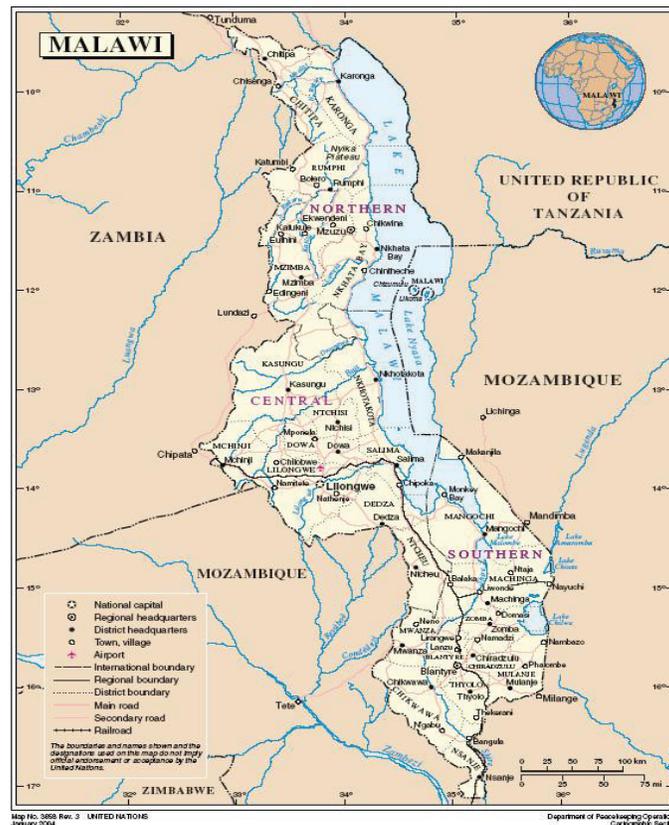


Figure 1: Map of Malawi.
Source: NSO, 2005: Integrated Household Survey

2.1 Agriculture Sector

The agriculture sector in Malawi has a distinct dualistic nature, which is characterised by two sub-sectors: the smallholder (or subsistence sub-sector) and the estate sub-sector. The estate sub-sector is comprised of commercial farmers, who cultivate between 10 to 500 hectares (Chirwa, 2006). On the other hand, the smallholder sector is comprised of approximately three million farm households, who are locked into subsistence orientated agriculture, under Malawi's customary land tenure system (Malawi Government, 2005). These small-scale farmers cultivate less than ten hectares of land each, but this sub-sector accounts for approximately 80 percent of the country's food production, 80 percent of the workforce and 10 percent of the country's export earnings — and it also represents the majority of farmers in Malawi (EW Chirwa, PM Mvula, et al., 2005).

Malawi has been implementing policies that are targeted at addressing the profitability of the smallholder sub-sector. The structural reforms implemented in the 1980 and 1990s were targeted at this sub-sector. Of late, the promotion of farmer organization is targeted at improving market access by these farmers. However, small-scale farmers remain trapped in poverty and are locked out of lucrative markets.

2.1.1 Structural Reforms in Malawi's Agricultural sector and its

Impact on Input and Product Marketing

Prior to the reforms, smallholder agricultural production and marketing were heavily controlled by the government (Chilowa, 1998; EW Chirwa, PM Mvula, et al., 2005; Kutengule, Nucifora, & Zaman, 2006). Reforms in the agricultural sector were targeted at improving the performance of the smallholder agricultural sector. These reforms included price decontrol, which was aimed at allowing market forces to drive resource allocation within production. The reforms were expected to achieve diversification of the export base, through the promotion of new crops and agro-industries, thus ensuring an appropriate price and incomes policy, which would offer adequate incentives to smallholder farmers and also expand the role of the private sector in the marketing of agricultural products (Chipeta C, 1999; EW Chirwa, PM Mvula, et al., 2005) .

The initial impact of the reforms led to a substantial increase in the participation of the private sector in the marketing of agricultural inputs and commodities (Chipeta C, 1999). ADMARC which had been a primary supplier of inputs had its share decreased substantially (Table 2).

Table 2: Market share of fertilizer distribution in Malawi

Market participation	1994/95	1995/96	1996/97
ADMARC	82	26	14
SFFRFM	0	18	14
Private sector	18	42	63
Free Distribution	0	14	0
TAMA scheme	0	0	9
Total	100	100	100

Source: Townsed R.F. (1999)

Inputs marketing

Although there was an increase in the participation of the private sector in agricultural marketing, this did not translate into efficiency within the system (EW Chirwa, PM Mvula, et al., 2005). Some rural remote areas failed to benefit, since they could not be easily accessed, due to the poor conditions of their roads. Poor infrastructure in rural areas contributes to the difficulty and cost of transportation of goods, thus limiting the supply of much-needed inputs.

Product marketing

In the area of product marketing, ADMARC used to extend its services throughout the country: -to areas which private traders found not to be commercially viable (Kumwenda, 2003). With the closure of some of ADMARC markets, the district and city markets now provide alternative outlets for smallholder produce. The majority of these markets use -informal methods, such as non-standardised weights and measures, which is convenient for the highly illiterate farming community, but this practice is not in line with commercialised farming (Kumwenda, 2003).

Capital markets

Smallholder Agriculture Credit Administration (SACA), which was established within the Ministry of Agriculture, -provided credit facilities to smallholder farmers, who were considered not creditworthy by commercial lending institutions (Tchale Hardwick, 2001), by the use of a group credit approach (Martin Whiteside and Stephen Carr, 1997). In 1994 SACA was replaced with a commercially oriented credit scheme known as the 'Malawi Rural Finance Company' (MRFC). The success of MRFC has been minimal, due to its stringent lending conditions and high interest rates (Malawi Government, 2000), which are realistic for sustainability of the organisation (44percent in 1996/97). However, lending was restricted to farmers in those sectors that were considered profitable, such as tobacco production. Starting from 1997/98 crop season, the government implemented an 'Agricultural Productivity Investment Programme' (APIP), in order to expand smallholders' access to credit and agricultural inputs: -This programme was phased out in 2006.

2.1.2 Characteristics of small-scale farmers in Malawi

Small-scale farmers socio-economics status

Smallholder farmers are amongst the most resource poor and they are vulnerable to economic changes. Smallholders constitute 80 percent of the population and 90 percent of the country's poor (World Bank and Malawi Government, 2006). According to E. Chirwa, Kydd, & Dorward (2006) some of the factors, which contribute to the poor performance of the economy, are its dependence on agriculture, small land holdings and low productivity. This is because small-scale farmers have limited access to resources such as credit and low levels of adoption of new technologies. The majority of the farmers devote their land to the production of food staples, with maize accounting for 70 percent of the land planted to crops (Zeller, et al., 1998). Agriculture production is essentially rain-fed and lack of moisture is probably the most serious constraint to productivity.

The other factor that worsens the situation for the small scale farmers is the weak links to a better rewarding market. A lack of market information and poor infrastructure makes transaction costs for these farmers very high. As a result, farmers opt to sell their products in local or other informal markets that do not give them sufficient returns.

2.1.3 Characteristics of market in Malawi

The market system in Malawi is under developed and less competitive. As observed by Fafchamps and Gabre-Madhin,(2006), the system is characterised by poor market information; a lack of identifiable markets; a lack of transparency; no enforceable contracts or dispute resolution mechanisms; and lack of understanding of market fundamentals. The majority of the farmers have no access to market information, which could help them bargain for better prices, as a result of very scarce and unreliable data on trade flows. Fafchamps and Gabre-Madhin,(2006) indicated an average profit turnover of 57 percent for traders, which these authors attributed to less competitive markets in Malawi.

The market chain for food staples involves several players as shown in Figure 2. The produce moves from the small-scale farmer's farm gate through a diverse group of traders before reaching the final actors, which are normally processors, retailers, the government's warehouse and finally it reaches the consumers. The marketing channels available for small-scale farmers include private traders, neighbours or relatives, associations or cooperatives, large private companies and ADMARC (Chirwa, 2009). The marketing structure is such that most of the trade is undertaken in rural areas with well designated market areas where private traders (and sometimes ADMARC) operate, in order to buy produce from the farmers.

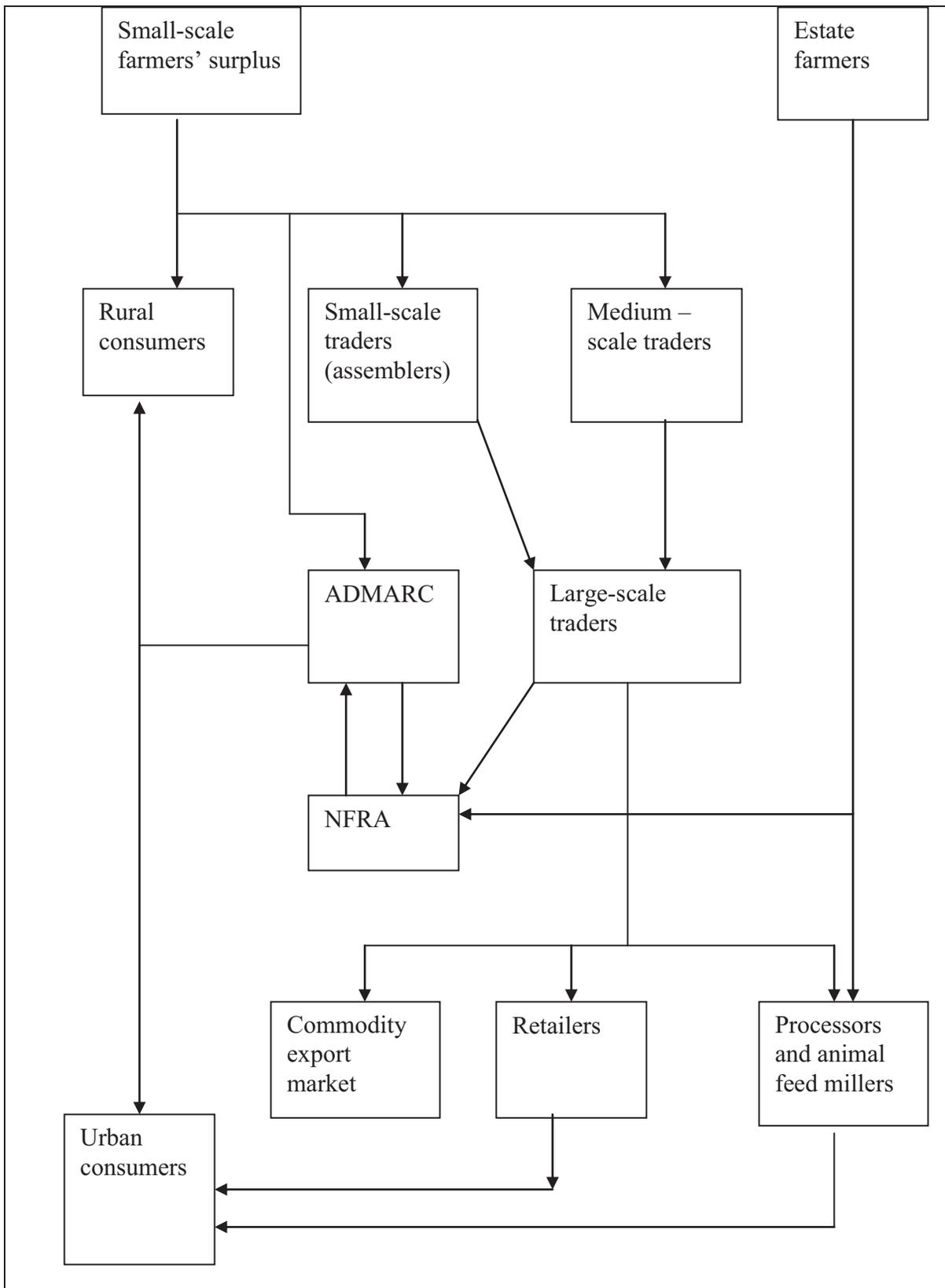


Figure 2: Marketing channels for food staples in Malawi

Source: Chirwa (2009)

2.2 Agricultural cooperatives development in Malawi

The implementation of cooperatives policies in Malawi has not been consistent and it has changed with each changing administration. Cooperatives in Malawi were first introduced by the colonial administration, under the Cooperative Act enacted in 1946. The main aim of these cooperatives was to incorporate natives into the cash economy (Kachule, 2004; Kadzola, 2009). According to Kadzola (2009), the failure rate for these cooperatives was very high. Lynx Associates (1996, as cited in Kachule, 2004, p. 15) pointed out several reasons for failure, which include high illiteracy levels amongst the members; inadequate pre-formation education for members, to enable them to understand their rights and obligations; limited resource to adequately train management in relation to business management and leadership; and poor financial supervision and auditing which led to the misappropriation of funds.

After Independence in 1964, the cooperative movement was dismantled by the new government, because it was believed that the cooperatives were being used as agents of state owned enterprises (Kadzola, 2009). The system was replaced by ADMARC, which became the sole buyer of farmers' produce and seller of inputs to farmers. Furthermore, the Smallholder Agricultural Credit Administration (SACA) was the provider of input and production credit (Kachule, 2004). However, the concept of cooperation was still evident in the life of smallholder farmers, as seen in the establishment of farmers' clubs. The challenges these clubs faced included limited resources, lack of business skills and a lack of linkages with other clubs (Kumwenda, 2003). In addition, the government saw these clubs as 'bodies', which were suitable for the delivery of credit and extension services and resulted in most members joining the clubs, merely to access credit, thus contributing to their overall failure (Kachule, 2004). Government's influence also contributed to the clubs' 'lack of voice' and reduced members' commitment, since the clubs were seen as addressing the government's agenda - and not the member's needs.

CHAPTER TWO: Small-scale agriculture and cooperatives in Malawi

A change in the political situation, in 1994, coupled with a liberalisation of the economy, has paved the way for the promotion of cooperatives. As reflected in national policies, for example, the ‘Malawi Poverty Reduction Strategy Paper’ (MPRSP), more emphasis is put on the promotion of collective action, as a way of stimulating small-scale farmer commercialisation and empowerment of the poor (Kachule, 2004). As a result of this policy, the registration of cooperatives re-emerged in 1993. This led to the establishment of the ‘Cooperative Development Policy 1997’, ‘Cooperative Societies ACT No. 36 1998’ and ‘Cooperatives Societies Regulations, 2002’ (Malawi Government, 1997, 2004). The overall goal of this policy is to facilitate the establishment of cooperatives and to help them become efficient business organisations, by creating an enabling environment for the development of sustainable cooperatives.

The policy adopted the universally recognised definition, values and principles of cooperatives, which include:

- Open and voluntary membership and leadership
- Democratic administration and control based on one member one vote.
- Members contribute to the cooperatives capital and benefits are shared equally depending on shares. The cooperative will retain part of the surplus for long-term investments.
- The cooperative should provide education and training for their members, leaders and employees. It also has responsibility to educate the community.
- Cooperate with other cooperatives.

(Malawi Government, 1997, p. 7).

According to the ‘Cooperative Development Policy 1997’, the strategies, with respect to the agriculture sector include encouraging cooperatives to implement bulk procurement of farm inputs; buying and marketing of members’ produce; using market information to determine better prices for their products; training members in leadership and management; and enhancing prices through added value (Kachule, 2004; Malawi Government, 1997).

CHAPTER THREE: LITERATURE REVIEW

This chapter outlines some of the main themes in cooperative literature and it then locates the approach adopted in this chapter, in relation to the direction of the study. It begins with a definition of cooperatives and their reasons for formation. Furthermore, it cites from the literature, what are considered to be success factors for these organisations. Finally, a conceptual framework to guide the study is outlined.

3.1 The principle of cooperation and definition

The idea of people working together is the basis of the cooperative model, which dates back to the nineteenth century, when the pioneer cooperative members of the Rochdale society launched the cooperative movement (K Zeuli, 2004). This was intended to bring people together, with the aim of addressing common issues, for the betterment of the members. This model is continuing to evolve, thus reflecting changes in society and more directly the interest of its members. Factors affecting success and failure of the cooperatives have been widely documented.

According to the ‘International Cooperatives Alliance’ (ICA) 1995; a cooperative is defined as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly and democratically controlled enterprise”. According to a UN (2009) report, cooperatives are intended to be organisations or enterprises, which are highly democratic and self-governing and which rely on self-help and their own responsibility to meet goals that include not only economic but also social and environmental ones: in addition, they encourage social integration. The principles that are considered as essential to genuine and effective cooperative practice, according to the report of the ICA Commission on cooperative principles (1966) include:

1. Open membership: memberships should be voluntary and available to all persons, who can make use of the services without restriction.

2. Democratic organisation: the final power of the cooperative should be retained by the members. Members of the cooperative should enjoy equal right of voting and participation in decisions, regardless of the size of their shareholding or volume of trade with the cooperative.
3. Surplus or savings arising from the operations of a society belong to the members and should be distributed to members, according to transactions. The main aim of cooperative is to provide services not to make profits; however, being a business enterprise, it may have excess income which should be returned to members as refunds or rebates.
4. The cooperative societies should make provision for the education of its members and allow for cooperation with other cooperatives.

3.2 Agricultural cooperative.

In agriculture, cooperatives have been known to benefit their members, especially in cases of imperfect market situations. An example of this situation are the cooperatives in North America, which were organised to move products to markets and to influence price and other terms of trade, consistent with market supply and demand conditions, whilst providing fair treatment, other services and more protection from exploitative opportunism (Torgerson, Reynolds, & Gray, 1998). Cooperatives, as member owned businesses, help to aggregate the market power of people, who on their own could achieve little or nothing (Christy, 1987; Valentinov, 2007; Vitaliano, 1983). The common types of cooperatives in agriculture include input supply and marketing and processing cooperatives.

3.2.1 Reasons for formation of cooperatives

Recent studies continue to document several factors that have justified the formation of cooperatives. One of the factors, which has been noted as a major justification for the preference of individuals for non-profit organisations (over traditional business corporations) is market failure (Centner, 1988; Christy, 1987; Hansmann, 1999; Torgerson, et al., 1998; Valentinov, 2007). Harris and Carman (1983, p. 52) defined

market failure as “possible instances in which the ideal conditions for a market success do not hold.” These types of market failures include imperfect competition, due to fewer buyers or sellers of the product; anti-competitive conduct, such as collusion and predation; and imperfect information, which can be due to a lack of information and asymmetric information and information costs (Harris & Carman, 1983).

Centner, (1988, p. 96) stated the significant types of market failures as being “oligopsony, asymmetric information and restricted bargaining with a hold-up problem”. Hansmann, (1988) defined *oligopoly* as a situation where there are many sellers and few buyers: the identical situation, which has been common in agriculture, where there are few buyers of the product and many sellers. This creates market power imbalance and results in farmers generally being price takers. The second problem facing producers relates to the accessibility to (and the quality of) market information.

Asymmetric information, as a type of market failure, is seen in two forms, which are described by Centner (1988, p. 96) as the “lemons problem” and “moral hazards”. The author described the first one, as a time when a buyer is not able to differentiate between quality and non-quality products and (as a result) the sellers may not have the incentive to provide quality products. Whilst the latter applies to when there are opportunities for one person to break a promise on the quality, whilst the costs are borne by another. The third type of market failure is *restricted bargaining*. Buyers would take advantage of the production period in agriculture and they may ‘hold-up’ producers, by offering lower prices or threatening to stop buying the products, in order to force the producer to lower the price (Centner, 1988). Cooperatives may provide a guaranteed market and some balance of market power (Centner, 1988; Torgerson, et al., 1998).

Apart from the stated conditions, market failure (in most developing countries) is also due to lack of infrastructure and geographical isolation, due to poor roads or communication systems, which lead to high transaction costs (Shiferaw, Obare, & Muricho, 2006). Usually, there is a tendency for collusion and price fixing in most traditional rural markets, due to there being few players at each level of the chain: and

marketing costs are also high (Lele, 1981). In such cases, small farmers are the worse victims, due to asymmetric information (Tollens, 2006).

The second reason for the formation of cooperatives is that individual producers need an institutional mechanism, in order to bring economic balance under their control (Cook, 1995; Cook & Iliopoulos, 1999). The cooperative enhances the bargaining strength of farmers with input suppliers and the buyers of farm products. Christy (1987) noted that the most common and widely accepted rationale, for farmer cooperatives in the USA is the 'competitive yardstick' school of thought, which was developed by Professor Nourse. He viewed the cooperative role as helping to provide a checkpoint on other business and forcing them to be more competitive (Cook, 1995; Torgerson, et al., 1998). In addition, cooperatives have mainly been to by-pass the investor-owned firms, thus enhancing prices and in general pursuing the Sapiro goals of increasing margins and avoiding market power (Cook, 1995; Szabo, 2006). However, since the early 1990s, producers have been organised with the primary objective of value adding to their assets, which has been viewed as an offensive approach to cooperative formation or continuance (Cook & Chaddad, 2004).

The third ideology within cooperative formation is that they act as self-help organisations, in order to address the desire for an organisation that responds to social and human needs. Christy (1987) described this ideology as placing a greater emphasis on the social aspect of development (human and community). The majority of the emerging cooperatives in developing countries have been formed for this reason, apart from the other reasons stated, considering the importance of agriculture to rural communities, which are largely poor. The cooperatives in these countries have a high percentage of low income members. Christy (1987, p. 27) further stated the three ways in which these cooperatives differ from other cooperatives:

- The major resource each member contributes is labour;
- Membership consists largely of former sharecroppers and low income, limited resource farmers;

- Whilst the cooperative is organised for economic goals, the majority tend to also have social goals.

Recent research has also argued that excessive transaction costs, discriminatory treatment of contract growers and increased monopoly in buyer markets, are conditions which lead to group action by producers (EW Chirwa et al., 2005; Gideon Onumah, 2007; Kirsten & Sartorius, 2002). In developing countries, cooperative formation is a strategic intervention by governments, in order to promote farmer participation in the supply chain. Gideon Onumah (2007) urged that farmers' cooperatives were promoted by colonial governments, mainly as structures for mobilising rural people to facilitate the extraction of produce. Kachule and Dorward, (2005) identified that the reasons for farmers joining farmers' organisations in Malawi included access to credit inputs and product markets and also technical advice.

3.2.2 Role of cooperatives in the world economy

A cooperative is a widespread and important governance structure within the agricultural sector. The cooperative sector worldwide is comprised of approximately 800 million members in over 100 countries and it is estimated to account for more than 100 million jobs around the world: 20% more than multinational enterprises (Skurnik, n.d.). Agricultural cooperatives, in particular, account for 80 to 99% of milk production in Norway, New Zealand and the United States; 71% of fishery production in the Republic of Korea; and 40% of agriculture in Brazil (ICA, 2007). Cooperatives are an important organisational structure in many agricultural markets. For example, in the EU, cooperative firms account for over 60% of the harvest, handling and marketing of agricultural products, with a turnover of approximately 210,000 million Euros (Galdeano, Cespedes, & Rodriguez, 2005). Furthermore, over 50% of global agricultural output is marketed through cooperatives (Bibby & Shaw, 2005). Clegg (2006) urged that cooperatives have a great potential to improve the living conditions of the poor — if they can gain power in the marketing of their produce. There are several benefits that farmers receive from being part of a cooperative organisation.

Providing access to markets

Cooperatives are helpful in overcoming access barriers to assets, information, services and input and output markets. For example, Hovhannisyan, et al (2005) identified that Armenian farmers, in milk marketing cooperatives, were able to pool products of a specified grade and quality and therefore they were better able to market milk to large scale buyers. They further argued that cooperatives were able to move their products to distant markets and thereby expand their opportunities for milk sales. Agricultural cooperatives have played an important role in helping small-scale farmers to cope with competitive and fluctuating markets and high transaction costs and to achieve economies of scale, through bulk selling, in order to meet market demand (Clegg, 2006).

Agricultural cooperatives have also ensured that farmers are easily identified by traders and this has helped to reduce the cost of market search, because it easily links them to the traders (Holloway, Nicholson, Delgado, Staal, & Ehui, 2000). Hollow et al. found that cooperatives are helpful when it comes to farmers overcoming access barriers to the marketing of high value products: and large quantities. Many business prefer to buy from larger farmers, rather than small-scale farmers because the small-scale farmer's produce is not reliable, when it comes to producing the correct quantities (Kirsten & Sartorius, 2002). This provides farmers in cooperatives with better opportunities to participate in the supply chain and to also be able to compete with larger farmers, for market opportunities.

Bargaining power

Agricultural cooperatives are helping farmers to gain a competitive advantage and hence, this increases their opportunities to participate in the market. Cooperatives have also increased the bargaining power of farmers, since they all 'speak with one voice' (Gideon Onumah, 2007; Torgerson, 1977). Due to economies of scale (or other factors that limit competition) a cooperative has market power, which would be an incentive for the farmers to become part of the organisation and thereby avoid price exploitation. Cook (1995) indicated that cooperatives, in such cases, would help to increase margins and provide market assurance, and can also play the role of 'competitive yardstick'. For

example, Kodama (2007), when analysing coffee cooperatives activities in Ethiopia, found that the existence of cooperatives in the coffee market had led to improving the purchasing price offered by private traders, due to competition with the cooperatives. All these measures tend to increase farmers' incomes.

As a poverty reduction strategy

In relation to the social aspect of development, a cooperative presents an important model, which can address the problem of the social exclusion of the poor and disadvantaged who lack access to opportunities in a liberalised market economy (Birchall, 2004). Cooperatives encourage local participation and inclusion which is central to poverty reduction. This has been reflected in the UN guidelines, related to cooperatives in social development, as quoted by Bibby and Shaw (2005, p. 17):

“Governments recognize that the co-operative movement is highly democratic, locally autonomous but internationally integrated, and a form of organization of associations and enterprises whereby citizens themselves rely on self-help and their own responsibility to meet goals that include not only economic but social and environmental objectives, such as overcoming poverty, securing productive employment and encouraging social integration.”

From this discussion it can be noted that cooperatives represent a powerful development strategy, which can enhance the competitiveness of small-scale farmers and also address market failure. Cook (1995) observed that USA farmer cooperatives' aggregate market shares had been increasing steadily, thus agreeing with Abrahamsen's forecast that cooperatives would become the farmers' integrating agency, as the industrialisation of agriculture continues to evolve.

3.3 Agricultural cooperatives in developing countries

Compared to the developed world, where cooperatives receive a great deal of support and there are numerous examples of successful small-scale cooperatives, in developing

countries, cooperatives have been received with mixed reactions and there was more support during the colonial periods (Birchall, 2003). However, during the post-colonial era, cooperatives were perceived in different ways, from nation to nation. In some countries, support for cooperatives increased and they were given a high profile within the economic planning for these states (Birchall, 2003), whilst in other countries, such as Malawi, they were perceived as a political threat to the government and hence, agricultural cooperatives were closed and replaced by government parastals (Kadzola, 2009). During this period, when cooperatives were still considered as a development strategy, followed what Develtere (1993, p. 19) called, a “populist-nationalist cooperative strategy”. This meant that the cooperative model was adjusted to suit government priorities. The conclusion of this strategy was that the cooperatives were no longer autonomous organisations (as they were intended to be) but instead they were integrated into structures and ideologies, which had not been developed to meet the interest of the members, but to serve the political and economic imperatives of the states (Develtere, 1993).

However, after these structural reforms, cooperatives were perceived once again as being organisations that could be built on conventional forms, but as an alternative to capitalism (Birchall, 2003), due to their compatibility with local traditional values and social habits (Develtere, 1993). The emergence of what Develtere (1993, p. 20) called the “new cooperative movement”, especially in Africa, has seen a change in government cooperative policies, in order to ensure that they operate as ‘real’ cooperatives, based on cooperative principles. Examples of this change are the establishment of the ‘Cooperative Act 2005’ in South Africa (Ortmann & King, 2007) the ‘Cooperative Societies Act No. 36 1998’ and the ‘Cooperative Societies Regulations 2002’ in Malawi (Kadzola, 2009). Therefore, the focus on the success or failure of agricultural cooperatives, in this study, would therefore be based on the new cooperative movement, whose operations are based on cooperative principles.

There are numerous notable success stories that have been noted about agricultural cooperatives, both in developed and developing countries. However, there are also many

examples of cooperatives in decline or in financial crisis or liquidation; and recently there has been de-mutualisation to investor-owned businesses. In order to sustain progress, cooperatives will have to greatly depend on the ability of their participants to resolve conflicting demands from both internal and external stakeholders, within a dynamic environment (Rankin, Dunne, & Russell, 2007). The literature has pointed out several factors as contributing to the success or failure of agricultural cooperatives.

3.4 Factors affecting success or failure of cooperatives

Various definitions have been applied, in order to measure the success and failures of cooperative enterprise. Sexton and Iskow (1988) identified three critical key factors necessary for the success of agricultural cooperatives, as organisational, financial and operational. The author, after surveying 61 USA agricultural cooperatives, identified factors, such as open membership, accepting non-member business and employing full time management, correlated with self-understood success.

Banaszak (2008), for instance, conducted an empirical survey with 62 Polish farmer cooperative organisations, whose main aim was to organise joint sales of output produced individually by their members. The authors identified four factors that contributed to cooperatives success as leadership strength; group size; business relationship amongst members and a member selection process during the group's formation. Cook and Burress (2009) identified in terms of financial performance, such as net margins, member commodity prices, return on equity and sales growth (Cook & Burress, 2009). The success or failure factors of cooperatives have been classified as external and internal to the cooperatives.

3.4.1 Internal Factors

The internal factors that would affect a cooperative's success or failure are the ones that arise internally and these include governance, leadership and managerial skills.

3.4.1.1 Governance structure

Governance has been defined by different scholars, depending on the context. For example, Papadopoulos (2003) indicated that governance included the need to counteract the centrifugal dynamics of interest division. Governance involves networking and assumes an accommodative orientation within such networks with a shared willingness to learn from each other. Rhodes (2007) summed up governance from the viewpoint of public administration, as governing with and through networks. In this study, governance in a cooperative is simply defined as involving decision-making processes and the capacity to implement decisions (Chibanda, Ortmann, & Lyne, 2009), which should represent the interests of the group of people.

Cooperatives, as member-owned business enterprises, have their own governance structures, which makes them different from corporate firms or investor-owned firm. They follow at least some of the principles listed by the International Cooperative alliance principles, as outlined in the first part of the section. ‘The United States National Cooperative Business Association’ (NCBA, 2005) also emphasised the unique characteristics of cooperatives, relative to other businesses, as being user-owned and user-controlled, where policy decision are made by the members, based on ‘one member one vote’, regardless of any member’s investment in the cooperative. Collective decision-making follows democratic principles (such as following a majority decision, but ensuring that minority preferences and opinions are respected) is one of the important governance issue within cooperatives (International Cooperative Alliance, 1995). The principles adopted from the Rochdale pioneer cooperative movement are intended to represent the prudent business practices followed by cooperatives.

Governance of member organisations, such as cooperatives, can be very challenging, but it is also very important for the continuity of the cooperative. Cornforth (2004) examined the conflicting roles of board members, by using various theories: agency theory, stewardship theory, resource dependency theory and managerial hegemony theory. He argues that the governance of cooperatives is a complex, inherently difficult and

problematic activity. The boards of cooperatives face conflicting roles in trying to control and provide direction to the running of their organisation. An example of this contrast is the conformance role, as in agency theory, and the performance role, as in stewardship theory (Cornforth, 2004). These roles would involve the boards behaving in a different way. The conformance role requires the board to ensure that the organisation acts in the interest of its members, but, in contrast, the performance role requires them to improve the organisation's performance, through value adding to the organisation's strategies and decisions (Cornforth, 2004). In addition, these conflicts can be worsened by other wider contextual factors, such as agricultural industrialisation (Cook, 1995) and government policies.

Considering the complexity of governance, one would question the ability of lay board members to successfully supervise managers, ensure integrity and guard the interests of members and other stakeholders. Cooperative management faces the difficulty of matching the conflicting interests of members and market needs: and yet the expectation is that the board should perform according to the expected standards for cooperative organisations (Cook, 1994).

The challenge within cooperatives, especially those developed with a traditional structure, which is still a common cooperative form in developing countries, is that they suffer from a number of disadvantages. The problems inherent in the traditional cooperatives includes free-riders, horizon, control and influence cost problems (Cook, 1995). These problems have given rise to doubt about the sustainability of these cooperatives. Valentinov (2007) described these as incentive problems and hence the institutional disadvantages of cooperatives. The free-rider problem, also referred to as the 'common property' problem by Royer (1999, p. 56) is "a type of common property problem that emerges when property rights are not trade-able or are not sufficiently well defined and enforced to ensure that individuals bear the full cost of their actions or receive the full benefits they create". The horizon problem may lead to a cooperative concentrating on short-term benefits, at the expense of the long-term viability of the cooperative (Staatz, 1989). This would act as a deterrent for existing members to invest in

it. The decision-makers in a cooperative need to be aware of these problems and an analysis of the competitive role of the cooperative should be undertaken, in order to make some long-term strategic decisions.

The nature of cooperatives, as business enterprises, also requires a democratic process of governance. This requires the active participation of the members in important decision making processes. Empirical studies have shown how governance can positively, or negatively, affect the cooperative's success (Bhuyan, 2007; Borgen, 2001; Osterberg & Nilsson, 2009), by affecting member participation and their commitment.

Member participation

The activities that encompass member participation in a cooperative include attending meetings; serving on committees; involvement in recruiting others; and patronage (Osterberg & Nilsson, 2009). The participation of members in the governance of a cooperative is what differentiates cooperatives from other business organisations, such as investor owned firms (IOF). Participation would be an important indicator in developing farmers' understanding and appreciation of a cooperative's organisation (Gray, Kraenzle, & USDA, 1998).

Several studies have revealed the effect of un-democratic processes on member participation. Osterberg and Nilsson (2009) found that there was significantly higher member disloyalty, when members were dissatisfied with their cooperative's management. Borgen (2001) reported that a member is seen to be more loyal to decisions in which s/he has participated actively, rather than decisions which were forced on him/her. Osterberg and Nilsson (2009) observed that members considered democratic control to be more crucial, and further argued that this indicates that members regard the cooperative as a social institution, as much as an economic one. This shows the importance of having a well-functioning democracy within cooperative governance. The more members participate in their cooperative, the more they will be committed to their cooperative.

Member commitment

Members of cooperatives are also patrons, that is, they are suppliers or buyers: but at the same time they are owners of the organisation. Their decisions to increase or reduce volumes (and even withdraw from the cooperative) have great implications on the cooperative's survival. Therefore, commitment of its members is very important for the successful performance of a cooperative. Fulton (1999, p. 434) defined member commitment as “preference by members for something that is offered by the cooperative and not by other alternative organizations e.g. IOF”. There are several factors that contribute to members' commitment, such as the benefits that members receive from the cooperative (Osterberg & Nilsson, 2009); participation in the governance of the cooperative; and the cooperative's ability to translate members' needs into decisions (M. Fulton & Giannakas, 2001).

The other challenge in cooperative governance is the heterogeneity amongst members, which would affect their decision making, since it would be more difficult for management to consolidate the diversity in the member's interest — for the benefit of all (Cook, 1995; Cook & Burrell, 2009). This may bring in passivity of those who feel that their needs are not being addressed as argued by (Osterberg & Nilsson, 2009). A number of studies have pointed out that excessive heterogeneity of membership has contributed to a breakdown in cooperative action (Cook, 1995; Seabright, 1997). Fulton et al (2001) noted that member commitment is linked to the cooperative's ability to develop a reputation, as an effective agent for the members. Members should be able to see the cooperative as addressing their needs. Fulton (1999) and Fulton and Giannakas (2001) concluded that cooperatives must be increasingly aware of these feedback effects and manage them accordingly. The authors noted that the success of the cooperative, as being an effective agent for members, is likely to result in increased member commitment.

3.4.1.2 Leadership

Leaderships play an important role in influencing the direction of an organisation. Leaders are meant to initiate, promote and defend the policies, by which the organisation operates (M. Fulton, 2001). Leadership involves interpersonal relationships between the

leader and the led and it aims to motivate a group of people, to act towards achieving a common goal (Banaszak & Beckmann, 2006; Buzzanell et al., 1997; GA Yukl & Yukl, 2002).

In a cooperative, leadership involves a process of reaching consensus and then following through with the group's decision. Internal leadership is, therefore, crucial in the implementation of policies and activities, which continually enhance the operations of the cooperative. The cooperative, although being a democratic organisation, may experience leadership problems, which can lead to organisational failure (M. Fulton, 2001). Fulton (2001) defined organisational failure as a time when the organisation fails to adopt the most efficient policies for its members. Fulton (2001) stated that leadership problems occur when the cooperative fails to select the leader that has proposed the most efficient policy for the organization: and where efficiency is defined in terms of what is best for the members. This would lead to poor performance and the cooperative, in this case, is more likely to be 'pushed out' of the market, by other more efficient organisations or players. This would call for the election of visionary leaders and a transparent election process, without candidates getting votes by manipulation (M. Fulton, 2001).

Competent leadership will encourage members to make decisions, based on their values and it should be able to balance the internal and external tensions, in order to create enduring groups. This would also call for empowerment of the people, in order to maintain the transparency and accountability of the leaders. Empowerment, according to Birchall (2004, p. 46), is defined as "the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives".

Creation of strong groups can also be developed through the building of interpersonal relationships, as a source of strength (Bhuyan, 2007). However, members will participate if they are involved and motivated through efficient communication skills (Borgen, 2001). Competent leadership should be able to engage the group in an efficient communication process to ensure members expresses their views.

Communication

Communication involves the transmission of information through different means, such as speech, writing or behaviour. An efficient communication process would encourage member participation and ensure the members are aware of what is going on in the cooperative and that they feel they are a part of the organisation. Competent leadership would ensure an efficient transfer of information from the cooperative organisation to its members: and vice versa. Borgen (2001) found that the more the farmers identified themselves with their cooperative, the more confidence they had in the management of their cooperative. An efficient communication process would also enhance leadership accountability, which is an important factor in the establishment of a strong and independent cooperative (Poulton, Kydd, & Dorward, 2006).

3.4.1.3 Managerial skills

The other important factor identified in the literature as contributing to success or failure of cooperatives is the managerial skills of management. These include the hired staff as well as the board. Stringfellow et al (1997) noted that there is growing evidence that the NGOs projects, which promote farmers' cooperation, do not always produce cooperatives which are viable. The underlying factor is that the level of organisation and managerial capacity of these cooperatives do not match the skills of management required (Stringfellow, et al., 1997). Cook (1994) identified the principal reason for the difficulties in managing agricultural cooperatives, as the challenge to bring into line conflicting membership interest, in addition to being responsive to the market, which is unique characteristic of cooperative enterprise. He further suggested that this requires more organisational, communication, resource allocation and other leadership skills, than is required by IOFs in the same market.

Yukl (1989) identified two predictors of leaders' effectiveness, as being managerial motivation and skills. Most leadership roles would require a person to have the technical, conceptual and interpersonal skills (G Yukl, 1989). It is, therefore, necessary for the leadership to have skills and knowledge of business enterprise, because the management

of cooperatives relies heavily on their expertise. Studies have shown that a lack of adequate skills in management has contributed to cooperatives' failure. Keeling, Carter & Sexton, (2004) conducted a study of the Rice Growers Association in California and found that the closure of this organisation was primarily due to a lack of board oversight and education, coupled with ineffective management and passive membership. Nyoro and Ngugi (2007) identified that successful cooperatives had staff and a management committee, with relatively higher qualifications than the unsuccessful cooperatives. Management with required skills will be able to strategise on business volume; type of product and product quality; and for competing with other players in the market

Business volume

The motivation for a cooperative's type of business strategy is constructed, in order to attain large volumes of business and thereby reap economies of scale. This is because, as the volume increases, the cost of transaction per unit item is expected to decrease. The level of transaction can also be reduced, by increasing the frequency of the transaction and the more frequently the transaction takes place, the lower the fixed costs per unit (Banaszak, 2008). Banaszak (2008) indicated that this frequency can be increased by increasing its membership. The reduction in costs would consequently led to increased amount of earnings available for distribution to its members, hence increasing their income (Rapp, Ely, & USDA, 1996). It is therefore essential for cooperatives to be handling sufficient business volumes in order to reduce costs and remain economically viable. Nyoro and Ngugi (2007) conducted a study on dairy and coffee cooperatives in the Central Province of Kenya and their qualitative analysis found that the cooperatives, which had more members and handled large volumes, were the more successful ones.

Type of product and product quality

The ability to select the type of product (and the quality level required) is also an important skill for any business manager. The type of product with which the cooperative is dealing may affect its success. High value products offer greater returns than staples, which are low value (Markelova, et al., 2009). However, the high value crops, which are

often perishables, also require greater technological and marketing skills. On the other hand, cooperatives involved with producing staples have the advantage of bulk buying inputs and accessing storage, as the benefits of being in a cooperative, however, the incremental benefits may not be sufficient to offset the transaction costs (Markelova, et al., 2009).

Competitive strategy

The main incentive to form cooperatives has been to address market failure. However, as time passes, new players emerge which result in increased competition. The success of the cooperatives will eventually depend on their competitive strategies.

Empirical research has found strong evidence that market orientation is the key to a firm's long-term competitive position (Kyriakopoulos, Meulenber, & Nilsson, 2004). This would also apply to a cooperative, as a business enterprise. Narver & Slater (1990) argued that being market orientated involves being competitor orientated; customer oriented; and having inter-functional coordination efforts. A cooperative's success and sustainability will be influenced by its ability to acquire information about its competitors and customers in the target market, apart from its internal coordination functions (Kyriakopoulos, et al., 2004).

A strong business focus contributes to the sustainability of cooperatives (Stringfellow, et al., 1997). This can be in the form of commercial relationships between cooperatives and formal markets; non-price factors, such as reputation; and commercial efficiency. Cooperatives that are involved in alliances with other cooperatives or firms have a higher chance of success. Several studies have suggested that alliances generate competitive advantage (Dyer & Singh, 1998). Dyer and Singh further noted that some of the factors that contribute to this competitive advantage include information sharing and the lowering of transaction costs, rather than competitor alliances due to effective governance mechanisms.

However, the alliances would also depend on the cooperative's commitment to maintaining the alliance. Several studies have indicated the importance of trust and

commitment in such relationships (Kwon & Suh, 2004; Moorman & Zaltman, 1993; Morgan & Hunt, 1994; Zineldin & Jonsson, 2000). Moorman and Zaltman (1993, p. 82) defined trust as a “willingness to rely on an exchange partner in whom one has confidence.” The author further indicated that trust has been viewed as an action that reflects a dependence on a partner and also being vulnerable on the part of trustee. Kwon et al (2004) found that behaviour uncertainty negatively affected the firm’s trust between supply-chain partners. Examples of opportunistic behaviour include withholding or distorting information and failing to perform according to the agreed plans (Zineldin & Jonsson, 2000). Trust amongst partners can help reduce transaction costs, such as information searches, verification and inspection and certification by their partner and hence, it will result in improved efficiency and effective performance (Kwon & Suh, 2004). Trustworthiness, on the part of cooperatives, would enhance their business relationships with other players that cooperatives depend on.

However, power imbalance becomes another challenge which has to be examined. The problem of power imbalance is that it can make the alliance inherently risky, for small cooperatives seeking alliances with larger players (Bucklin & Sengupta, 1993). The authors suggested that this can be mitigated by carefully drawing up a contract that would restore a balance. Marketing agreements are important in assisting cooperatives secure business volume commitment from their members, and this helps to reduce some risks and remove barriers to market entry (Bruynis, Goldsmith, Hahn, & Taylor, 2001)

Fulton et al (1996) explored joint ventures and strategic alliance agreements, in which local cooperatives in eastern Colorado were involved in using insights from the ‘prisoners’ dilemma’ and ‘assurance problem’ models in game theory and they concluded that, whilst it is necessary to have control of the financial and operational components of the business agreements, “interpersonal dynamics are at least as important, and may be more important, than the operational logistics” (J. Fulton, Popp, & Gray, 1996, p. 12).

The other strategy a cooperative can use, to improve its returns, is through vertical or horizontal integration. Several studies in the literature point at the importance of vertical

integration in strengthening cooperatives' market position, over purchasers and suppliers (Sexton, 1986; Sexton & Iskow, 1988). Sexton (1986) argued that (by integration) cooperatives can enforce volume to a marketing stage, where significant economies of size exist and fix assets are a barrier to entry.

Nyoro et al (2007) found that the cooperatives in Kenya experienced increased returns and hence increased payout rates, after vertically integrating into the processing of coffee and dairy products. The author further noted that the cooperatives, which had integrated to this processing, were able to survive the liberalisation era, when new millers broke into the monopoly of coffee processing. This concurs with Williamson's (1985) argument that the main factor responsible for a decision to integrate is transaction cost economising. Therefore, the overall success of cooperatives is dependent on their ability to adapt to a variety of demand changes for their products (Nilsson, 1999). These changes may be due to political, technological and/or economic changes.

Risk management

Agricultural production is prone to several risks, such as price volatility and natural disasters. Natural disasters include drought, floods and the outbreak of pests and diseases. Strategies to mitigate the risks associated with the production and marketing of agricultural produce will prevent cooperatives from sinking or losing a year's margin. (KA Zeuli, 1999) proposed three strategies, which cooperatives can use to mitigate price and through-put risks. Firstly, cooperatives can strive for larger, more diverse and geographically dispersed memberships. Secondly, they can diversify their product line in order to avoid relying on the supply and revenue of one raw product. Lastly, they can go into joint ventures and strategic alliances.

However, these strategies would have a cost attached to them and their importance will depend on whether the mitigation effects are valuable to the farmer members; and also the ease of implementation (KA Zeuli, 1999). Poulton, Kydd et al.(2006) argued that it is difficult for farmers, especially the poor, to pay for insurance, since their loans tend to be large, in relation to their income and assets and this may place them in a more dire

situation of needing to finance the loan, without any increased assets or income from the venture.

3.4.2 External factors

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

3.4.2.1 External assistance

Cooperatives in developing countries are comprised of resource poor farmers, which make external assistance necessary, especially in the formation process, for the group to achieve any economic gains. Hill et al (2007), in a study on the impact of external support, identified that support had significantly improved the rural livelihood of the community and it had facilitated cooperatives' access to markets for their produce.

However, external interference in the organisation's management can have a significant impact on the sustainability of a cooperative. Chambo (2009) argued that cooperative policy and legislation, in Africa, is not participative, since the state is generally the promoter of cooperatives. This situation results in a small amount of ownership, with minimal share contribution from members and it is seen as being state controlled. The author further argued that such type of cooperatives finds it difficult to be competitive and attract qualified management.

External assistance also can create a 'dependency syndrome' which can then affect the success and sustainability of the cooperative. Government or donor funding may compromise control, by the imposition of agendas and by politicisation and this may lower commitment on the part of members (COPAC, 1995). M. Rankin and I. Russell,

(2005) argued that cooperatives are being pushed into different directions by interested stakeholder, including farmers, governments, business interests and various agencies. The author further argued that this may result in the interest of smallholders being lost in competitive rush-induced market activity. Studies have warned of cooperatives engaging in too many, or over-ambitious activities (Stringfellow, et al., 1997), which encourage them to scale-up too quickly, in addition to interference that interacts with them as development agents, rather than as private enterprises (EW Chirwa, A Dorward, et al., 2005; Dorward, Kydd, & Poulton, 2008; Lele, 1981; Rondot & Collion, 2000).

In addition, assistance may also contribute to free-rider and adverse selection problems as this may attract members that are after the benefit and not committed to cooperative success. Zulu (2007, as cited in Chibanda, et al., 2009) observed that some farmers were forming cooperatives as a way of accessing governments grants other than forming a business organization.

3.4.2.2 Contextual factors

Government Policies

In developing countries, most of the population is poor. In attempting to address consumer needs, governments may come up with policies that may harm cooperatives. A government's policy and intervention may affect the pricing of products, depress producer prices and which would have an adverse effect on food production (Krueger, Schiff, & Valdés, 1988; Meyer & Larson, 1997). Such policies include price ceilings, pan-territorial or uniform pricing, pan-seasonal pricing, marketing margin controls, high import and export taxes and parastatal marketing monopolies (Meyer & Larson, 1997).

The implementation of a pricing policy, especially in developing countries, has been undertaken with a variety of contradictory motives aimed at protecting consumers (as well as producers) from price instabilities (Dorward, et al., 2008). The critics of government intervention in pricing argue that this may lead to a failure to realise the benefit of competition, by rewarding inefficient operations (Timmer, 1989). White (1985)

claimed that uniform pricing for all economic regions would increase regional income differentials, by disadvantaging those areas with less favourable natural and infrastructural conditions and rewarding better endowed areas. Another point of criticism is that government failure to set efficient prices, due to a lack of adequate information, may negatively affect producers (Dorward, et al., 2008). Those who argue *for* the interventions are more interested in the effects of food security, nutrition and economic growth (Myers, 2006), which may be biased towards consumers, rather than producers.

Regulatory framework

Weak legal and regulatory frameworks, which rarely enforce contracts or punish those who breach contracts, affects the farmers' cooperatives (Nyoro & Ngugi, 2007). This opens up to corrupt and manipulative behavior, and a weak regulatory environment also makes cooperatives vulnerable to exploitation by deceitful businessmen. Fafchamps (1996) identified that, due to weak formal contract enforcement mechanisms, there is a great deal of mistrust amongst the players. This increases the transaction costs, since business firms are tempted to screen every single firm or individual with whom they deal. (Fafchamps, 1996). Gabre-Madhin (2006) argued that information asymmetry and opportunistic behaviour, which act as determinants of transaction costs related to contract enforcements, lead to enforcement related costs. Fafchamps and Gabre-Madhin (2001), in an extensive survey of traders in Malawi and Benin, found high incidences of contract non-performance, by up to 41% in Malawi. Coulter & Onumah (2002). In addition, they also identified that the lack of a supportive regulatory framework and disabling policies are amongst the issues that affect the development of market institutions, such as cooperatives.

Marketing system and infrastructure

The context in which a cooperative operates will have a greater impact on the participation of farmers within that cooperative. Evidence from the literature indicates that market failure contributed to the success of most agricultural cooperatives (Centner,

1988; Cook, 1995; Hansmann, 1999; Torgerson, 1977). Cooperatives that operate under less competition are, therefore, more likely to succeed.

Whilst some form of market failure is a necessary condition for cooperative formation and success, the extent of that market failure can also be a hindrance to the cooperative's success. Depending on the type of market failure, especially in developing countries, the formation of a cooperative may not provide the solution on its own, without other interventions. A market which is not transparent — and without any price discovery mechanisms — may be more complicated for a primary cooperative to pick up (Dorward, et al., 2008).

Gabre-Madhin (2006) emphasised that 'getting the markets right' requires a plan, in which incentives, institutions and infrastructures, are aligned. Sexton (1986) identified several forces that shape agricultural markets, with financial crisis as the most significant. The other factors included price and income volatility, due to reduced government involvement, an increase in competition and fewer and larger marketing firm sectors. As a result of these external forces, cooperatives would have to evolve with changing times and environment as argued by Cook & Burrell, (2009).

3.5 Cooperative life cycle framework

The various factors affecting cooperative success (or failure) found in literature can be attributed to the different stages which cooperatives have reached, with regard to the cooperative life-cycle framework (Cook, 1995; Cook & Burrell, 2009). This framework outlines the five phases (or stages) of an agricultural cooperative's progress using neo-institutional economics (Cook, 1995), and the different challenges management experiences, at each stage (Cook & Burrell, 2009). These stages are 1) economic justification, 2) organizational design, 3) growth, glory and heterogeneity, 4) recognition and introspective and 5) choice (Cook and Burrell, 2009, p.3). Considering this framework and the development of cooperatives in developing countries, (particularly in Malawi), we expect the problems associated with stages one and two to be common for these cooperatives.

3.6 Conceptual framework

This section is aimed at defining a sustainable cooperative. Rankin and Russell (2005) defined a sustainable cooperative as one which is “economically successful and hence able to compete with other cooperatives and the private sector”. According to Jones (2004), the success of a collective action, such as a cooperative, has been viewed in different perspectives: one being institution-building (sociologists) and the second being economic productive behaviours (i.e. efficiency for economists). For the purpose of this study, Rankin and Russell’s definition of cooperative sustainability will be adopted, which is a cooperative being economically successful and being able to maintain this position. We are taking sustainability of the cooperative as a long-term success.

From the review of a broad range of literature, we propose that factors for a cooperative’s success or failure would be in four categories: market environment factors; incentives; managerial skills; and governance issues. These three groups are now discussed in the following sections.

Market environment

The context under which the cooperatives are operating would have an impact on its performance and survival. The factors under this group include government policies, regulations, marketing systems and poverty issues. The market environment must be conducive for all players to participate and be competitive.

Incentives

The incentives to form and maintain a cooperative are important for its success and survival. Understanding the forces behind a cooperative’s formation and the achievement of its goals would lead to the members’ commitment to the cooperative. Members’ loyalty and commitment is important in reducing monitoring and decision-making costs.

Governance issues and managerial skills

Under this group, leadership and democratic perspective of governance, as being important in the sustainability of a cooperative, are considered. The board should be able

to resolve or choose between the interests of members and to set the overall policies of the organisation (Cornforth, 2004). Furthermore, this would work well, if it is matched with skills and experience (M. K. Rankin & I. Russell, 2005). Correct decisions and strategies will help to lower the costs associated with these activities, such as the cost of monitoring and decision-making.

From this observation, it can be argued that the success of agricultural cooperatives will depend on market environment and incentives, in addition to their managerial and governance skills. Figure 1 illustrates how these factors would affect transaction costs and consequently this would reduce the cooperative's margins.



Figure 3 : Conceptual framework of the research design indicating factors that affect the sustainability of agricultural cooperatives.

Source: Author

3.7 Summary

Agricultural cooperatives play an important role in the economic development of communities and the country as a whole. Cooperatives have been formed to counteract the problems of market failure, especially for small-scale farmers, all over the world. Cooperatives help to provide farmers with access to markets and increase their bargaining power. They are a poverty reduction strategy used for the development of rural communities.

The performance of cooperatives has been mixed; some have been successful and provided models for cooperative roles, whilst other are struggling or even completely failing. Several factors have been known to contribute to cooperative success or failure. These factors are either internal to the organisation or external. These factors would also depend on the cooperative's level of development.

Cooperatives in developing countries are facing many challenges, which include a market environment that is under developed, with no established rules or regulations. The skills and capacities of the cooperatives do not match with the complexity of their environment — and this situation is made worse by internal governance challenges.

CHAPTER FOUR: RESEARCH METHODS

This chapter outlines the features of the study areas where the research was conducted indicating its geographical location in relation to market areas. This is followed by the research design which includes the sampling of cases and participants, data collection procedures and analysis of the data.

4.1 Research Design

The study aim was to develop an in-depth understanding of the problems affecting the sustainability of farmers' cooperatives in Malawi. A qualitative research method was chosen for this study, due to its exploratory purpose (Marshall & Rossman, 1999). Qualitative research as defined by Ritchie & Lewis (2003, p. 3) is a 'naturalistic, interpretive approach concerned with understanding the meanings which people attach to phenomena (actions, decisions, beliefs, and values) within their social world'.

The choice of Research Strategy

A multiple case studies was used as a research strategy. A multiple case study design was selected for this research due to the following reasons, according to Yin (2003):

- To have results that is more pragmatic, considering the large number of cooperatives operating under different conditions.
- A multiple case study has the advantage of robustness, as compared to a single case study.
- A multiple case study also has the advantage of strengthening the external validity of the findings, since it allows for a cross-case analysis, in addition to the fact that comparisons can be made with theory

However, I was also aware that a multiple case study may result in a trade-off with the depth of the study, due to limited time and resources.

4.2 Selection of the study areas

The criteria for selecting the study sites included: market environment, accessibility, presences of cooperatives both successful and unsuccessful. Marshall and Rossman (1999 p.69) suggested that the rationale for the site selected should be well outlined, in order that the reader can gain an understanding of the setting. The study sites selected were located in the central region of Malawi, which is divided into three regions: northern, central and southern regions. The central region was selected for several reasons: firstly, due to the limited time available to collect data, this region was chosen for logistical purposes. In addition, accessibility to the site by the researcher was considered important, in order to be able to “build trusting relationships with the participants and that data quality and credibility of the study are reasonably assured” (Marshall & Rossman, 1999, p. 69). The fact that I am very conversant with the languages spoken in the region and their cultural values, as compared to the other regions, helped to build relations with the participants. This is also advantageous to gather the correct information. Ease of communication also facilitated my access to participants.

The cooperatives in the central region were targeted because there are more marketing cooperatives located in this region. From 284 registered agricultural cooperatives in Malawi, 137 (48.2%) cooperatives are located in the central region, 73 (25.8%) in the northern region and 74 (26%) in the south. In addition, 47 percent of the land cultivated to food staples (which include maize, rice, groundnuts and pulses) is found in the central region (Malawi Government, 2009b).

It was the researcher’s intention to compare and contrast cooperatives operating in different market environments and those with different performance records, based on data from Ministry of Agriculture and Food Security. This was meant to increase the chances of capturing a full range of factors that affected cooperative sustainability as argued by Ritchie and Lewis (2003).

In the case of market environment, it was assumed that a cooperative in a market failure environment would find a less competitive environment and hence, it would be able to attract more farmers to market their produce, through the cooperative. Based on this assumption, two cooperatives from a district close to the major city of Lilongwe and two cooperatives from a district a long distance from this city were selected. It was also assumed that farmers in the closest to the city of Lilongwe would have access to more marketing channels and hence these cooperatives would face more competition, compared to farmers from the farthest district (Salima), in which cooperatives would have less competition (Table 3). Consequently, an understanding of the impact of market failure, to a cooperative's performance, would be gained. In addition, I also considered the presence of both sustainable and unsustainable cooperatives in a selected district.

Table 3: Distance to city and cooperative performance based on information sourced from the Ministry of Agriculture and Ministry of Trade.

District	Cooperatives Established before 2005	Number of Successful coops	Distance from the main city Lilongwe (Km)
Dedza	8	1	100
Dowa	13	2	60
Kasungu	5	0	120
Lilongwe*	17	1	-
Mchinji	2	0	110
Nkhota kota	3	0	200
Ntcheu	2	0	180
Ntchisi	4	1	80
Salima*	8	3	120

Source: Ministry of Agriculture and Food Security (Joint Task Force Technical Secretariat)

Description of study areas

Lilongwe District

This district covers a total land area of 6159 square kilometers, with a total population of 1.3 million (NSO, 2008). From this population, 50 percent live in rural areas and they depend on agriculture as their source of income. Agriculture is dominated by smallholder

farmers, whose production is primarily subsistence orientated and 350,000 farm families are involved in cultivating 429,453 hectares (Malawi Government, 2006b). The smallholder sector provides the bulk of food requirements for the households in the district, although there is not sufficient to feed the whole population, due to the high population which lives in the city (which is not engaged in farming). Maize, sweet potatoes, beans and cow peas are grown as food crops, whilst the major cash crops are tobacco, groundnuts and soybeans.

As a district, Lilongwe has 107 designated marketing points of which 65 are privately owned and 42 are ADMARC markets. A substandard road network in rural areas makes the marketing of produce very costly.

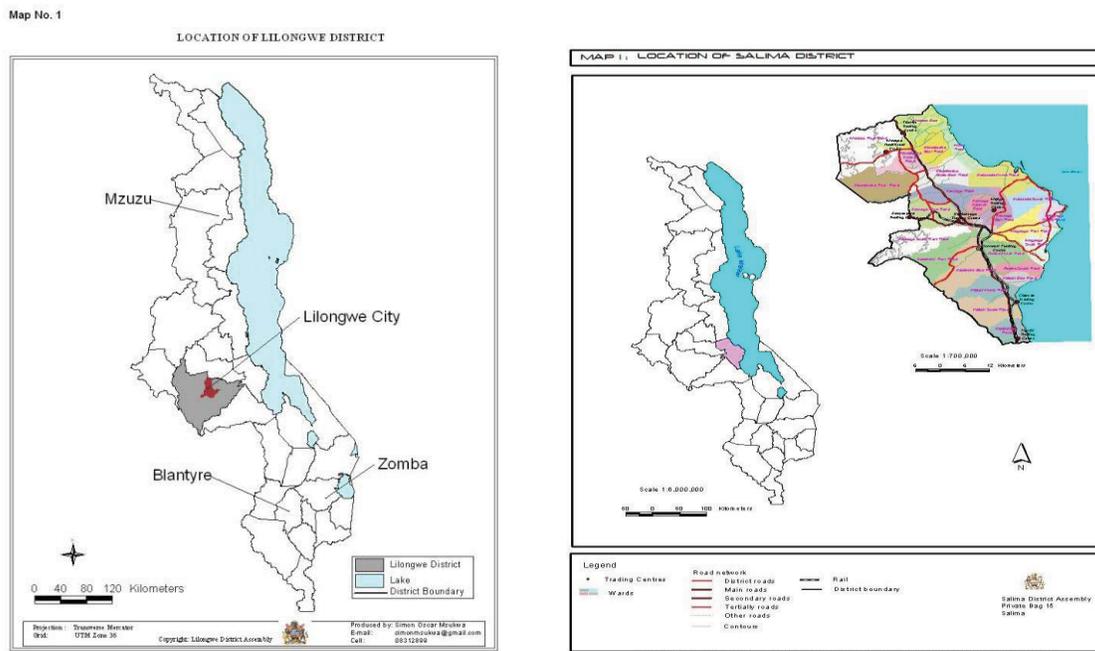


Figure 4: Map of Malawi Showing Lilongwe and Salima districts

Source: Socio-Economic Profile report for Salima and Lilongwe Districts (Malawi Government, 2006a, 2006b).

The selected cooperatives were Malingunde cooperative located in Malingunde EPA in Lilongwe (as a successful cooperative in a competitive environment) and Ndaula cooperative located in Chiwamba EPA (regarded as being unsuccessful). See figure 3.

Salima District

Salima district is located in the central region of Malawi, 120 kilometres east of Lilongwe. The district has a total land area of 2196 square kilometres (Malawi Government, 2006a), with a population of 309,300 (NSO, 2008). The poverty rate for the district is 57.3 percent, which is higher than the national average of 52.4 percent (Malawi Government, 2006a). The literacy rate is 52 percent for primary school education (up to year eight of school).

Agriculture is the pillar of the district's livelihood strategies, with over 90 percent of the population being dependent on it for their incomes. The smallholder sector is comprised of 93,400 farm families that cultivate approximately 107,000 hectares of land, with an average land holding size of 1.1 hectares per household (Malawi Government, 2006a). Production is mainly subsistence orientated, with farmers producing for home consumption and then the surplus is sold in local markets. The crops grown include tobacco, maize, groundnuts and cassava in hilly areas, whilst the rift valley floor is suitable for cotton and rice: and sometimes winter maize.

Salima has three types of markets, namely ADMARC, district and town assembly markets and private markets. In terms of infrastructure, most rural areas are connected by undesignated roads, which cover 500 kilometres and represent approximately 63 percent of the total road network (Malawi Government, 2006a). Since these roads do not have any conventional structures, such as bridges, they are a challenge to the farmers during the rainy season

In Salima district, Mtunthama was selected as the successful cooperative and Lifuwu as the unsuccessful cooperative, from Tembwe EPA. The locations of these districts are presented in Figure 5.

4.3 Selection of Cases

Considering the objective of the research study, the cases were purposively selected. This was to allow me choose cases which would illustrate some features of interest as argued by Silverman (2005). The cases within the districts were selected based on their performance as the main criterion, then availability of records and should have been operational for more than five years as indicated in Table 4. In case of performance, the cooperatives should records and known performance where the management and staff would be available (and who would also understand why the cooperative was successful or unsuccessful). The cooperatives selected were amongst those that had been operational for more than five years. This was to gain a better understanding of why they were successful and why the participants believed that their organisation could be sustainable.

Table 4: Newly Registered Cooperatives in Lilongwe and Salima Districts

Year of registration	Lilongwe District				Salima District			
	Total number	successful	unsuccessful	status	Total number	successful	unsuccessful	status
1996	2	-	2	liquidated	1	-	1	liquidated
1997	1	-	1	liquidated	-	-	-	
1998	1	-	1	liquidated	-	-	-	
2000	-	-	-		1	-	1*	
2001	2	1	1*		3	3*	-	
2002	1	-	1		4	-	4	
2004	11	1*	10		-	-	-	
2007	3	1	2		2	-	2	
2008	7	4	3		2	-	2	
2009	6	6	-		2	1	1	

Source: Ministry of Trade and Industry (2010).

*Selected cooperatives.

From each district, two cooperatives were selected; one considered sustainable and one less sustainable, based on a ranking prepared by the Ministry of Agriculture. These cases were selected from a list obtained from the Ministry of Agriculture and Food security, which was compared with a list from Ministry of Trade and Industry. The selection was

validated by officials from MALEZA (an NGO currently working with the cooperatives) in order to gain a viewpoint on the performance of each cooperative.

In addition to the above consultations, the viewpoint of the ‘Cooperative Union Project’ in Salima was sought, in order to validate the selected cooperatives. One cooperative, which demonstrated a successful performance and one that was failing were selected for each context. Although two failing cooperatives were selected, these were not the most inferior cooperatives in the districts. In consideration of the objectives of the research, which was to examine sustainability, cooperatives which had been operating for longer periods were considered appropriate for the study. Table 5 illustrate the cases selected based on the criteria given.

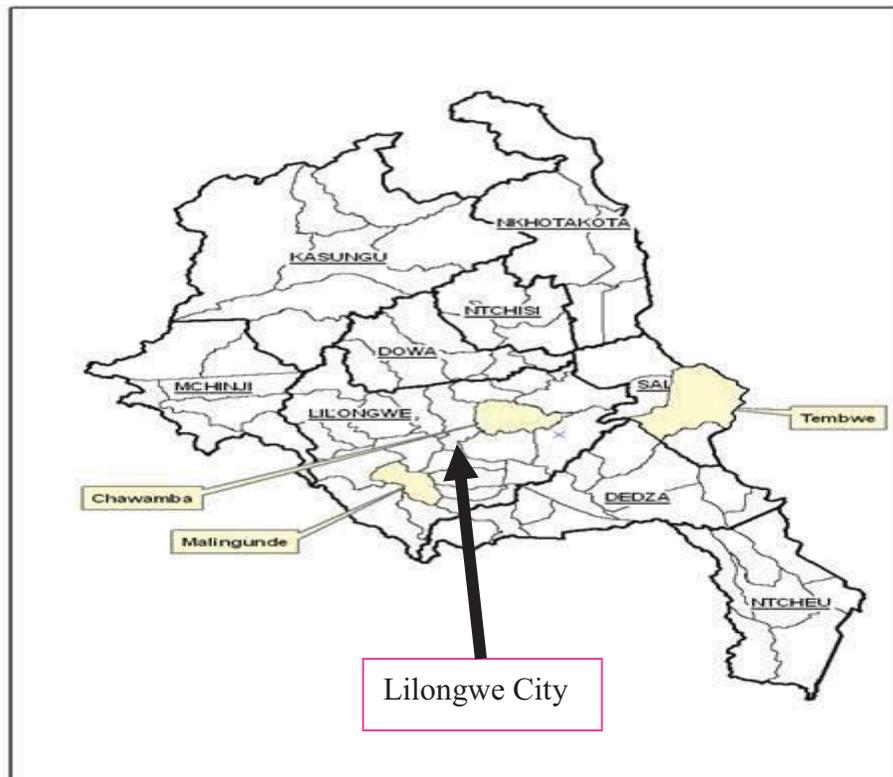


Figure 5: Map of the central region showing Salima and Lilongwe Districts and the research sites

Source: Ministry of Agriculture and Food Security (Food Security Joint Task Force Technical Secretariat)

The selected cooperatives were Malingunde cooperative located in Malingunde EPA in Lilongwe (as a successful cooperative in a competitive environment) and Ndaula cooperative located in Chiwamba EPA (regarded as being unsuccessful). In Salima district, Mtunthama was selected as the successful cooperative and Lifuwu as the unsuccessful cooperative, from Tembwe EPA.

Table 5: Showing selected cooperatives

	Market environment	
Performance	<i>Competitive (Lilongwe)</i>	<i>Non-competitive (Salima)</i>
<i>Successful</i>	Malingunde cooperative	Mtunthama cooperative
<i>Unsuccessful</i>	Ndaula cooperative	Lifuwu cooperative

4.4 Selection of Participants

After the cases were selected, the respective cooperatives were contacted two to three days prior to the anticipated date, in order to notify them of the visit and its purpose. Upon arrival, the cooperative's management introduced me to the board members and ordinary members. The identification of farmers and farmers' groups was undertaken with the assistance of the cooperative's management team and Ministry of Agriculture staff, who were working in the area. This occurred with all cooperatives, except in one case, where I noticed the board's unwillingness to let me interview their ordinary members. The agriculture staff helped to identify farmers who, in turn, helped to identify members.

Purposive sampling techniques were used to select farmers for interviews according to Ritchie and Lewis (2003). In purposive sampling, participants were selected, based on their experience with the cooperative, including farmers who had an overall knowledge

of how the cooperative worked and who were able to understand other farmers' situations. I also used snowball sampling to select the second member to be interviewed. To achieve diversity of the sample the criteria for the qualities of the individual were presented (Ritchie & Lewis, 2003). Individual farmers and a group of farmers were interviewed and I also conducted interviews with the management of the cooperatives.

In addition, I had the opportunity to interview other participants, who had either been working with the cooperative, or who had a role in the performance of the cooperative. These included an official from an NGO, MALEZA, one official from the Ministry of Trade and a private trader. After identification of the participants (and a day or two before the interview) I arranged a time and venue with the respondents, which was suitable for them.

4.5 Data collection methods

The data collection was carried out between May and June 2010. I used various types and sources of data, in order to ensure that the findings were more accurate (Yin, 2003). Primary and secondary sources of data were used to collect relevant information for the study. Primary data was collected by conducting interviews with farmer members of the cooperatives, cooperative management and key informants. A semi structured interview guide was used. See appendix 1. This was meant to allow more probing and having and intensive discussion around the subject at hand, while at the same time keeping focus of the research objectives.

Interviews

I chose to conduct face-to-face interviews with individual members of the cooperatives, in order to gain a better understanding of the issues (from the farmers' perspective) on the cooperative's activities, benefits and challenges. According to Marshall and Rossman (1999) face to face interactions in qualitative research are important to help researcher understand the meaning that participants attribute to human actions – their thoughts, beliefs and values. The use of semi-structured and one-on-one interviews helped me to understand the motivation and decisions made, which led to these farmers opting to be in

the cooperative and the problems leading to its failure or success. According to Ritchie and Lewis (2003) one-to-one interviews are used for delicate and more complex investigations. Respondents were also asked to assess the performance of their cooperative, based on the achievement of objectives and expected impact on the members' needs. The interviews were conducted as a guided discussion, in order to ensure that a consistent line of enquiry was pursued and to avoid unnecessary distractions as suggested by Yin (2003). The interviews with farmer members and cooperative management were conducted in the local language.

A total of six farmers were interviewed and one group (which was in form of a focus group discussion) was conducted, in order to gain an insight into the farmers' perceptions on the importance and performance of their cooperatives. The discussion with the group of farmers was aimed at getting a better assessment of the cooperative performance and problems encountered. The group helped the participants to reflect on what others had said and thus it prompted others to reveal more (Ritchie et al, 2003). Apart from ordinary members, I also interviewed two members from the management team (one board member and one employee) of each cooperative. Audio-tapes were used to record the interviews, since this provided a more accurate version of the interview, agreeing with Yin (2003). The interviews usually lasted from 40 minutes to one hour.

Table 6: Participants interviewed

participants	Cooperatives			
	malingunde	Ndaula	Mtunthama	Lifuwu
Farmer members	2	*6	2	2
Board members	1	1	1	1
management	1	-	1	1
Local experts			3	
Total	4	2	4	4

*as a group discussion

Local Experts

I also had an opportunity to interview some officials from one NGO, the Ministry of Trade and a private traders' association, as key informants. The aim of these interviews was to gain an understanding of their involvement in cooperative activities, and what

have been the challenges for the cooperatives. On the part of the private traders, I wanted to ascertain their perceptions of the cooperatives' performance and an evaluation of their impact on the market.

Secondary sources involved reviewing documents from the cooperatives and the Ministry of Agriculture and Food Security. Secondary data was generated from a document search and include data, such as written reports, minutes of cooperative meetings and other communications. Various sources of information were used for the data triangulation process, to ensure accuracy. This was intended to validate the information gathered from other sources, as stated by Yin (2003).

4.6 Fieldwork Process

The fieldwork took more than six weeks, between May and June 2010. Before I left for field work in Malawi, I made contact with some officers from the Ministry of Agricultural and Food Security (via email) who provided me with some basic data, which I used to draw up the study approach. Upon my arrival, I first contacted the Ministry of Agriculture officials, who assisted me with information about individuals and organisations, who deal with the cooperatives. I then, contacted the Director of MALEZA, as one of the NGOs that has been working with some cooperatives in Malawi, in order to gain an insight into the performance of the cooperatives. I began a dialogue with him, in order to select suitable sites for my research, as planned, in relation to performance and proximity to markets. Since I was relying on information sourced from on the Ministry of Agriculture data base, relating to cooperatives' performance, the meeting with the director helped to identify cooperatives.

Upon my arrival, I briefly explained to them the purpose of my visit and the objectives of my research. At all the cooperatives, I was able to interview board member on the same day. With the assistance of these board members, I would then sample some members of the cooperatives to be interviewed, who would later each help to identify another farmer. The same process was followed for all four cooperatives.

Problems with data collection process

Although I managed to gather the information I needed, it was not easy (as I had expected) to gain access to some of the data, since some of the people involved were not willing to release information. An example of this situation was when I wanted to look at a report, which had been produced on the sustainability of a cooperative, but I could not access it because all the people, who should have had the report, indicated that they did not have it. I also faced some challenges with two of the failing cooperatives, where the management showed some resistance to the idea of me interviewing ordinary members and examining some of those cooperative's documents.

Reliability of data

The challenge I met with the availability of data was that I would receive conflicting information from different institutions: and some of the information provided was out of date. For example, the records for one cooperative I visited showed it was active and it was only after consulting with the NGO that I learnt that it had actually closed down. Due to poor record keeping, the information from cooperatives could not be found and management relied on their memory, especially where figures were involved.

4.7 Data analysis

Data was analysed using a qualitative data analysis which involved the process of describing, classifying and connecting, as outlined by Ritchie and Lewis (2003). The recorded interviews were first transcribed, in order to provide a basis for analysis, which involved the coding of data and the identification of important points. This included describing and analysing the situation, within which the study was being carried out: and also comments made by the participants.

Data analysis began, informally, during the interviews and observations, when recurring themes, patterns and categories become evident. Recurring themes or ideas were identified with a focus on the frequency of their occurrence and consequently sorted into

a smaller number of broader, higher-order categories or main themes, which were then placed within an overall framework.

4.8 Ethical Consideration

The study came under low risk notification, since there was low risk to the researcher and participants — following and assessment and approval of the research proposal by the Massey University Human Ethics Committee (Appendix 2). In addition, the code of conduct underlying research involving human participants, as stipulated in the Massey University Human Ethical Code (MUHEC) was adhered to (MUHEC, 2005). The purpose of the study was explained to the participants before the interviews or any gathering of information from them. This included the fact that the participants were made aware of the objectives of the research and what was expected of them. Participation was voluntary and based on an understanding of adequate and appropriate information of what would be involved. Verbal consent was sought and the participants were accorded the freedom to participate, or not, without being forced. The participants were assured of the confidentiality of the information provided and their privacy was respected.

4.9 Summary

A multiple case study approach was used with four cases selected, based on the context, performance and period of operation. Cases under a competitive market environment and cases under market failure were assessed, where relative distance to main cities and industrial areas had been considered.

Data collection was conducted using semi-structured interviews, in consideration of the ethical issues. Data was analysed, based on the transcribed tapes. Categories and relationships were identified, in order to draw results from the study. The results were compared and contrasted with the theory, in order to draw conclusions and policy implications.

CHAPTER FIVE: DESCRIPTION OF CASES

5.0 Introduction

This chapter gives a description of the four cases understudy. Malingunde and Mtunthama cooperatives are the successful cooperatives. Ndaula and Lifuwu cooperatives are the unsuccessful ones. Malingundae and Ndaula are operating in competitive environment, while Mtunthama and Lifuwu are under non-competitive market environment.

5.1 Malingunde Producers and Marketing Cooperative (a-priori competitive environment and a-priori successful)

5.1.1 Introduction

Malingunde cooperative has its headquarters at the ‘Sinyala Trading Centre’ which is approximately 30 kilometres south of Lilongwe city. It covers an area within a radius of 10 kilometres in the area of the traditional authorities, Masula and Masumbankhunda. It has been operating successfully for a period of six years.

5.1.2 Historical development of the cooperative

This cooperative was started in 1997, as a farmers’ association, with the aim of improving access to farm inputs, under the guidance of an NGO called LIWEZA. The group used to obtain input loans from a government programme called APIP, in form of fertiliser and seed, with no interest. However, after APIP programme cancelled the loan amount given to the group, and the members decided to use the money as start-up capital, in order to continue providing these services to their members.

In 2004, the organisation changed from an association to a cooperative and it received its official registration from the Ministry of Trade and Industry. The reasons given for the change were firstly, the organisation wanted to operate as a profit making organization

and secondly, it wanted to diversify its activities such as the buying of produce from farmers and the processing and provision of extension advice to its members. Thirdly, due to the high default rates it had experienced from members, it was difficult to enforce the loan repayment procedure, because, as an association, it did not have an official registration with the government. According to the law, it was difficult for the organisation to obtain a member's assets, upon default. Lastly, as a cooperative, they would easily be assisted by the Ministry of Trade and Industry, in terms of services, such as auditing and training.

This cooperative has operated reasonably successfully since its inception. It has continued to provide input loans to its members. However, the marketing of members' produce has been a challenge. The cooperative only managed to buy produce from their members for a period of two years and during these two years they faced problems with marketing due to a lack of market information and (to some degree) the poor management of the produce.

The cooperative, at first, provided input loans in the form of products, such as fertiliser and seed, through a loan from APIP and this was distributed to its members, who would re-pay the cooperative in form of cash or produce, at agreed prices. However, due to an increase in fertiliser prices, (at the same time as APIP was phased out) it was difficult for the cooperative to continue providing the same package. As a result, it resolved to offer cash loans instead. This package was (at first) sufficient for two acres (0.8ha) of maize, whilst the cash loans now being offered are only sufficient for inputs that cover up to one acre.

5.1.3 Present activities

At the time of this research, the cooperative's main activity was providing input loans to the members. Since the cooperative does not have sufficient capital, it also links them to a micro-finance institution called FINCOOP, which offers loans only through the cooperative. In addition, the cooperative is also running some business enterprises, such as selling inputs (for example fertiliser, seeds and pesticides) on small scale. It also owns

some farm machinery, which members can hire and these include a jack for baling tobacco, sprayers, an oxcart and work oxen. The cooperative also owns a maize mill, which is not currently working. The management intends to resume the buying of produce from the members this year but, at the time of this study, they had not figured out how and when they would actually start buying.

5.1.4 Membership

Membership in the cooperative is limited to individual farmers whose main occupation is farming and who operate and live within a radius of 10 kilometres from the cooperative's headquarters. Admission into the cooperative is by application, which is assessed and approved by the board of directors. Since its inception, membership has been fluctuating and decreasing, as indicated in Table 4.3. The main reasons for this situation have been twofold: members not being satisfied with the services provided, especially after the change from receiving inputs to cash loans. The input loan had been the main attracting force for the individuals to join the cooperative. Although the cooperative has several objectives, apart from access to input loans, its other activities have not come up to the members' expectations. Secondly, members who failed to repay their loan were excluded from the members' list for the following year. However, once a member the loan, the board might reconsider his/her membership, depending on the circumstances surrounding the failure to repay.

Table 7: Membership

Year	2002	2003	2004	2005	2006	2007	2008	2009
Membership	828	550	481	-*	335	494	253	356

Source: Cooperatives document.

* Data not available

5.1.5 Financial Matters

The cooperatives sources of finances include assistance from donors, the sale of shares, other fees and small businesses. Upon admission, a member is required to pay an entrance fee and a full amount of shares allotted to him/her. The entrance fee is non-refundable (if one decides to leave) but the shares are refundable. The amount of a single

share is currently at MK1, 000. Each member is entitled to buy any number of shares, provided that no member holds more than 20 percent of the total paid up share capital of the cooperative. However, none of the members have paid more than the value of a single share: the reason given being the extreme poverty amongst the members of this cooperative.

In terms of external assistance, the cooperative's main source of capital source is the assistance given by APIP. In addition, the cooperative got some assistance from a local NGO called MALEZA inform of business assets such as a maize mill, ox cart, a jack and some start-up material for the shop business. Regardless of all these assets, the cooperative's capital has been decreasing, due to defaults and a failure to manage other business enterprises. The maize mill is currently closed, due to a lack of business, which is a result of the mill's location. The cooperative plans to sell the oxcart and work oxen because it is too costly to keep them, when compared to the returns.

5.1.7 Governance structure

The cooperative has a constitution (or by-laws) which define the duties and responsibilities of all the office bearers. Interviews with members, in addition to board members, reveal that the by-laws act as a guide for the cooperative to operate as a business organisation and each member must observe and respect the by-laws of the society. There are three groups of people involved in the direct running of the cooperatives: the board of directors, managerial staff and zone representatives.

Board of directors

The cooperative by-laws allow a maximum of seven members to serve as board of directors. All directors should be elected from cooperative's membership, at a general meeting. The directors are responsible for controlling the cooperative's business. As an incentive for the directors to work in the cooperative, an allowance is given and this is determined at a general assembly. The cooperative is also divided into eleven zones: each zone has a chairperson who represents members at board meetings. The chairperson

is responsible for the dissemination of information, from the board to the members. When there is an important issue to be discussed which requires the involvement of all the members, the zone chairman is responsible for conducting the zone meeting and facilitating discussion on the issues with members: he/she will then take the members' views or grievances to the board. Apart from these actions, the cooperative also holds an annual general meeting, where cooperative policy matters are communicated to members and other important issues are also discussed.

Management

The cooperative employs a number of staff to help with the running of the cooperative. In the past these employees were provided for and supported by an NGO but, for the last four years, it has been the responsibility of the board to recruit and pay their staff. Currently, the cooperative has six employed staff comprised of the manager; and directly under the manager is a sales and credit assistant, who is responsible for loan recovery.

5.2: Mtunthama Producers and Marketing Cooperative (a-Priori Market Failure Environment and a-priori successful)

5.2.1 Introduction

Mtunthama cooperative is located at 'Katerela Trading Centre', which is 15 kilometres south of Salima Town. Initially, the cooperative was supposed to cover a distance within a radius of 10 kilometres from the cooperatives' headquarters. However, due to accessibility problems, the cooperatives' office was moved to a new location close to the road. As a result, its farthest away member is located approximately 22 kilometres from the office. This cooperative has been in existence for a period of nine years.

5.2.2 Historical development of the cooperative

The cooperative started with a group of 15 farmers, with the aim of addressing the problem of access to input markets. The members contributed a small amount which was

used as a deposit, in order to access a loan from the MRFC. Later a local NGOs (Mwasacho) came in, who linked them to other organisations, such as APIP, COOPI and COPSE. Mwasacho also introduced them to the idea of a cooperative. COOPI and COPSE then constructed their offices and provided them with start-up assets, such as a maize mill, a jack for baling tobacco and an ox cart.

The association, although informally established in 1997, actually received its legal certificate of registration from the Ministry of Trade and Industry in 2001, when it registered as a cooperative. The reasons for this change were that they wanted to grow and operate as a business enterprise, which would be able to generate some profits through diversification of their business activities; marketing their produce as a group, in order to access larger markets with better prices; obtaining access to improved technology; and accessing extension advice through the cooperative.

Since its inception, the cooperative has operated reasonably successfully. Its success is based on the fact that it has been able to survive for such a long period of time. However, the marketing of member's produce has been undertaken for only a period of two years and this has resulted in losses. Being situated far from Lilongwe, which is the main city, the cooperative has incurred high transportation costs and difficulties in accessing market information.

5.2.3 Present activities

The cooperative has several objectives, as stated in their by-laws. However, at the time of this research, the main activities were offering loans to its members and selling farm inputs such as fertilisers, seed and pesticides. The cooperative also owns farm machinery, which members (and non-members) can hire and it provides some social services for its members. The cooperatives also hands out food on loan (such as maize) to members, during the hunger months and member are expected to pay back the same amount of maize, but with extra kilogrammes. For example if a member has received 50kg of maize,

then s/he is required to re-pay 70 kg. In addition, the cooperative also ventured into the marketing of agricultural produce, but on both occasion it resulted in losses.

5.2.4 Membership

Membership of the cooperative is open to all the farmers within a radius of 20 kilometres from the cooperative's office. Admission is accepted upon payment of the required fees. Since the setting up of the cooperative, membership had been increasing, until the last two years, when they have not registered any new members and participation of the long standing members is also decreasing. At the time of this research, the cooperative had a total of 275 members, but only 185 were considered to be active members. The reasons given were firstly, when the cooperative was linked to APIP, it was able to access inputs at cheaper interest rates and members were able to see the benefits. However, at the present time, it acquires its loan from a bank, which charges higher interest rates and in addition the cooperative has to add an extra rate for its operations costs, thus making their loans more expensive.

Secondly, due to an increase in fertiliser prices, the cooperative offers cash loans instead of inputs. These cash loans are not sufficient for members to gain meaningful benefits. This situation, coupled with poor prices (due to the cooperative's failure to market member's produce) has contributed to a lost interest in the cooperative by its members.

5.2.5 Financial matters

The cooperatives main source of capital has been support from donors and its own members (through their buying of shares). A member is required to at least pay for one share, which is valued at MK500. Although the members are encouraged to buy as many shares as possible, none of the members hold more than one single share value. In relation to the assistance received from the donors, the cooperative was given some business assets such a maize mill, a jack and an ox-cart. These assets have contributed a great deal to the generation of revenue for this cooperative, and it was able to buy another maize mill for this.

The cooperative also accesses loans from the bank for lending to its members. The bank charges the cooperative 27 percent and the cooperative also adds another 7 percent. Loan defaults are impacting negatively on the cooperative's performance. Due to its default rates, the cooperative has used its own resources to repay its loan from the bank, fearing that the bank would seize some of the assets that were used as collateral in the loan agreement. The cooperative's small business volume results in a small number of defaulters to having a large impact on the cooperatives capital.

5.2.6 Governance structure

Board of directors

The cooperative's board of directors comprises six members, who are elected from amongst the members of the cooperative. These elected members are allowed to choose a chairperson from their group. According to the cooperative's by-laws these members are allowed to serve for a period of three years and then another group must take over. One person can be allowed to serve for a maximum of two consecutive terms in office.

The director's responsibility includes providing direction for proper running of the cooperative; employing and dismissing the services of the cooperative's employees; authorizing contracts, debts and/or obligations; and recommending the dividends to be paid. The directors are given an allowance for every time they meet, as an incentive for them to work for the cooperative and this amount is agreed upon, during the general assembly meeting.

The zone chairpersons work under the board of directors. The cooperative is divided into eleven zones and each zone elects a member to represent them at board meetings, which take place every two months. The zone chairperson becomes a potential candidate to be elected to the board. The duties of the zone chairperson include disseminating information from the board to the members and taking member's grievance and suggestions back to the board. When there are important issues that need members' input, the zone chairman is responsible for conducting meetings in their area, in order to find

out the members' viewpoints, before any decision is made by the board. However, members indicate that most of the time this does not occur and communication is only one way -from the board to members only.

Management

Apart from the elected members, the cooperative employs technical staff to help with the day to day running of the cooperative. The cooperative has a total of eight employees. These include a manager, an accountant/secretary and six other support staff. The main decisions are made by the board, whilst the manager acts as an advisor to the board, to ensure that the decisions made are feasible. The interview with management revealed that the relationship between the two groups is excellent and this situation has helped the cooperative to move forward.

5.3 Lifuwu Rice Cooperative (a-priori market failure environment and a-priori unsuccessful)

5.3.1 Introduction

This cooperative is located at Lifuwu, 28 kilometres East of Salima town and 135 kilometres from Lilongwe city. The cooperative has been operating reasonably successfully for a period of nine years. However, it faces a great many challenges, both from its internal organisation and the external environment.

5.3.2 Historical Development of the cooperative

The 'Lifuwu Rice Cooperative' is a formal cooperative, which was registered in 2000 and it has a total membership of 132 farmers. The cooperative runs what was previously a government owned rice scheme. The implementation of the structural reforms, which required the government to privatise its businesses, resulted in the government handing over this scheme to the farmers in 2000. Under this government system, the farmers were

given all the necessary inputs to produce rice which was later sold to ADMARC. The cooperatives main objectives were:

- Transforming the subsistence production into market oriented rice production through agro-processing and ensuring that farmers have access to better markets. The cooperative was expected to buy rice from the members and mill and package it to sell to wholesalers and retailers;
- To provide input services, land management and irrigation services to its members;
- To provide members with extension services that would help them to better manage their crops for maximum production.
- To provide input loans for members. The cooperative would be lending money to its members at reasonable interest rates as a way of assisting farmers and (at the same time) it would increase the cooperative's capital.

During the handover from the government to the farmers, the cooperative was given to the traditional head-person of the area. This has resulted in the traditional leaders having more influence on the affairs of the cooperative and hence this has impeded the development of its democratic values. Otherwise, according to the members and the board, the cooperative has the potential to succeed if properly managed.

5.3.3 Present activities

At the time of this research, the main activities of the cooperatives were managing its irrigation facilities. The cooperative tills the land for its members at agreed prices, which members usually pay back in the form of produce (rice). The cooperative has not been able to buy rice from the farmers and as a result marketing is undertaken individually. The reasons given by the management for this situation were a lack of capital to buy rice from the members and a failure to identify markets, due to lack of market information.

On the other hand, the members indicated that the cooperative is failing to buy rice from them, due to mismanagement of resources. The cooperative is also involved in the production of rice seed, but this is only undertaken by a few members, who are able to

follow the production procedures. Rice seed production is more profitable but most members are not participating, because the selection of members for this task is done secretly.

5.3.4 Membership

Membership of the cooperative is limited, due to land availability. At the time of this research, the cooperative had a total of 140 members, who cultivated approximately 100 hectares of land. Admission to the cooperative is based on land being available. According to their by-laws every member is supposed to nominate a member of their family to take their place, in the event of a members' death. However, if there is no member of that family, who is interested in the land, then it is given to an interested individual. The board of directors is responsible for assessing and approving all new members.

The cooperative has experienced very little increase in its membership, due to its limited facilities. Although the membership is not decreasing, the interviews with both members and management reveal that members' participation in the cooperative activities is decreasing. This was noted as a result of members' poor attendance at meetings. The interviews with members reveal that the undemocratic way of running the cooperative has led to them losing interest in the management. What hold them together now are the irrigation facilities and in addition the members want to benefit from its assets.

5.3.5 Financial matters

This cooperative was given assets, which included two tractors, a lorry, one irrigation pump, one rice mill, a silo and a shed. The cooperative was also given start-up capital by COSPE in two forms: MK300, 000 as cash and in addition the NGO tilled the land for the members, for loans which were to be paid to the cooperative after harvest: this amounted to MK500, 000. The money was meant to be used by the cooperative to begin buying the members rice and for milling and packaging. However, the interviews with the members and board reveal that due to leadership's lack of strategies and managerial skills, this money has been misappropriated.

In addition, members of the cooperative are required to pay a registration fee of MK500 and to at least buy one single share of MK500. The members are allowed to buy many shares, as a way of investing in the cooperative, but no more than 10 percent of the cooperative capital. Members are also required to contribute two bags of rice per acre of land that each owns in the scheme: those members with less land pay less. This contribution goes towards the cooperatives running costs. The cooperative provides services for its members, such as tilling and irrigation, and the members are expected to pay for these services. As indicated by the management, payments are meant to cover the cost of servicing tractors and also fuel and electricity for the pump. At the time of this study, payment for tractor tilling was at MK7, 500 per hectare, or three bags of rice and irrigation was at MK10, 000 per hectare, per season. The members were also given rice seed and for each bag they would pay back two bags of rice. In short, a farmer is expected to pay the cooperative a minimum of six bags of rice per year.

Regardless of the cooperative's ability to generate all this revenue from the members, it has been facing financial problems. Since its establishment, the cooperative has not been able to buy rice from its members. The reasons given by management are that they do not have money for buying rice. On the other hand, members feel that mismanagement is the main problem. During interviews with the members, it is revealed that the cooperative has been facing leadership wrangles, due to benefits that the leaders are known to be receiving from the cooperative. The cooperative is, therefore not able to distribute any dividend to its members, since there is no real business being undertaken, apart from the rice milling.

5.3.6 Governance

The administration of the cooperative is comprised of three different groups: members, directors and managerial staff. Apart from these people, the cooperative have five different committees that are responsible for specific areas. These include water, finance, marketing, agriculture and credit committees: each committee has three members.

Board of Directors

This cooperative has a board of directors, which is comprised of six elected members. According to its by-laws, the directors are elected at an annual general meeting or a special meeting attended by all members of the cooperative. However, due to problems encountered with the previous directors, the current directors were nominated by the traditional chief of the area.

The board of director's responsibility is to translate the cooperative's policies into actions and to safeguard the interest of the members. They are expected to provide direction for the most effective way of carrying out the members' wishes. An allowance is given, as an incentive to work in the cooperative, which is agreed upon during the general assembly meeting. However, this has resulted in leaders abusing the office.

In addition to the board of directors, various committees are responsible for providing checks and balances on the board's activities, in addition helping in specific areas. These include the finance committee, which is responsible for monitoring the cooperative's finances; and the water committee, which is responsible for the management of water and irrigation facilities to ensure that water is distributed fairly amongst the members. The marketing committee is responsible for market research and negotiations. The agriculture committee is responsible for agriculture activities, such as making ensuring that the members are following good practices, especially in seed production: and finally, the credit committee helps with following up debt owed by members.

Management

The cooperative employs a manager and other support staff. At the time of this study the cooperative did not have a manager, since the previous one was fired due to his involvement in the theft of the cooperative's money. The manager had connived with some board members to get some cash from the cooperative which was then shared amongst them. However, plans are underway to recruit another manager.

5.4 Ndaula Producers and Marketing Cooperative (a-priori competitive environment and a-priori unsuccessful)

5.4.1 Introduction

This cooperative was selected under a competitive market environment. The cooperative is located along Lilongwe-Salima road, which is 15 kilometres from Lilongwe city. At the time of this study the cooperative had closed down: this was mainly due to the theft of cooperative money by the management.

5.4.2 Historical Development of the cooperative

Ndaula is a formal cooperative, which was registered with the Ministry of Trade and Industry in 2001. The cooperative started informally as an association, with the help of a government staff. The aim was to help each other to learn about more successful ways of farming. They started by producing agro-forestry tree seedlings, which they sold to raise money as capital for their organisation. They later used this money as a deposit to start accessing APIP input loans. At a later time, an NGO Mwasacho, helped them, by linking the association to other donors.

The association changed into a cooperative in 2001 and it was formally registered by the Ministry of Trade and Industry in the same year. This change was meant to help them operate as a profit making organisation and they would be able to expand their activities. Apart from providing input loans to the members, the group wanted to go into the marketing of their produce. With the help of Mwasacho, COOPI and COSPE, who built the offices and provided them with the other business assets, the group started well. At the time of its registration, membership had reached 1000.

According to their by-laws, the cooperative objectives can be summarised as follows:

- To market agricultural products for its members in the most profitable manner;

- To purchase and supply to its members agricultural inputs, implements and machinery, such as livestock, feeding stuffs, seeds, fruit trees and other farming requisites;
- To commence, acquire and operate supply stores under a cooperative system, for the disposal of and supply of agricultural products;
- The cooperative was expected to acquire and distribute information about the most successful ways to carry out farming operations, in order to increase the profitability of their farming;
- The cooperative was expected to go into agro-processing of their members commodities, in order to improve on the value of their products, for the benefit of the members (Cooperative constitution, 2001).

The cooperative continued providing input loans to members. They were also buying produce from the farmers (both members and non-members) in the area. The cooperative had two shops that sold inputs, such as seed, fertiliser and pesticides. It also offered small machinery for hire, such as an oxcart, jack and sprayers. The cooperative faced some ups and downs during the time it was operational. At the time of this study, the cooperative had completely collapsed, although records obtained from the Ministry of Trade still show it as being active and the Ministry of Agriculture scores it as having average sustainability.

5.4.3 Membership

Membership in the cooperative was open to farmers who were located within a radius of ten kilometres from the cooperative office. The membership rose to about 1,500, due to the benefits observed by the local farmers. This was mainly due to a time when the cooperative was handing out fertiliser to its members (on loan). However, the cooperative experienced the first theft (by the chairman of the cooperative at that time) and this, resulted in some members withdrawing their membership. The cooperative then had to start a fresh by asking for new shares. During this period, its membership went down to 853 and this was the total membership, at the time of its closure.

5.4.4 Financial matters

The group as an association started by raising and selling tree seedlings, which raised MK400, 000. The money was used as a deposit for the group to start accessing fertiliser loan, under the APIP programme. The cooperative also received some assistance from donors, who built the offices and also provided business assets. The cooperative's main sources of income included its members' annual contributions; sale of shares; registration fee from new members; profits from selling agriculture inputs from the two shops; maize mill business; hiring of jack and oxcart; and profit obtained from the sale of agricultural produce.

4.4.6 Governance structure

The cooperative had a similar structure as those seen in Case One and Two. The management of the cooperative consisted of three groups: directors, zone chairperson and managerial staff. The zone chairperson also formed different committees, which helped to provide checks and balances to the board.

Board of directors

The cooperative's board of directors was comprised of six members, who were elected at an annual general meeting (or a special meeting) by all the members of the cooperative. New directors were elected after the completion of three terms of office, unless members lost confidence in them before that time. The board of director's responsibility was to translate the cooperative's policies into actions and to safeguard the interest of the members. The directors were also responsible for hiring and supervising the manager and other employed staff, so that they would be able to carry out the activities of the cooperative. They were expected to provide direction for the most effective way of carrying out the members' wishes.

Zone chairpersons came under the board of directors. Their responsibilities were similar to the other cooperatives with this structure. Interviews with former members reveal that

these people played an important role, as a communication channel and they encouraged membership participation in the cooperative's activities.

Management

The cooperative employed a manager and other support staff. During this period when the cooperative was operational, it had hired three managers, with the help of Mwasacho. The first manager stole from the cooperative together with the chairperson. Consequently another manager was hired, who was trustworthy and he helped the cooperative from collapsing and it began to show profits again. The third manager worked for one year and then he stole the cooperative money which resulted in collapsing of the cooperative.

CHAPTER SIX: FINDINGS

This chapter begins with an outline of the farmers' understanding of their cooperative's performance. Several reasons have been stated by participants as contributing to the poor performance of the cooperatives in this study. These factors are based on three categories which include: market environment; incentives and managerial skills; and governance. From the stated problems propositions relating to cooperative sustainability are identified.

6.1 Farmers' perceptions about cooperatives' performance

All the farmers I interviewed in the four cooperatives, were in agreement about the potential of the cooperatives, but were quick to express dissatisfaction with their performance so far. Members in all the four cooperatives cited access to input loan as the major benefit they are getting from the cooperative as of now. In addition, the cooperatives tried to market members produce by buying it from farmers and selling as cooperatives, but this has proved to be a failure. The main problems contributing to poor performance include failure to access produce markets due to complexity of the market environment, internal problems which include limited skills leading to poor management of resources, and poor governance. As a result of this, these cooperatives are experiencing lessened member enthusiasm in the cooperatives' activities.

6.1.1 Performance and challenges in the a-priori competitive environment

Malingunde Cooperative (a-priori successful)

The main purpose for establishing the cooperative was to address the challenges that farmers faced in accessing input and product market. Although according to their constitution they have very ambitious objectives, these two are the ones they have tried to implement.

According to Ministry of Trade and Ministry of Agriculture and Food Security, the cooperative was considered successful in the district, although it still faces several challenges that threaten its survival. Both its membership and capital has been decreasing. The main reason farmers cited as the cause for the decrease in membership is that, when members defaulted on loans, they left the cooperative. A poor harvest due to droughts; low prices for produce; the members' attitude towards a loan from a government programme (APIP); and mere negligence, were mentioned as the main causes of loan defaults. As a result, the number and value of loans offered to members has decreased.

This cooperative has attempted to market the farmers' produce for two years but it has only made losses, due to poor marketing skills and poor management. The challenges mentioned include: a lack of access to marketing channels; corrupt traders; and lack of transparency within the marketing system. The members still market their produce on their own. Their main buyers are vendors, whom they claim are 'ripping them off' due to the use of weights and measures which are not standardised or they are deliberately distorted to deceive the farmers of the actual weight of their produce. In addition, farmers do not have a say in the pricing of their products. Although ADMARC markets are available in the area, they are not accessible to small-scale farmers due to barriers created by the officials, one member said '*Only those farmers with the required number of bags but also should be able to give something to the official in order to sell your crop*'.

However, the cooperative has attempted to address the issue of access to the input credit facility, to some extent. Members are offered cash loans, ranging from MK4, 000 to MK10, 000 (US\$70) per growing season. At current fertiliser prices, this amount is just sufficient for a farmer to buy one or two 50kgs bags of unsubsidised fertiliser. The impact on farm production has been difficult to assess, due to other influencing factors, such as drought. However, according to the members' views, the loans (if put to proper use) are making a difference to their social wellbeing. Most of the resources are used in the production of their maize crop, which is the staple food for people in this area: maize

is sold only when the farmers have a surplus. MFRC is the other credit provider in the area and it mainly targets farmers who are involved in high value cash crops, such as tobacco.

Ndaula cooperative (a-priori unsuccessful)

At the time of this study, the cooperative was not operational, due to a loss of capital, as a result of theft by its management. The interviews reveal two contributing factors to the closure of this cooperative. The first was the theft of the cooperative's money by the manager. The cooperative, with the help of Mwasacho employed a manager who was a crook and he run away with the cooperative's money. Secondly, even after the disappearance of the manager, the cooperative still owned some assets, such as the maize mill, jack and some items in their shop. However, these too were sold by the leaders, without officially informing the members.

The cooperatives main activities had been providing input loans and marketing of members produce. Interviews with the board and the members reveal that the cooperative performance, in terms of addressing the member's needs, was proficient. The members' perception of the cooperative being successful was due to its increase in the capital and its ability to market the members' produce. The group also attributed their improved household food security to the cooperative's provision of inputs. Interviews with members also reveal that farmers saw the cooperative as being very helpful in marketing their produce, which they have now resorted to selling to vendors again. The cooperative's shop also helped these farmers to easily access some smaller items, such as pesticide and seed, but now have to obtain these items from Lilongwe city. Their closeness to the city also contributed to easier access to markets and market information.

The cooperative's leadership played an important role in both its success and failure. The interviews reveal that, during the time that the cooperative had trustworthy and reliable management, the cooperative's capital grew to a record of MK2.3 million. Whilst on the other hand, the cooperative's leadership also contributed to its failure. In relation to the second incidence, the leadership failed to manage the crisis and it continued to sell the

remaining assets, without the member's knowledge. This raised suspicion within the membership that the new leadership had connived with the manager to steal the money, such that there is a lot of mistrust which is hindering the members from coming together again.

6.1.2 Performance and challenges in the a-priori market failure environment

Mtunthama Cooperatives (a-priori successful)

Although this cooperative has been rated as successful and sustainable, by the Ministry of Agriculture, the members and management were skeptical that the cooperative would survive, since the NGOs are now pulling out. The cooperative has only been surviving due to the support it is receiving from its donors and members expressed dissatisfaction with the performance. The interview with the manager reveals that the cooperative's performance, in terms of finances and membership, is decreasing. It was noted that (from all its business activities) the only profit the cooperative receives is from its two maize mills and this profit is used to pay staff salaries and the board allowances, when (-in its actual plan) -these salaries are supposed to come from the cooperative's sales, but these have, so far, not made any profit.

During an interview, the key informant also agrees with the manager's comments that, without support, the cooperative may not survive for the next five years. The reasons pointed out by the key informants reveal that there are more expenses than profits made by cooperative. The expenses are mainly in the form of allowances for the board and staff salaries.

In terms of marketing, the cooperative had bought produce from members for a period of two years but in both cases they did not make any profit. Members were still marketing their produce to vendors and each individual was finding a market on his/her own. This failure in marketing is due to high transport costs, when selling to markets in the cities. In addition, the cooperative was not able to buy produce from all its members. The

management cited three reasons as contributing to failure to buy produce from members. These were that: 1) some of the members are located far from the cooperative offices, 2) the cooperative did not have sufficient capital, 3) some members were not aware of when they should bring the commodities to the cooperative due to lack of information. This was attributed to poor communication by the cooperative's management.

The cooperative also provides loan to members and part of the money handed out is borrowed from the bank. Due to defaulters, the cooperative has been forced to use its own money to settle its loan with the bank and hence, this has contributed to decrease in capital. For example, the cooperative borrowed MK1.2 million for 2008/09 season, at interest rates of 29 percent and although the cooperative added 7 percent (when lending to its members) it still had a short fall of MK100, 000 with the bank. Although their interest rates are higher due to that fact that it get the loans from the bank, the members still feel it is of help in boosting their production. Members are given cash loans ranging from Mk4, 000 to MK10, 000 per growing season. They indicated that although the cooperative idea was sensible and laudable, in terms of assisting farmers to access credit, inputs and product markets, a lack of provision for marketing services, coupled with poor weather and poor prices, had prevented them from gaining full benefits from the cooperative.

Lifuwu cooperatives (a-priori unsuccessful)

This cooperative has been rated as sustainable by Ministry of Agriculture and Food Security. However, discussions with the district cooperative union office have revealed that it is one of the unsuccessful cooperatives. The members and the board agree with these sentiments. The interviews with both board members and ordinary members reveal that the cooperative is surviving because of its irrigation facilities, which members see as their only benefit from the cooperative. Member participation has decreased because the members have lost confidence in their leaders. This has been noted, due to the poor attendance members at the meetings. The interview with the board members reveals that

they have also failed to call a meeting to ‘iron out’ the problems, because attendance at meetings is very poor.

The farmers were in agreement with the cooperative idea and felt that, with capable management, they could achieve a great deal. However, with the current problems within the leadership, they were not sure if it will go any further. They point out leadership wrangles and self-gratifying attitudes, as the main problem, apart from the cooperative’s failure to find a market for their commodities. The reason for their failure to market the rice was a lack of market information and clients, who were not trustworthy. Since its inception, the cooperative has never bought rice from its members, regardless of having that action as their objective. It is only involved in marketing rice which is given to as loan repayments. However, the members view this as lack of interest by the leaders to market members’ produce.

This cooperative has the potential to be successful, due to its facilities and the fact that rice in Malawi is grown in isolated places. However, a lack of managerial skills and a lack of commitment from the leaders towards the welfare of its members have been pointed out, as the major contributing factor to its failure. Interviews with members reveal that the leaders are there just to ‘rip them off’. As a result, the cooperative cannot enter into any business activities that would bring money into the cooperative and therefore, it is just relying on its member’s annual contributions. The members, on the other hand, felt the contributions are too as compared to the benefit they get from the cooperative. Regardless of owning a mill, the cooperative only uses it for milling rice for the local community.

The other challenge faced by this cooperative is the management of the assets, such as tractors and irrigation canals. The management indicated that these assets are now old and (as a result) they have to spend a great deal of money on the maintenance. However, the members felt that this is due to a lack of proper planning and accounting, which is costing the cooperative more resources. One member pointed out that the management does not separate business items, to clearly show income and expenditure, per item. The

members attribute this to choosing incompetent leaders, who do not have a proper education.

The undemocratic ways of governing the cooperative have resulted in poor membership participation within the cooperative. Interference from traditional leaders is also preventing the members from freely expressing their views. Although the cooperative is not working successfully, the members still feel that the current arrangement is better than the time when they were under the government system. The members have more rice to take home (-even after paying their loans) than in the past, where they were not allowed to take any rice home for their families. They hope that, once they have elected reliable and skilled leaders, they might be able to develop their cooperative and achieve their goals.

The cooperative's failure to buy rice from its members has left vendors being the only alternative market for the farmers. The area where the cooperative is located is dominated by rice growers. However, not all rice farmers are members of the cooperative. Members of the cooperative sell their produce individually. As a result, the farmers do not have any bargaining power for their produce and especially the needy farmers are easily exploited by the vendors, due to their lack of negotiation skills.

6.2 Factors contributing to cooperatives' success or failure

All the cooperatives in this study and in their current state are not considered to be sustainable, based on the evidence of their failure to provide marketing services to their members. They have failed to successfully manage their businesses or preserve their assets and capital. Yet all the cooperative members interviewed were satisfied with the idea of having a cooperative and perceived it to be a good idea for addressing their goals. Nevertheless, they were skeptical of their survival due to the many challenges they are facing. As a result, membership has been decreasing in three of the cooperatives studied, as shown in Table 7 below.

Table 8: Membership in the cooperatives at the start and at the time of research

Cooperative	Membership at Start-up	Membership at present time
Malingunde	828	356
Mtunthama	1300	275
Lifuwu	132	140
Ndaula*	1000	853

Source: Cooperative records and Ministry of Trade * Membership at the time of closure

Factors, which have contributed to sustainability problems within the cooperatives, can be classified into four major categories which are: (1) complexity of the market environment; (2) incentives for starting a cooperative; (3) lack of managerial skills; and (4) governance problems.

6.2.1 The complexity of the market environment

All four cooperatives have failed to successfully market their produce. The cooperatives' management has stated that they find it extremely challenging to identify suitable markets for their produce and also to compete successfully with private traders. These challenges included a lack of market information; a lack of infrastructures needed to facilitate market coordination; and regulations and policies regarding commodity pricing.

The two cooperatives (Lifuwu and Mtunthama) that were farthest away from the main city had more problems in accessing markets, citing a lack of market information and the high transport costs incurred to take their produce to remunerative markets in the cities, as their main problems, unlike the two cooperative close to the city, which indicated that they did not have many problems marketing their produce. However, respondents in all the cooperatives indicated that the common source of market information is just hearsay from friends or physically having to visit companies in the cities, in order to gain market insights, as stated by one member of a board.

“We would just get the information from just asking people we know about the market. And one or two officials would go to find out if the market is available to some of the companies and large scale traders”

As a result the cooperatives closest to the city were able to gather market information and with less cost, compared to the two cooperatives located in a remote district. Ndaula cooperative, which is one of the cooperatives closest to the city, attributed their access to market information to their first manager who lived in town. The manager had some connections with people in town, which helped them to acquire market information and secure some tenders with large traders. Since this cooperative is only 15 kilometres away from the industrial area, transporting the produce was also not a problem. Hence it was able to buy at prices which were slightly higher than the vendors. The cooperatives in the far away district had more opportunities to buy produce from farmers. However, the marketing of that produce was a problem, because of high transaction costs.

The challenge in accessing market information was echoed by a trader who described the marketing system as not open, as captured in these sentiments:

We are not transparent if I put it that way; we don't really share information as traders and some of the buyers do not even share the information, they have their own accustomed customers who they deal with. They don't want to share information with any other trader" If and only if we become a transparent market, there could be a future for the cooperatives. But currently we are not a transparent market with no sharing of real time information."

In all the cooperatives, their main competitors were small scale traders, who would sometimes not have a real designated buying place as tend to be very mobile. As observed from one local market it is not easy for one to know the real prices for commodities due to cheating coupled with unstandardized measures. The vendors who are more skilled have a competitive advantage over cooperative due to their linkages to large traders.

The interviews with key informants also indicate that the technological gap between the cooperatives and their competitors, who are private traders, puts them at a disadvantage, as commented upon by one trader:

“At the meantime these cooperatives are not competitors; because for them they still have a very huge information gap unlike us traders who are based in town we have access to several other facilities and we are able to talk to the major buyers”.

The trader also indicated that they are trying to partner with cooperatives as affiliate members to the traders association. The traders view them as an alternative way to save cost in bulking, but not really as partners. This attitude by traders would bring in the challenge of power imbalance due to asymmetric information which may still leave the cooperatives as price takers as observed from one of the traders:

“They offered it to me at MK40 per kg delivered to Lilongwe (straight to the buyers’ warehouse) and I sold it at NFRA at MK50 per kg. Then when you are talking at what level, it is just at that producer level they are organized as a cooperative and you will get it”.

This trader was able to make a 25 percent margin by just identifying the market, and where to find the produce, while the cooperative had to bare all the costs (including transport). If this cooperative had access to information would be able to deliver it direct and get these profits for its members. There are also a lot of barriers to markets for small-scale farmers, as one said:

“It is not easy for the farmers to sell their produce to ADMARC, even if you know that ADMARC is buying. What ADMARC official do is they would collude with the vendors to go buy from farmers at lower prices and sell to ADMARC at higher prices? So it is only those vendors that have that connection that are able to sell to ADMARC, while small scale farmers like us they will just tell you oh we don’t have money and this and that so that you give up and just sell to vendors”.

Although there are some organisations that try to share this market information, such as the ‘Initiative for Development and Equity in African Agriculture’ (IDEA) and ‘Malawi Commodity Exchange’ (MACE), this is mainly through the internet and SMS. All the cooperatives visited did not have access to internet services and they generally relied on

their individual phones. As a result, the cooperatives, especially those in remote districts, experienced more difficulties in marketing their produce.

Lack of contracts and contracts enforcement mechanisms

When asked why the members could not bring their produce and get paid later, respondent at three sites, namely, Malingunde, Mtunthama and Lifuwu, cited cheating practices as a problem associated with some private trading. Malingunde and Lifuwu cooperatives had lost their produce to an unscrupulous trader, who promised to pay them later and never paid them. One board member states:

“...and this man as agreed brought his trucks and collected the rice from the cooperative for a market in Lilongwe. After collecting rice we were waiting for payment which did not come, and when we tried to follow up, we were told that the man is a thief”.

Some of the cooperative’s management, who were interviewed, indicated that due to such losses the members now refuse to bring their produce to the cooperative, unless it is on a cash basis. The management of one cooperative indicated that, after such a loss, it was also difficult to trust some of the buyers and this situation complicates their search for markets. Furthermore, this type of occurrence impacts negatively on the general operations of the cooperative and it results in conflicts between the members and management. As a result the managers were forced to trade on spot.

One key informant indicated, that although there are regulations that everyone buying produce from farmers should register with the Ministry of Agriculture, there is no enforcement of such regulations: as one respondent states:

“...there is a government initiative that anyone buying produce from farmers should register with the Ministry of agriculture but there is no monitoring system, so a lot of people buy without licenses and nothing happens”.

In some cases, where the cooperatives have secured some contract, the agreements were prone to be abandoned: an example being a case where the management of the Mtunthama cooperative secured a contract to produce paprika for a certain trader, only to have that trader change the decision, when the crop had already been produced. The reason given had nothing to do with the cooperative and the farmers were left to look for other markets, which were not easy to find. This resulted in a great deal of frustration for the members and a lost of trust in management.

Government policies

Price regulations imposed by the government of Malawi are another problem. The government normally set a minimum buying price for some commodities, such as maize and cotton. The cooperative would normally wait for these prices to be announced before they can start buying from farmers. Whereas the private traders would start buying their produce around April to May, before the government announced prices for the season, and when prices are at their lowest. The traders know that most farmers are poor and tend to sell their crops early, due to pressing cash needs. On the other hand, the cooperatives' dependency on government prices forces them to buy the produce at higher prices, which then lowers their margins, since they have to compete with the same traders when selling.

Discussions with cooperative management reveal that the policy of price regulations was intended to address the problem of low producer prices. However, there has not been any appropriate monitoring of the system, in order to ensure that all players adhere to the rules. As a result, the cooperatives, which are registered organisations, were obliged to follow government set prices, whilst their competitors, who are mostly unregistered private traders, continue to buy at lower prices. At times, the cooperatives felt that a price was too high for them, taking into consideration the fact that they would also incur transport costs, which would add to the selling price, especially for faraway cooperatives. One respondent stated:

“.....The government set price was MK40 while we were buying at MK25 while vendors were still buying at MK20; we were forced to raise the prices to MK35. And we as a registered organization we are bound to follow the government laws

while the vendors because they are not known they would still buy at lower prices”.

On the part of the cooperatives, especially the faraway, they feel this puts them at unfair competition. The management of all the cooperatives agreed that their main challenge is selling the commodities to companies than buying from farmers as one of them said:

“We have higher chances of buying as much maize as we can; there are a lot of farmers selling. Though we have some vendors from town, but most of them their prices are low. But we face competition when selling as cooperative to companies”.

6.2.2 Incentives for starting a cooperative

Dependency from external support

External support refers to assistance given to the cooperatives, either by the government or aid agencies. This assistance, in the form of money or assets, is received by the cooperative to boost their business. All four cooperatives I visited had received several assets from NGOs and government which included office buildings constructed by COOPI/COSPE (Figure 6); a maize or rice mill (figure 8); an oxcart and jack (fig.9); and a silo at Lifuwu (figure 7). The cooperatives were also given startup money for operating input shops as in figure 10. In addition the cooperatives were able to access input loans at subsidized interest rates from APIP.



Figure 6:One of the assets given to a cooperative (office building)
Photo taken by researcher



Figure 7: A silo at Lifuwu cooperative 1



Figure 8: A Maize mill donated by COOPI/COPSE 1



Figure 9: A Jack at Mtunthama cooperative 1



Figure 10 :An Input retail shop at Malingunde 1

All four cooperatives, in the study, acknowledged the importance of the assistance they received from donors and the government, as having contributed to their establishment and survival. The two successful cooperatives indicated that the assistance received has empowered them financially. The income generated by the business assets has contributed a lot to their survival. In addition, it helped to attract members, especially where the provision of inputs was involved. Interviews with the management of Mtunthama pointed out that (at the present time) the maize mill revenue is helping them to pay their workers, since their other business are not making any profits. Initially, the management team's salaries (plus the board's allowances) were supposed to be coming from the sale of produce: and management did not hesitate to say that any breakdown of the maize mill would mean no salaries for the employees, as captured in these sentiments *"...Which means once the maize mill breaks down things might come to a standstill"*.

In the case of the Lifuwu cooperative, the members indicated that they are still part of the group because of the irrigation facilities (which include an irrigation pump, canals

and pipes) and the tractors, which help to till their land. Otherwise, they feel that the cooperative is not addressing what was agreed to, especially in the marketing of the members' produce, as captured in these sentiments:

“Even though it is not making any profit, the group is still there because we have the irrigation facilities which are better than the others who are outside the cooperative. So since this is helping us get good harvest for our families then we just say let's remain to benefit from the facilities”.

However, this support had also created dependency on outside help and poor financial sustainability, as observed by the researcher in two of the cooperatives. In the case of the Lifuwu cooperative, there is a problem of mismanagement of resources, which are realised through the use of assets, such as tractors and the rice mill. The interviews with both members and the board reveal that there is a lack of 'ownership' within the cooperative, since most of the benefits are coming from the assets given to them, rather than their own investments and members appear to be powerless. When asked how the cooperative would address their problems, a member's response was:

“The owners (meaning the government who introduced the cooperative idea to them) who brought the cooperative should come and see what is happening”.

The same sentiments were echoed by the group in Ndaula cooperative, when asked how they intend to revive the cooperative:

“We can go to the same organizations that they went to. They can help us to start the cooperative again. Am sure there are some well-wishers who would be able to help us”.

Subsidized credits and adverse selection

Malingunde, Mtunthama and Ndaula indicated access to inputs as the primary reason they came together. The provision of inputs by the government programme (APIP) to these cooperatives also attracted individuals who were not committed to the cause. Farmers were, in general, required to join a group, in order to benefit from a highly subsidised loan from APIP — and membership of the cooperative was granted upon payment of one share (or shares) and a registration fee, which is a very small amount for

a person to commit. This saw membership increase in these cooperatives. However, this resulted in members defaulting on their loans, because the scheme attracted some individuals whose primary interest was only to obtain the inputs, as captured by these sentiments from one board member:

“We gave out a loan amounting MK24million from APIP. But we have not been able to collect all the money, during the first year we collected about MK12 million which is just 50 percent recovery rate. We have been trying to make follow up but we still have MK7million to be collected from the farmers. The farmers are not cooperative when it comes to paying back the loan. Most coops have collapsed because of this behaviour; of course we have managed to collect some money that is why we are still here. Some farmers have that mentality of just reaping from the cooperatives”.

6.2.3 Lack of managerial skills and business capacity

The management of all the cooperatives visited had the same structure, comprised of board members and management (Figure 11 and 12). The board is comprised of farmers, whilst the management is comprised of hired staff: the cooperative’ manager is responsible for the day to day running of the organisation.

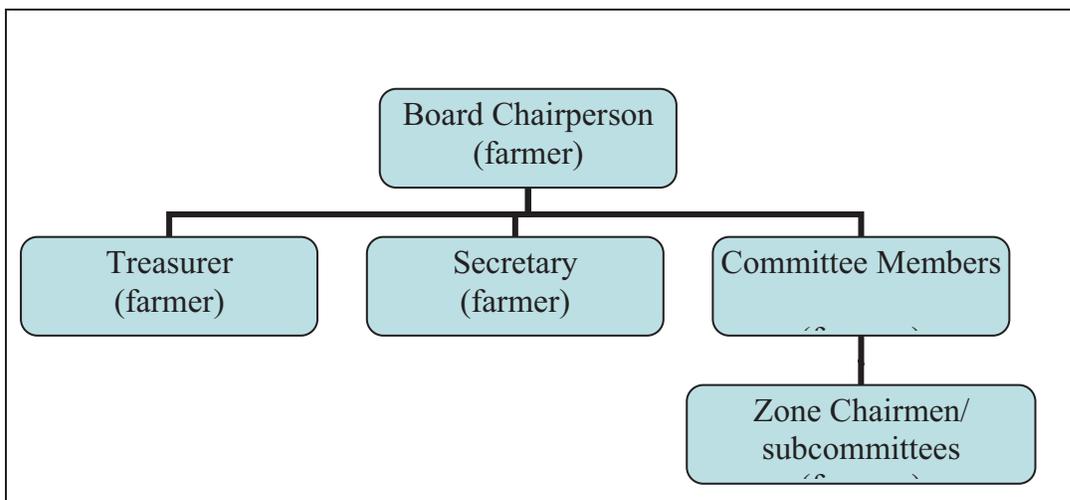


Figure 11: Board Composition

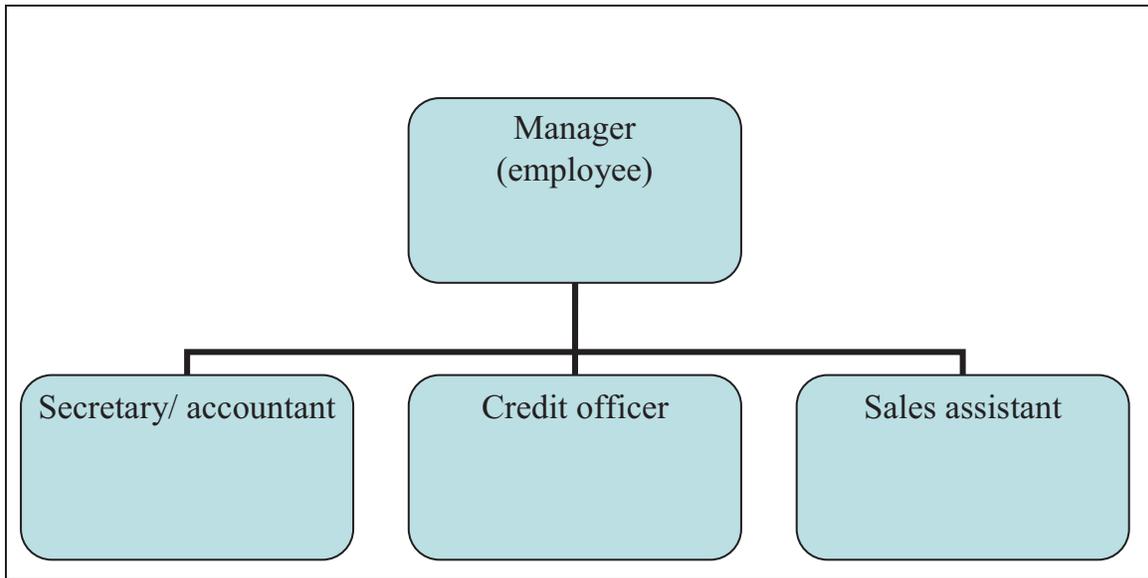


Figure 12: Management Team

Limited managerial skills

In all four cases, poor performance was considered to be a result of a lack of managerial skills. This could be noted by failures in most business ventures. There is evidence of the co-operatives developing business ideas, eventually poorly implemented. At the time of the study (May- June 2010), the cooperatives had not started buying the farmer's produce: and they were not even sure what price they would be able to pay the farmers for their produce. The interviews reveal that there has been a decrease in the cooperatives' capital: both cash and assets. This was noted by the selling of some assets because they felt they were not getting sufficient returns from them, as indicated by one member: *"Instead of the assets increasing they are not and we are now selling some assets because we cannot manage them properly"*. From the four cooperatives, two had a maize mill which was not working, either because it was not making any money, or they did not have the cash to operate it.

Another example can be seen at the Lifuwu cooperative where, regardless of them being aware of the excellent quality of the rice they produce, they were not able to utilise this advantage, as the board member said:

“The issue is that the rice here in Lifuwu is of good quality because we have pure varieties, while the rice from Nkhotakota is cheaper because it is of poor quality. So what the vendors do is to buy rice from here and mixed it with the rice from Nkhotakota, they say, customers like the flavoured rice from here. So we know our rice is special”.

This advantage would have helped them enter into the realm of packaging and branding, so that they could benefit from their ability to produce excellent flavoured rice.

In other cases, the cooperatives were not aware of acceptable business dealings, which would take into account all the risks involved in a transaction. Malingunde and Lifuwu cooperatives delivered their commodity to a trader without any reliable contract agreement, especially one relating to how and when payment would be effected. In the process, they lost the money they would have been paid and did not know how to deal with such a situation, as captured in these sentiments:

“we had some traders who just came with their vehicles to say they have a market for the crop; he collected our produce but did not pay.now we will make sure that there is proper documentation like signing contract agreement on the prices and payment procedures. Last time we did things on trust which resulted in the cooperatives losing money”.

Limited skills also make cooperatives vulnerable to exploitation by some traders and it can increase their transaction costs, as noted in these sentiments: *“What we did is we went and asked them if they can buy our rice so they said bring it so that is when we took the rice, but the prices offered were very low so we failed to sell, and came back with it”.* The idea of negotiating the price *after* delivery gives the buyer a bargaining advantage. Since the two parties could not agree on the price, they ended up taking the commodity back to the cooperative’s office without considering the cost implications of their decision. For the members, taking the product back was not an issue, since they had their own transport (donated vehicle), which showed a lack of understanding on the costing of their transaction and as one member states: *“we did come back with it as you know we have our own lorry which we used for transport”.*

Their lack of skills has also contributed to failures in the administration of loans, including a poor loan recovery rate and a debt burden from lending institutions. For example, Malingunde started with a loan value of MK12million and during the first year, they were only able to achieve 50 percent loan repayment. Consequently, they still have approximately MK7million to recover from members.

Another example is where Malingunde cooperative is reported to have started buying produce from farmers, with no idea of where they would sell the produce. As a result they failed to manage the crop properly in storage which led to the produce being damaged. This furthermore increased the challenges to market access, as the manager said:

I think the main problem was the poor quality of our maize, yes identifying markets was a problem but the poor quality contributed more to the problem as a result it was sold at a very low price. Our maize was badly attacked by weevils which I think contributed to buyers not willing to buy our produce'.

The majority of their planned activities were too ambitious and unrealistic, considering the cooperatives' level of production. As a result, farmer's expectations were high and the failure to achieve their intended goals has contributed to members' frustrations. For example, the Malingunde cooperative (as reported in the interviews) has 25 objectives, ranging from supplying inputs to members; buying and processing their products, for both crops and livestock; and construction of manufacturing plants (Cooperative By-laws)

There was also evidence of the positive effect of competent managerial abilities, as noted at Ndaula cooperative. Although this cooperative has collapsed, commitment and managerial skills played an important role in its success, at one point. The manager, who demonstrated some knowledge and skills, (as indicated by the members interviewed) managed to improve the performance of the cooperative, such that its capital rose to MK2 million, as indicated by the respondents in this cooperative:

“The first manager we employed was really committed and the performance of the cooperative really improved from almost collapsing to making profits again and the capital rose to Mk2million”

Under the same manager, they produced satisfactory business plans and the marketing of their products was not an issue. However, upon his retirement, a new manager was recruited, who stole their money and this theft contributed to the collapse of the cooperative. Poor supervisory skills by the board were also noted to be the cause of their current situation.

Limited business capacity

Another problem is that the business volumes for these cooperatives are not large enough to enable them to benefit from bulk buying and selling. The low volumes are due to both poor member patronage and the cooperatives' limited capacity. In the case of member patronage, both members and management indicated high poverty levels amongst the members of their cooperatives and this situation, in conjunction with the poor timing of the cooperatives' prices for farmers' commodities, made buying the farmers' produce their main problem. Due to pressing cash needs, most farmers are forced to sell their produce to vendors, who are ready to buy soon after harvest, whilst the cooperatives would still be waiting for the government to announce price levels. In addition, the cooperatives (in some cases) do not have sufficient resources to buy all the farmers' produce, even if the farmers were to transport it to the cooperative.

Discussion with management has revealed that this failure to buy all the farmers' produce was due to the low level of investment (by the members) in the cooperative, since most of them are very poor. The respondents indicated that member's contributions, in the form of shares, is too small an amount to start a meaningful business and their production volume is also limited, as some interviewed farmers indicate

“...the problem is that most farmers are very poor to acquire reasonable amount of shares. The more capital we have the more committed the members would be because then the cooperative would be able to provide the services adequately but also members could also be getting some dividend from their shares”.

It was noted that the member's shares range from MK500 to MK1000 (approximately US\$ 3.5 to \$6.5) in all the cooperatives. However, they were anticipating an increasing in their share value, to MK2, 500. Although members are allowed to buy as many shares as they want, at the time of the interview, no member held more than one share. The total number of shares is presented in Table 9

Table 9: Membership and Shares

Cooperative	Number of members	Minimum shares value(MK)	Maximum shares values (MK)	Average number of shares
Malingunde	356	1,000		1
Mtunthama	275	500	6,000	1
Lifuwu	140	500		1
Ndaula	853	500	-	1

Source: Cooperative records

This situation becomes a challenge when selling commodities to distant markets. Management from the Mtunthama cooperative pointed out that sometimes the cooperatives fail to meet the quantities required by the market, due to their small capacity. This statement was supported by the key informants, who stated that some quantities the farmers are attempting to sell are just not large enough for the buyers. This discussion further revealed that the proportion of farmers in a cooperative is very small, compared to non-members (Table 10). As a result, buyers can easily opt to buy from other farmers, which in turn weaken the cooperatives' bargaining power, as pointed out by a number of farmers and key informants:

“a trader knows that there are these members who have grade A of maize and they want say MK60 per kg, but the trader also knows that they are some other 5000 farmers out there who are willing to sell at MK20, the trader would go and get the agents get the maize from the other group, go and recruit the laborers at

cheap prices and may not even reach that price. So the farmers in this group would just rot with their commodity”.

Table 10: Cooperative membership and total number of farm families from the EPA

Cooperative	Membership	EPA	Farm Families
Malingunde	356	Malingunde	18,282
Mtunthama	275	Chipoka	20,757
Ndaula	853	Chiwamba	15,945

Source: Lilongwe and Salima District socio-economic profile (2006).

In addition, the cooperatives work as independent entities, with inadequate support structures and no linkages to other cooperatives. At their level of operation, these cooperatives are not able to make investments, which would help them access remunerative markets. At the present time, these cooperatives have very little (or no) bargaining power at all.

6.2.4 Governance and leadership problems

Governance problems

One factor, which discouraged members especially in Lifuwu cooperative from active participation, is the undemocratic way in which the leaders run the cooperative. The interviewed farmers indicated that they are not involved in the decision-making process. They also indicated that most decisions are just imposed on them, although they agreed that some are worthwhile decisions. Three cooperatives, in the study, all use a helpful structure, which ensures that everyone takes part in decision-making: the member's views are captured in Figure 13.

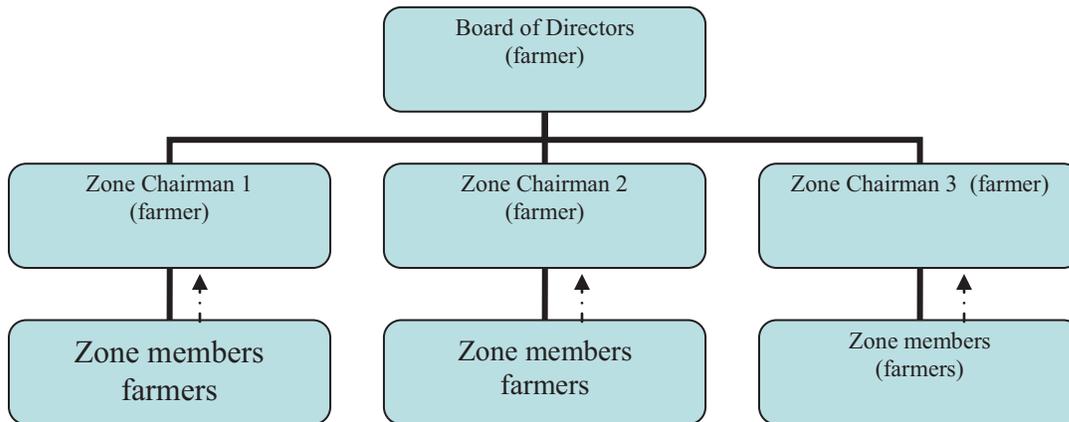


Figure 13: Indication of the decision making process and information flow.

According to their by-laws, five steps were to be followed on some important decision-making:

- The board and management meet to discuss the issue;
- The zone chairperson calls a meeting to be briefed on the proposal and s/he is asked to take the proposal to the members;
- The zone chairperson discusses the issue/s with the members and a consensus is reached;
- The zone chairperson takes the decision/s, made by the members, back to the board meeting for a final decision;
- The zone chairperson takes the final decision back to the members.

Malingunde, Mtunthama and Ndaula cooperatives use this structure of governing their cooperatives. Lifuwu used different committees, which were responsible for ensuring that different areas of the cooperative's management were properly addressed. However, the farmers interviewed, in both cases, pointed out that they are not involved in decision making, because the zone chairperson does not discuss any issues with them. They believe that they are just there to receive information on what has been agreed at a higher level. This structure also acts as a channel for communication, which is an important feature in cooperative philosophy. Members of the Lifuwu cooperative indicated that communication is supposed to be two-way, but in their case, it was not so. The members

were just told what to do, or what was going to be done, without being given any opportunity to state what they would want: and yet, members' meetings would be the correct place for members to air out their grievances, or challenge any decisions made without their agreement. One member states:

"...They would come to us when they have already made the decision on what to do, they do not ask the group first, so it is difficult for the farmers to say anything because we know that they have already made a decision".

However, in all the cooperatives, members acknowledged the formal communication network, which occurs through an annual general meeting. This meeting is normally used to communicate cooperative policy matters and to provide information on the cooperative's objectives and progress, in general.

At the Lifuwu cooperative (which did not have the same structures in place as the other three cooperatives), members felt that the undemocratic way of running the organisation contributed to the collapse of the cooperative. The cooperative had failed to call for meetings, because the turn out had been so low at previous meetings. The members interviewed indicated that they did not show up for the meetings, because they had not heard anything important being discussed. The farmers interviewed also indicated that the leadership, which was in place when the cooperative closed, was imposed on them and it was not elected by the group and this was not in accordance with their constitution. As one member states:

"What is expected is not being addressed that is why members feel it is a waste of time to attend the meeting". We have the by-laws set by ourselves, term of office is set in the by-laws, when someone has stolen should be disciplined if does not change should be removed and so many things but the laws are not being followed because of lack of power of the members.

Leadership

Poor leadership was considered to have played an important role in the failure of the two unsuccessful cooperatives. One of the assessed cooperatives has collapsed, due to leadership failures in making correct decisions. The members cited two incidences, one where the first chairperson of the board misappropriated their money and members had to contribute extra shares, in order to revive the cooperative. The second incident involved another manager running away with their cash, which has resulted in the closure of the cooperative. In addition, the remaining assets were sold by the chairperson, without the knowledge of the members and there was no communication made to the members about the sale of their assets. This resulted in even more mistrust in their leadership. Although they have elected new leaders, the members still felt that the new ones could act in the same way, as quoted from one of the participants:

“...Some understood the situation but other were somehow discouraged. So when we asked the members to contribute an additional MK250 to boost up the capital due to the lost money, we discovered some members pulled out. We had about 1,500 members but when we asked to increase the shares the membership reduce to about 800”.

In Ndaula, Mtunthama and Lifuwu cooperatives, members expressed frustration at their leadership’s failure to provide worthwhile direction for the cooperative and to act in a transparent matter. There were incidences of leadership involvement in the mismanagement of resources. As a result, members viewed the leaders’ interest in holding the positions as being more of self-gratifying action, rather than it being for the benefit of members. As noted by one member of a cooperative (which is experiencing serious leadership wrangles, due to its leaders setting up some benefits for themselves):

“There was a time when management withdrew MK100,000 from the cooperatives account, which they shared amongst some executive members. They tried to convince me to get some money from the coop account but I said that this is group’s money. And since I was not signatory to the account, they went ahead to withdraw the money and got Mk25, 000 each”.

A number of members stated that there is no effort made by the leaders to motivate the members to invest in the cooperatives as a result each member undertakes tasks, such as marketing on their own and there is poor participation by members in cooperative activities. One member states: “...we are not working as a group because there is no one to give us that authority, to bring us together and help each other. The leadership does not know what to do”.

One farmer I interviewed also expressed dissatisfaction at the leaders’ attitude in running the cooperative as captured by these sentiments:

“We sometimes feel cheated by these leaders because they are benefiting a lot from it while we the members who are meant to believe that we are the owners don’t see any benefits. We see them progressing while we are not getting anything not even a single dividend from the cooperative”.

Some members from Mtunthama, Ndaula and Lifuwu also indicated that leaders behave this way, because they know that the assets they reap from do not belong to them as one participant said:

“Because they know that it is not their property that is why they are ripping it off. They may show us the accounts but some of them are difficult to argue. They know that even if they are known to have stolen from the cooperative, they will just be removed from the position that is all”.

It was only Malingunde cooperative which reported competent leadership and this has had a positive impact on their survival, and this observation was supported by one of the key informant:

‘It is the board, they have a board which has a little experience and knowledge of what they are doing, but are committed to see things work’.

6.3 Summary of findings

The findings reveal that the performance of the cooperatives understudy were not satisfactory to all concerned parties. This is evident due to the decrease in membership and capital. The cooperatives are failing to efficiently buy produce from the members. The factors contributing to the poor performance of the cooperatives are in four categories which include: complexity of market environment; incentives for starting a cooperative; limited managerial skills and business capacity and poor governance.

Table 11 represents an attempt to show key aspects of the four cases.

Table 11: Schematic comparison of cases

Issues	Market failure environment (assumed)		
	No market failure (assumed) <i>A-priori Successful (Malingunde)</i>	<i>A-priori unsuccessful (Ndaula)</i>	<i>A-priori successful (Munthama)</i>
Complexity of market environment <ul style="list-style-type: none"> • Pricing policy • Regulations • Marketing systems • Poverty levels 	Affected Lost products to some traders Difficulty to access market in information Low business volume	Affected but chose to set own prices. Experienced theft by manager and board members Dependent on managers connections Low business volume	Not affected due to the product (rice) Lost produce to crooked traders because no agreement was in place No market information or means to access it Low business volume
Incentives <ul style="list-style-type: none"> • External support • Agenda for cooperative formation 	More dependent Onset- input loans, output markets and value adding	More dependent Input loans and marketing produce	More dependent Government and ADMARC pulling out of the scheme
Managerial skills and Governance <ul style="list-style-type: none"> • Business skills • Business capacity 	Somewhat Limited up to 50 tonnes per year	Good at one point Limited due to lack of capital	Poor Highest quantity tried to market was 2 tonnes
Governance <ul style="list-style-type: none"> • Governance processes • Leadership 	Acceptable standards Stable	Somewhat successful Poor due to theft problems	Not at all successful Poor, more conflicts

CHAPTER SEVEN: DISCUSSION AND PROPOSITIONS

This chapter discusses the research findings, by comparing and contrasting with literature and identifying the main findings from research. The main categories of problems identified in the study include: market access problems; start up incentives problems; managerial problems; and governance problems. This followed by proposed propositions. Finally it outlines the lessons learnt from the study.

7.1 Performance of the cooperatives

Some of the problems identified in this research, as having affected the success and sustainability of agricultural cooperatives, are consistent with what has been found in the literature (especially for developing countries). These problems include (a) managerial capacity and capabilities (Keeling, Carter, & Sexton, 2004; Nyoro & Ngugi, 2007); (b) incentives for starting cooperatives (Hill, Nel, & Illgner, 2007; Stringfellow, et al., 1997); (c) poor governance (Banaszak & Beckmann, 2006; Bhuyan, 2007; Borgen, 2001; Bruynis, et al., 2001; M. Fulton, 2001; M. Fulton & Giannakas, 2007; Keeling, et al., 2004; Osterberg & Nilsson, 2009). In addition, this study also identified that the complexity of market failure, in relation to cooperatives capacities and capabilities can also be a hindrance to cooperatives success. This is contrary to claims in literature that market failure contributed to success of cooperative (Centner, 1988; Christy, 1987; Valentinov, 2007). These problems are addressed in the following section.

7.2 Problems affecting sustainability of cooperatives

7.2.1 Market access problems

The study reveals that lack of effective marketing system in Malawi affected the sustainability of the cooperatives. The factors that contributed to this include poor marketing systems due to poor or lack of infrastructure; policy environment and lack of a regulatory framework that would support efficient market coordination.

Marketing system

Lack of an effective marketing system in Malawi affected the sustainability of the cooperatives. The cooperatives failed to successfully identify the market for their products due to a lack of market information, making it difficult to buy members' produce. The cooperatives, which are located far from main cities, although in a less competitive environment, experienced more challenges in marketing the produce which somehow contradicts expectations emerging from literature (Centner, 1988; Christy, 1987; Cook, 1995). The expectation was that cooperatives, which are located far from cities, would experience less competition, and so would easily benefit from economies of scale of bulk buying and selling.

Poor infrastructure and lack of technological development exacerbated marketing problems. This technological gap between the cooperatives and the private traders resulted in cooperatives experiencing difficulties to access the information. Although some organisations are attempting to help, by providing information [(such as MACE and IDEA) which is modeled after Kenya Agricultural Commodity Exchange (KACE), according to Tollens (2006)], all the cooperatives in this study were not aware of these services. The use of internet and SMS was beyond the cooperatives capacities, as it is too costly for them at this point to invest in such services. As a result of this, cooperatives are still prone to exploitation by middlemen; hence reducing further their margins supporting what has been found by other researchers (EW Chirwa, PM Mvula, et al., 2005; Mukhebi, 2004).

The faraway cooperatives were the most negatively affected by the poor marketing systems. Cooperatives in Salima claimed of experiencing losses due to high transportation costs, in relation to the distance to the markets and market search costs. Although the cooperatives in Salima had high chance of buying produce from members, they failed to successfully market the produce. Supporting this paradox, Dorward, et al. (2008, p. 14) claimed that, "the challenges facing farmer organizations are greatest in the situations where they are most needed" expressing similar situations within developing

countries: hence, the cooperative's failure to succeed under a market failure environment. In addition, a lack of market information or price discovery mechanisms, created uncertainty, in relation to market availability. As a result the cooperatives were even failing to decide at what price to buy the produce from the members.

Proposition 1: *Whilst some degree of market failure is required, in order to justify cooperatives' formation, extremely complex market environments present major challenge for cooperatives that are without the required managerial expertise.*

Supportive Regulatory Framework

A lack of supportive regulatory framework negatively affected the cooperatives' access to markets. There is evidence that a lack of contracts and contract enforcement mechanisms have created insecurity within the market and hence, it has negatively impacted on the operations of the cooperatives, thus supporting Coulter and Onumah (2002) claims. Two of the interviewed cooperatives reported incidences of losing their produce to unscrupulous traders, who ended up not paying the cooperatives. This type of incident corresponds to Fafchamps and Gabre-Madhin's (2006) findings in a survey conducted in Malawi, which reported a high incidence of non-payment, even up to 25 percent, on the part of such buyers. Such situations contributed to the cooperative's failure to obtain produce from their members, since these members felt they could not trust the cooperative's management any more. As a result, the cooperative's management was forced to search for markets, which can pay them on the spot.

The insecurity created due to lack of contract enforcement mechanisms also limited the cooperatives market opportunities. The cooperatives could not trust some of (would be) potential buyers, thus supporting Fafchamps and Gabre-Madhin's (2001) argument that, where there is no viable contract enforcement, the prospect of market growth is unclear. In such cases, market exchange is based on trust, since individuals would prefer dealing with someone they know, hence limiting their market base (Fafchamps & Gabre-Madhin, 2001; Fafchamps, et al., 2005). This could be noted from the cooperatives' viewpoint that companies tended to buy from individuals or groups that they knew. This was based on the fact that they could see others making deliveries and yet they were told that the company was not buying any produce. On the part of the buyers, their behaviour

is consistent with Gabre-Madhin's (2009) argument. The large numbers of buyers and sellers (without correct rules of trade) have increased the opportunities for cheating and therefore screening costs are also high: hence personal trust becomes a better option to reduce the costs. However, this has also acted as a barrier for the cooperatives to enter such markets.

In addition, a lack of contracts promoted opportunistic behaviour on the part of buyers, since they could change the prices on delivery of the commodity. This supports report by Chirwa (2009) that, due to a lack of contracts, private traders would announce higher prices, but effectively pay lower prices.. Ex-post price re-negotiations, of up to 20 percent, were reported in Malawi, by Fafchamps and Gabre-Madhin (2001). This situation, combined with cheating on measurements, resulted in farmers' incomes being further reduced.

Proposition 2: *The lack of a supportive institutional and regulatory framework has a negative impact on the success and sustainability of cooperatives.*

Government pricing policy

The pricing policy is another factor that had negatively impacted on the cooperatives' competitiveness and marketing decisions. The government set prices was higher than what was offered on the market. Since the government had no monitoring system in place, cooperatives were forced to buy at higher prices than their competitors. This contributed to the cooperative's failure to competitively market their produce. This supports Dorward, et al., (2008) claims that lack of proper analysis of the market leads to government failure to set efficient prices. Although this policy was intended to address anti-competitive and exploitative behaviours (especially those by private traders who would want to buy produce at a low price) and also act as an incentive to boost smallholder production, it lacked an efficient monitoring system, supporting Chirwa (2007). As a result, it ended up harming the organisation it had intended to help, thus concurring with Chirwa (2007) and Timmer (1989) argument.

In addition to these aforementioned drawbacks, the pricing policy also disadvantages the faraway cooperatives, since they have to incur additional cost for transport to markets. This further reduced their profit margin, supporting White (1985) argument that uniform pricing for all economic regions would increase regional income differentials. This explains why the policy problem was captured by cooperatives in distant areas.

Proposition 3: *Price controls, if not well enforced, put the formed organisations at a disadvantage against un traders.*

7.2.2 Incentives problems

The motivations that drew farmers into being part of the cooperatives contribute to cooperatives sustainability problems. The motivations identified in this study include support from donors; desire to address marketing problems and access to inputs.

External support

Support from aid agencies played both a positive and negative role in the sustainability of cooperatives. On the positive side, external support is necessary for cooperatives to become empowered, before they could become independent (Hill, et al., 2007), since business assets and others resource provided help to boost their financial position. Although the cooperatives had their own sources of income which included registration fees and the sale of shares, these were stated not adequate for the efficient operation of these cooperatives. Discussion with members of the Mtunthama cooperative revealed some concerns about their survival, now that external support is being pulled out. This external support may have lacked a sensible exit strategy that would have left the cooperatives at a level, where they were sufficiently equipped and skilled to manage the organization as argued by EW Chirwa et al (2005).

On the other side, external support has also created dependency on outside help, thus hampering financial sustainability and self-reliance. This was observed from the two cooperatives in crisis and their expectations that the government or some ‘well-wishers’ would bail them out, thus supporting Hill, et al.,(2007) and EW Chirwa, et al., (2005) observations. This finding is consistent with what Akwabi-Ameyaw, (1997), claimed

that any program that perpetuate dependency is contrary to sustainable efforts and this contributed to cooperatives failure in Zimbabwe.

The cooperatives' financial sustainability was further affected by the groups' inability to invest their own resources not being well prepared to handle the challenges, as argued by Chirwa, et al., (2005) and Stringfellow, et al., (1997). The situation could have contributed to a sense of a lack of ownership, thus resulting in poor management of resources. This could be noted from evidence of the abuse of resources and leadership wrangles, since individuals viewed leadership as an opportunity to reap more benefits from the cooperative. This finding supports claims by Chirwa et al (2005), to achieve sustainable organization, aid agencies should focus more on helping them establish as private entrepreneurs, rather than development agents.

Proposition 4: *Outside support, if not properly targeted, may lead to the creation of a spirit of dependency and thus affect the sustainability of cooperatives.*

Subsidized credit and

Some motivations that drew farmers into the cooperatives negatively affected the sustainability. Observations from three cooperatives show that at the beginning the cooperatives experienced high levels of membership due to the loans offered by APIP. This may have contributed to high default rates due to adverse selection problems. A similar observation was reported by Zulu (2007, as cited in Chibanda, et al., 2009, p. 299), indicating that some smallholder farmers in KwaZulu-Natal, South Africa, established a cooperative as a means of accessing government grants, rather than to develop a business.

In addition to external support, the reasons and processes for establishment of Lifuwu cooperative could be argued as a contributory factor to its present situation. This cooperative was formed not as farmers' idea but as an alternative system of operating the rice scheme, which was previously under the government. There is no ownership of the cooperative by those who run it. This could be a result of this cooperative being formed hastily and with little reference to underlying patterns of social and economic

organisation (Stringfellow, et al., 1997). The cooperative was interacting with the farmers more as a development agent than as a commercial private business (EW Chirwa, A Dorward, et al., 2005; Stringfellow, et al., 1997). It was observed that there is total abuse of resources by the management due to lack of ownership.

***Proposition 5:** The provision of government subsidised loans and assets, lead to adverse selection and 'free riding' problems.*

7.2.3 Managerial skills and business capacity problems

A lack of adequate managerial and business skills was identified as another contributing factor to cooperatives' failure.

Inexperienced and unqualified personnel

There was evidence that the cooperatives' managers were not experienced and were hardly professional. These unqualified managers had limited abilities to develop or, indeed, implement business strategies, which would bring maximum benefit to the cooperatives. The managers employed by the cooperatives did not have the required professional, technical and economic skills for the analysis of market trends, as argued by DeLoach (1962). The people hired had a mere secondary education and they were being trained on the job. The lack of managerial skills was evident in the cooperatives failure to execute their business plan. This finding is consistent with observation by Kneeling, et al (2004) that lack of managerial skills contributed to the failure of the California Rice Growers Association.

In addition to failing to attract qualified personnel, the managers in these cooperatives were operating in an environment that is more complex. Cook (1994), supported by Lang (1994), argued that cooperative management is not only different from the management of other organisations, such as investor-owned firms (IOF), but it is also more difficult. Considering the market environment, which is characterised by a lack of market information, a lack of clear standards and poor infrastructure, this complicates the challenges for these unqualified and inexperienced cooperative managers. This makes it easier for the private traders to remain in control of the marketing process. The

finding is consistent with Nyoro and Ngugi (2007) observation in Kenya, that successful cooperatives had management with relatively higher education than unsuccessful ones.

Proposition 6: *The level of managerial skills affects the sustainability of cooperatives.*

Business Capacity

The cooperatives low business volumes contributed to failure to reduce transaction costs, hence having not impact on members incomes. Although cooperatives are intended to help reduce costs for their members; give them access to financial support and access to markets (E Chirwa, et al., 2005; Markelova, et al., 2009; Onumah, et al., 2007), this does not occur automatically, since it would require the exact quantities that would justify the operational cost involved, which these cooperative have failed to meet. As a result, they still depend on small traders for their markets. This dependency reduces them to price takers — and traders are still getting the upper hand.

Poor investments, which are also a result of low membership and high poverty levels, contributed to the cooperatives' failure to bulk adequate quantities, in order to meet the buyers' demands and also to justify their costs. These small volumes are contributing to their failure to build a position in the market (Sexton & Iskow, 1988), resulting in farmers being locked up in a vicious cycle of poor returns, which lead to poor investments in their cooperative and then a poor influence in the market. Figure 14 below presents this vicious cycle of poor cooperatives' performance trap.

This situation is worsened by the fact that these cooperatives work in isolation, without any linkage to other cooperatives. As indicated by the key informant that the NGO is trying to link the cooperatives to buyers, this is not enough to guarantee market. Sexton and Iskow (1988) highlighted that, in order to increase farm prices, one should target increasing product prices at the retail level, which can be accomplished by restricting the flow of farm produce to the market or improving the quality of the finished product. In order for these cooperatives to be able to restrict the flow and build a position in the market, they must control a large share of product supply.

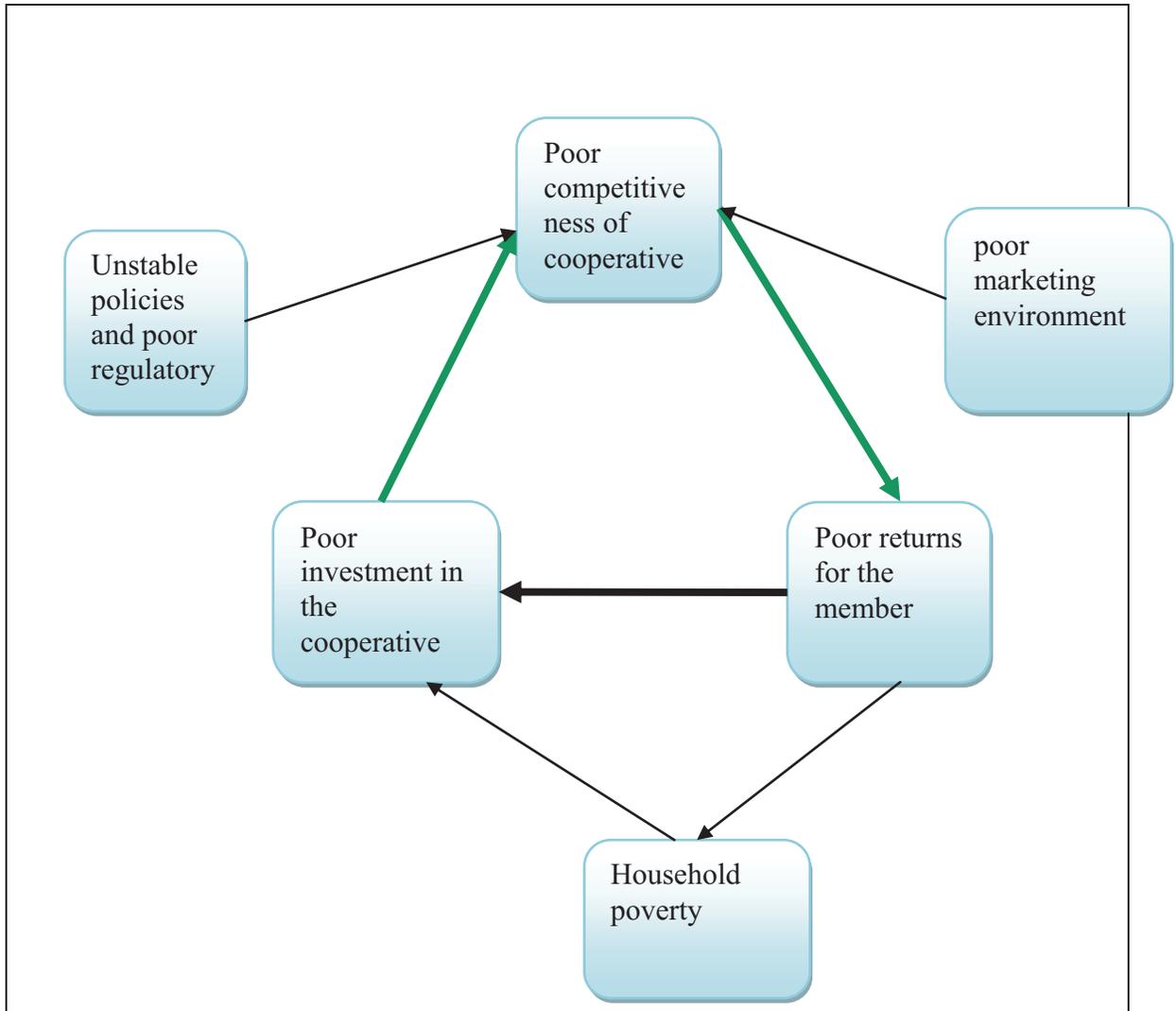


Figure 14: A Cooperatives performance trap

Source: Author

This analysis is consistent with Birchall's (2003) argument that cooperatives which are isolated will remain economically weak. Birchall cited an example of an early cooperative in Britain, which failed, due to the sheer poverty of the cooperators. The cooperatives in this study are trapped in this poor performance trap due to low business levels.

Proposition 7: *Low levels of business capacity contribute to cooperatives' failure to build a position in the market, hence affecting the sustainability of cooperatives.*

7.2.4 Governance

Governance of the cooperatives was identified as another factor that affected the sustainability of cooperatives. Poor leadership and undemocratic processes were mentioned as major issues affecting member participation and their commitment to the cooperative. This illustrates the fact that members regard the cooperative as a social institution, hence democratic control is crucial (Bhuyan, 2007; Chibanda, et al., 2009; Osterberg & Nilsson, 2009; Rhodes, 2007).

Governance problems

The undemocratic way in which leaders governed the cooperative was another reason which discouraged members from active participation in two of the cooperative assessed. The members shunned the meetings because they felt that their input was not being considered. This supports the literature that members attach strong importance to democratic systems within a cooperative and hence, the need for implementation of democratic principles (Osterberg & Nilsson, 2009).

The members also viewed participation in such meetings was viewed as time wasting because important issues were not being addressed. This increased the possibility of members quitting from participation, thus supporting Bhyuna's (2007) argument. This also had affected their loyalty to the decisions, which had been made, since they felt they were not party to it, as argued by Borgen (2004).

In addition, the undemocratic ways of governing the cooperative affected the members' trust in the entire management. Members felt that the management was not involving the group, because they had things to hide from the group. As a result, there was mistrust between the members and the cooperative and this was observed in three of the cooperatives interviewed (two unsuccessful and one successful). The results illustrate the findings of Borgen (2001) that the more the farmers identify themselves with cooperatives, the more confidence they will have in the management of the cooperatives.

Poor communication also contributes to member's loss of trust in management. It was noted that, although the cooperatives had excellent communication channels, it was more of top-down approach, than a two way communication system. The literature has shown that effective communication enhances relationships between members and cooperative management (Wadsworth & Business, 2001), which is important for the cooperatives' success (Bhuyan, 2007).

Proposition 9: *The more members participate in the governance of their cooperative, the more committed they will be and the greater is the opportunity for the cooperative to succeed.*

Leadership

The research identified leadership as having contributed either negatively or positively, to the performance of the cooperatives. The problems cited in this research include mismanagement of resources; a lack of transparency and accountability; and a lack of proper direction for the cooperatives. This is contrary to Banaszak & Beckmann (2006) claims about a competent leadership, which should be able to motivate a group of people to act towards achieving a common goal; engage the group in worthwhile communication processes; provide direction; and be transparent and accountable. This resulted in a decrease in member commitment and poor financial performance, which is consistent with Fulton and Giannakas' (2007) findings. It was also noted that the mismanagement was due to two reasons: a lack of proper understanding of the financial transaction, due to limited skills, and/or the self-gratifying attitudes of the leaders.

There was evidence that self-gratifying attitudes contributed to the failure of two cooperatives, leading to decreased member participation. Leaders in these two cooperatives were failing to call for meetings (after members discovered that the leaders had mismanaged some funds together with management), in the knowledge that the members would not show up. This shows that these leaders had lost their powers, due to their pursuit of self-interest, at the expense of the group, thus supporting the proposition of Yukl, (1989).

The other contributing factor to leadership failure was the board’s lack of understanding of proper financial transactions and their failure to correctly supervise the management, which could be due to their limited skills and this also may have led to the theft, at one of the cooperatives. This corresponds to a similar study by Keeling, et al.(2004), which identified leadership failure to supervise management, as having contributed to the failure of the California’s Rice Growers Association.

Proposition 8: *Leadership ability to provide direction and act in the interest of members would increase member satisfaction and participation in cooperatives.*

The factors affecting of agricultural cooperatives sustainability are summarized in the figure below:

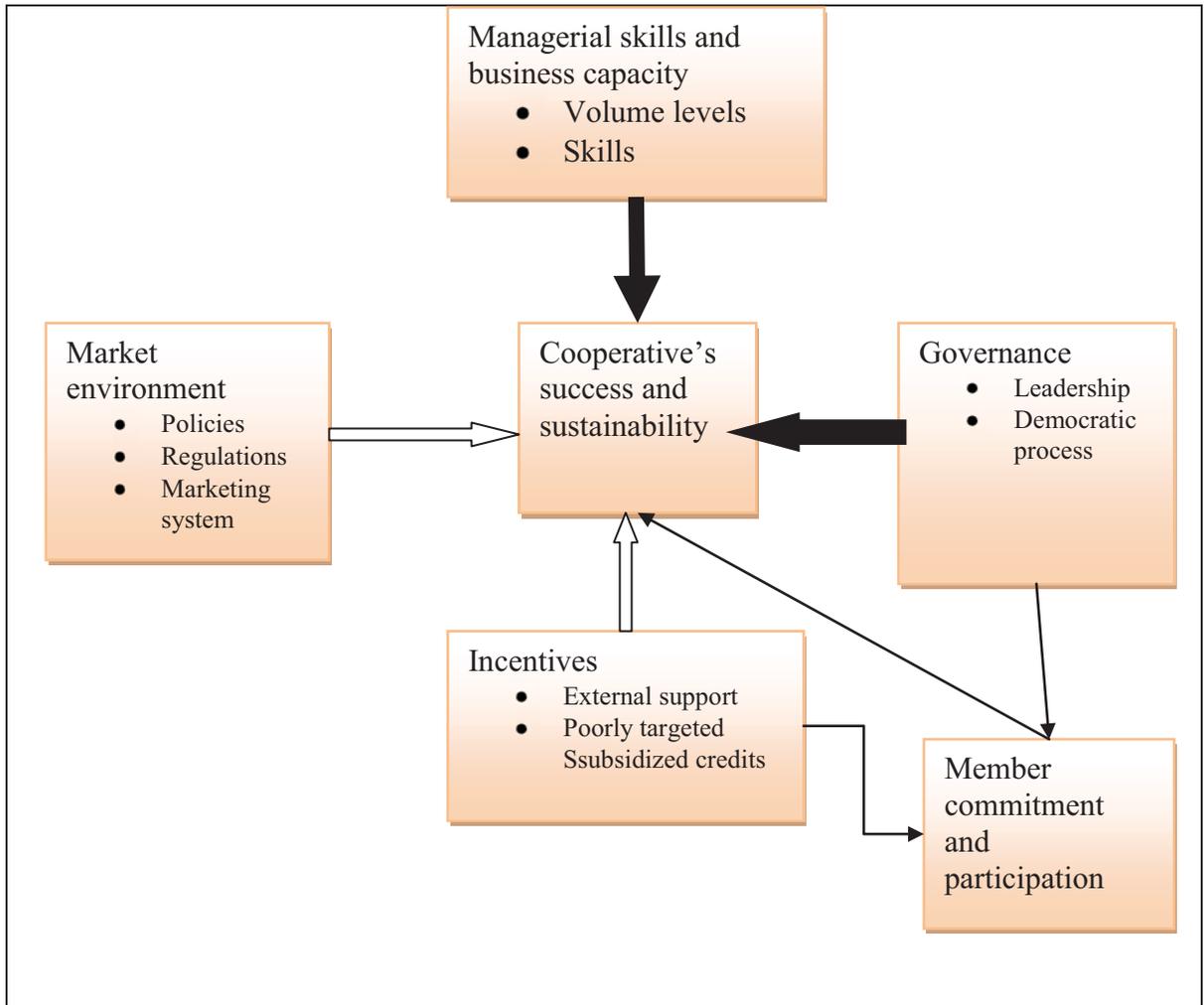


Figure 15: Self defined cooperative sustainability conceptual framework

7.3 Lessons to improve the performance of the cooperatives

The market environment, in which these cooperatives are operating, poses a strong challenge, with no price discovery mechanisms and limited resources to counteract such challenges. Cooperatives which are far from the cities are much worse off in accessing markets and market information. As a result they incur more costs as compared to those close to the city. This contradicts the a-priori idea that cooperatives which are farther from markets, hence most likely to face a market failure situation would be more successful. In such conditions cooperatives are not able to compete with the better prepared and resourceful traders. This underscores the significance of managerial and marketing skills.

Cooperatives fail to build a position in the markets which puts them in a vicious cycle of non-performance, no market influence and low volumes. The cooperatives might address this through horizontal coordination, in order to increase their bargaining power and social networks. The use of social network capital would help cooperatives to gain access to markets and market information, which Fafchamps, et al., (2005, p. 25) indicated as being the key determinant of traders' performance. This would also help reduce the operational costs.

Lack of contracts and contract enforcement mechanisms create insecurity in the market. This insecurity in the market makes farmers sell to vendors who can pay cash even if at lower prices. Absence of contracts also affects how downstream buyers choose their suppliers in market exchanges based on trust. This acts as a major market entry barrier for cooperatives.

Mismanagement of resources and poor governance could be due to a lack of commitment and sense of ownership by farmers and leaders. This could also be due to a spirit of dependency on outside help, as could be noted from the two cooperatives in crisis and their expectation that the government would bail them out.

Addressing the challenges, which have been identified, would help the cooperatives advance to a stage that is more beneficial to their members and hence, increasing the sustainability of the cooperatives. The current stage is important as a foundational stage, and advancing to the next stage would be based on the success achieved in stages one and two of the Cook and Burrell, (2009) cooperative life cycle framework. In addition, for these cooperatives to advance to the stage of taking a pro-active approach, would require horizontal integration, in order to achieve economies of scale, prior to vertically integrating into value added or accessing larger markets.

The mismanagement by leaders could also have been due lack proper training for the members on the cooperative principles. Member empowerment would have helped them to hold the leadership accountable and transparent; enhance their understanding of the cooperative's principles and also their constitutional rights as argued by Ortmann & King (2007). In addition, an 'apex body' would play an important role to ensure transparency, by sitting in on cooperative board meetings, in addition to providing audit services at frequent intervals. This is in line with Keeling, et al., (2004) recommendation in empowering the board of directors. Currently, the audit is conducted by the Ministry of Trade and Industry, which is normally undertaken once every three years (Chimowa G, 2010. personal communication). This is too long a period to check on transaction and provide a solution to any problem.

Establishing an apex body would help these cooperatives to be able to address these challenges. The example of National Smallholder Farmers' Association of Malawi (NASFAM) is one of such a successful model. NASFAM's key to success is that it works with self-motivated groups in addition to having a well-qualified technical expertise at the higher level.

7.4 Summary

This chapter has compared and contrasted the research findings with the literature. The research identified several factors that contributed to the success and sustainability of the cooperatives under study. These factors include the market environment in which

they are operating, which is more complex, as compared to their capacities; the incentives that brought them together and make them stay together; and their managerial skills and governance. These factors are consistent with what has been stated in the literature.

Similar to any other business, a cooperative's success is a function of capable management and good governance, in addition to its ability to adapt to the prevailing business conditions in the market. This implies that forming cooperatives, as a way to address market problems for farmers, would require a holistic approach to market failure problems. This can be addressed through an apex organisation that would provide the needed skills and information to the small cooperatives. The provision of a monitoring system, by an apex body, would help to curb some malpractices by those in management positions, up to a point where the cooperatives were then able to manage the situation.

CHAPTER EIGHT: CONCLUSION — RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

8.1 Conclusion

The objectives of the research were first, to identify factors that affect the sustainability of agricultural cooperatives in central Malawi; second, to develop testable propositions which could be tested on a larger sample; and lastly to identify lesson learnt in relation to future efforts directed at establishing viable cooperatives. The report theorizes about the problems that lead to sustainability problems of these cooperatives.

A multiple case study was used, in order to achieve the objectives of the research. The four cooperatives were selected based on their past performance and marketing environment. The study presumed that cooperatives operating in a market failure environment, characterized by few intermediary buyers with market power would attract more farmers' support leading to more chances of being sustainable. Based on this assumption, two cooperatives from a district close to the major city of Lilongwe and two from a district far away from the city, were selected. In each district one sustainable and one less sustainable cooperative were selected based on the ranking prepared by Ministry of Agriculture and Food Security. The sample was further validated by the experts from local NGO's.

In depth interviews were conducted with members of the cooperatives, the board of directors and management. The interviews were used to get an insight into the farmer's perceptions on the performance of the cooperatives and capture the problems that the cooperatives are facing at local level. Interviews were also conducted with key informants who included officials from government, NGOs and private sectors to get an insight into the performance and problems faced by cooperatives.

The study indicated that cooperatives provided input credit (although to a small scale) and to some extent the provision of extension services, but failed to successfully provide marketing services. The general consensus for the participants in all the four cooperatives was that in their current state these cooperatives are not sustainable. The cooperatives failed to bulk enough quantities to benefit from economies of scale. In addition, membership participation and capital has been decreasing. The cooperatives also failed to build a position in the market, hence have not been able to compete with private traders. Although all the members interviewed were satisfied with the idea of having a cooperative and perceived it to be a good idea for addressing their needs, they are skeptical of their survival. The problems highlighted in this research include market access problems; incentive problems; poor governance and a lack of managerial skills.

The complexity of the market environment does not match the cooperatives' capabilities. The research shows that the four studied cooperatives are operating in a very difficult market environment, with limited supportive regulatory framework which led to uncertainties in the market. Lack of transparency in the marketing system, no price discovery mechanisms and poorly implemented government policies contributed to failure. Cooperatives which are far from the cities are much worse off in the area of accessing markets and market information compared to those close to the city. The differences between the cooperatives in the districts emphasise the importance of infrastructure in supporting cooperatives access to information.

This study also indicated that the lack of managerial skills contributed to cooperatives failure. The cooperatives are being managed by unqualified managers who are being trained on job. As a result have limited abilities to develop or, indeed, implement business strategies. This contributed to cooperatives failure to grow. In addition, there are no motivating factors, to encourage members to invest in cooperatives, which is important for their sustainability.

Poor investments, which are also a result of low membership and high poverty levels, contributed to the cooperatives' failure to bulk adequate quantities. The low business capacity could be noted from cooperatives' failure to buy produce from every member,

and failure to meet buyers required quantities. This situation is worsened by the fact that these cooperatives work in isolation, without any linkage to other cooperatives. As a result the cooperatives are locked in a vicious cycle of poor performance, low returns and poor investment.

Likewise, evidence of mismanagement of resources and poor governance is attributed to a lack of commitment or sense of ownership by farmers and leaders. The self-gratify attitudes of leaders were evidenced by the theft of cooperatives' money and leadership wrangles. Mismanagement of resources could also be as a result of a spirit of dependency on outside help, as noted in the two cooperatives in crisis: and their expectation that the government would bail them out. Poor governance is also due to limited skills as all the leaders were farmers with very little education.

Regardless of the poor performance, cooperatives are still believed to be essential for integrating small-scale farmers in the agricultural commercialization: hence they contribute to poverty reduction. However, the complexity of the market environment in which these cooperatives are operating, underscores the significance of managerial and marketing skills. The cooperatives still need some support, especially in the area of marketing, before they can be left to stand on their own. The cooperatives lack the capacity and capabilities to effectively offer competitive services to the members that will make them a better option for farmers.

8.2 Recommendations

In order for the agricultural cooperatives to succeed and survive, they need to find strategies to address the problems identified. Based on these research findings, combined with the literature review, the following recommendations are provided, in order to increase their opportunities for success and to make them more sustainable:

1. At national and district level, there is a need for an apex body to help with the coordination of market activities, such as accessing market information and communication with the cooperatives. This would also provide an excellent network amongst the cooperatives and hence, it would increase their influence

market. In consideration of the technological gap between the cooperatives and their competitors, it would be more feasible to invest support in an apex body with improved technology, rather than each individual cooperative. This apex body would also provide guidance to policy makers on the effects of different policies, which might have a negative impact in the competitive environment of the cooperatives.

2. The cooperatives in Malawi are operating as isolated entities and with low volumes of business and the presence of an apex body would also help to consolidate these small volumes and enable the cooperatives to benefit from economies of scale and also meet the buyers' required volumes.
3. At the cooperative level, there is a need for transparency and inclusive decision making, so as to foster common interest and trust between members, especially at the initial stages, where the membership is still manageable. Training provided by the government and NGOs should be inclusive of all members, in order that members are also empowered to hold their leaders accountable.
4. Although the cooperatives are intended to be autonomous organisations, there is still a need to support them with administrative and marketing issues, which are beyond their capabilities. There is a need to support these organisations to ensure transparency and the accountability of their leaders. The apex body would help with monitoring the cooperatives management, through checking on their plans and conducting audits, so that timely advice could be given to the cooperative on the most suitable strategies. The apex body could also provide independent members to be sitting on the cooperatives' boards. Complex issues, such as marketing strategies and auditing could be handled by a body, at a higher level than the primary cooperative and this would also address the lack of skills problem.
5. On the part of the government, there is a need to continue sensitising the farmers about the importance of joining cooperatives or farmer organisations and at the

same time, ensuring transparency and accountability of their leaders, which, is seen as a hindrance to attracting more members. On the part of the cooperatives, they need to undertake a comprehensive training programme for member, in order to enhance member participation and empowerment

6. On the part of partners in cooperative establishment, there is need to encourage member investment in cooperatives to reduce the dependency. In addition, there is need for a well-planned exit strategy for assistance, and realistic goals to ensure sustainability.

Overall, the concept of cooperatives, as a tool to address market failure, has not achieved its goals. However, the cooperative concept is appreciated by the farmers, as an important approach to address their problems — if the challenges can also be addressed.

8.3 Further Research

The scope of this study was limited due to time constraint. Nevertheless, the study was successful in identifying the problems that affect the sustainability of the cooperatives. The following areas are suggested for future research.

Considering that the situation in other parts of the country may be different from that which the cooperatives in the central region of Malawi are facing. This research has provided the basis for assessing cooperatives and its findings could be used to assess these aforementioned levels. Further research could test to what levels the identified factors are affecting the success of cooperatives.

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APPENDICES

Appendix 1: Interview Guide

Interview Guide for Farmer participants

Understand their household situation and history as a farmer

Personal life

Role in the community or cooperative

Understand their farming business and history

Types of crops grown

Markets availability for the produce

Challenges and opportunities associated with farming

Reasons for joining the cooperative

How did they get to know about the cooperative?

Address market failure

- poor prices, exploitation, collusion, predation
- lack of markets - few buyer, geographic isolation (distance to marketing centres), high transaction costs

Motivations (e.g. input loans, access to markets)

Opportunities (networking with other farmers)

Cooperatives performance

The benefits they get for being a member of the cooperatives.

Their perceptions of the cooperatives performance in addressing their needs (describe the importance of cooperatives in addressing market issues, farmer's satisfaction with management and cooperative as a whole).

Farm incomes (how the cooperatives have contributed to farm incomes)

Farmers understanding of their responsibilities (what is expected of them as a member of the cooperative?)

Appendices

Factors that have contributed to success or failure of the cooperative

a) Leadership

Election of leaders

Relationships between leaders and member

Trust between members and leaders

b) Communication

Communication channels

Sources and type of information

Member's access to information

c) Governance

Governance structure

How decisions are made

Members' involvement in the governance of coops

Group cohesion -

d) Management

Relationship with cooperative

Understanding of the market

Information about the performance of the cooperatives

Information about prices and how it compares to the local markets (incidences of price discrimination)

e) Member participation

Attending meeting, serving on committee, recruiting others, patronage

How is the participation and why

Interpersonal relationships

Trust and commitment

f) Cultural and social institutions

Cultural values and cooperative principles

Interview with the Cooperative Management.

Personal History

History and involvement in the cooperative

Role in cooperative

Skills and experience and relation to the role

When the cooperative started

How the cooperative started and by who

Why it started (what lead to the decision to start the coop)

How many members and

What has been the trend and why

What has been the progress from the start?

What activities are performed by the coop?

Type of produce and how much produce

Factors influencing effectiveness of the cooperative (Success or failure factors)

From internal

- Organisational –leadership, communication, management,
- Financial –sources of funding, financial performance, profitability, debts,
- Operational- marketing efficiency, wastage, business strategies, alliances, contracts, competitiveness advantage, skills and experience

From external environment

- Government policies- regulatory framework, pricing policies,
- Market environment- competitors and type of players on the market, geographic location and how it impacts on the market costs.
- Other organisation involvement

Opportunities created by the cooperatives

Challenges

Strategies to address both opportunities and Challenges

Cooperatives influence on the market prices

Appendices

Interview with Key Informants

Personal history

As organisation history and involvement in the cooperative

The relationship between the cooperatives and the organisation

Involvement in cooperative activities and their role

Evaluation of the cooperative performance

- How is it performing from their own perspective
- What improvements can be made

Document search

Country profile (country profile, farming systems, population)

Agricultural policies

Market information – General trends in the market environment

Regulatory framework

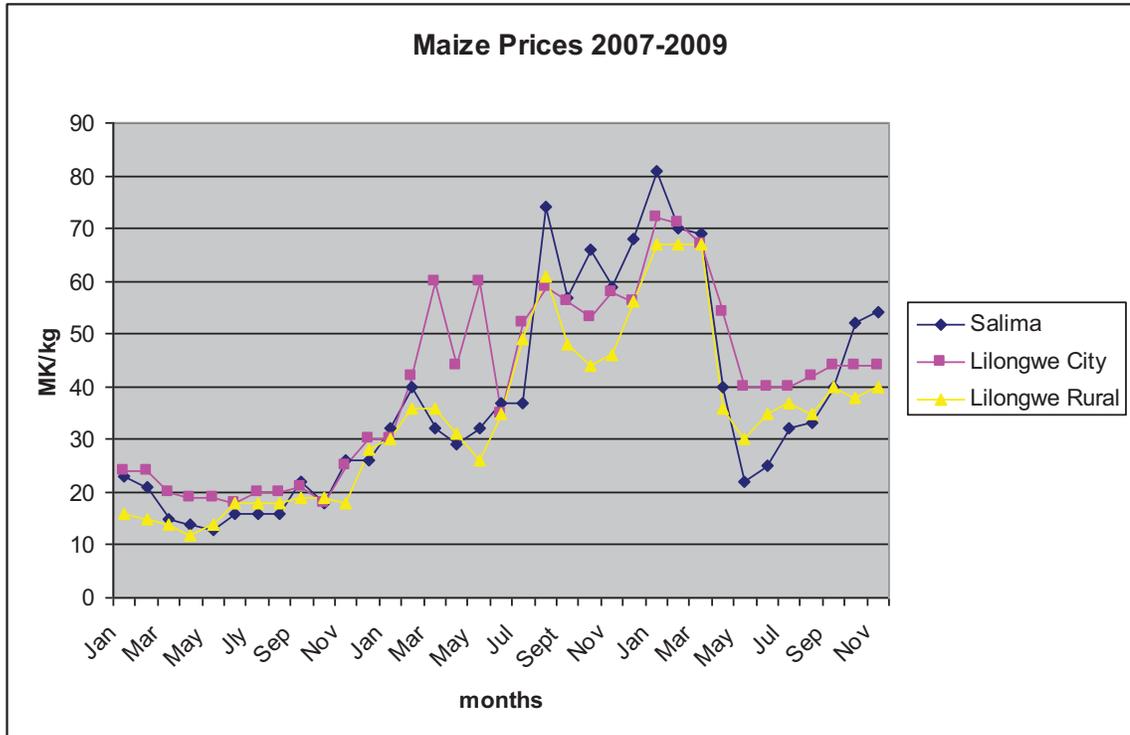
Cooperatives profile (location, membership, trends in production and membership)

Cooperatives' price trends, Margins.

Cooperatives – purpose, strategies and achievements

Prices offered by the cooperatives versus Prices on the local markets

Appendix 2: Graph showing Maize prices From Jan 2007 to Nov 2009



Data Source: Food Security Joint Task Forces Technical Secretariat, Ministry of Agriculture and Food Security.

Appendix 3: Ethics Approval letter



MASSEY UNIVERSITY

14 April 2010

Agnes Nkhoma
34 Rakaia Place
PALMERSTON NORTH

Dear Agnes

Re: Factors Affecting Sustainability of Agricultural Co-operatives in the Central Region of Malawi

Thank you for your Low Risk Notification which was received on 9 April 2010.

Your project has been recorded on the Low Risk Database which is reported in the Annual Report of the Massey University Human Ethics Committees.

The low risk notification for this project is valid for a maximum of three years.

Please notify me if situations subsequently occur which cause you to reconsider your initial ethical analysis that it is safe to proceed without approval by one of the University's Human Ethics Committees.

Please note that travel undertaken by students must be approved by the supervisor and the relevant Pro Vice-Chancellor and be in accordance with the Policy and Procedures for Course-Related Student Travel Overseas. In addition, the supervisor must advise the University's Insurance Officer.

A reminder to include the following statement on all public documents:

"This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research."

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor John O'Neill, Director (Research Ethics), telephone 06 350 5249, e-mail humanethics@massey.ac.nz".

Please note that if a sponsoring organisation, funding authority or a journal in which you wish to publish requires evidence of committee approval (with an approval number), you will have to provide a full application to one of the University's Human Ethics Committees. You should also note that such an approval can only be provided prior to the commencement of the research.

Yours sincerely

John G O'Neill (Professor)
**Chair, Human Ethics Chairs' Committee and
Director (Research Ethics)**

cc Mr Daniel Conforte
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