

Research Application Summary

Analysis of business performance of agricultural cooperatives: A case study of Ngolowindo, Nsangu and Chitsanzo Cooperatives in the Central Region of Malawi

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Abstract

The Government of Malawi has been promoting the establishment of farmer organisations including cooperatives in an effort to help small-scale farmers improve their income and develop their managerial skills by venturing into a business oriented approach to farming. However, despite the benefits associated with cooperatives, general cooperative membership is still very low in Malawi and their performance has not been clearly studied. This study examined the performance of producer and marketing agriculture cooperatives as business entities. The study examined the financial performance of agricultural cooperatives using the ratio, DuPont and extra value analyses. The study also assessed elements of organisational and management culture of agriculture cooperatives. The study revealed that the cooperatives studied were performing their business inefficiently. Using the Malawi Reserve Bank base rate of 17.75% as cost of debt, the study revealed that cooperatives diminished the value of members' investment. The performance of the selected smallholder agriculture cooperatives was also influenced by organisational and management problems. Organisational problems gave rise to low levels of equity and debt capital, reliance on government funding, low levels of investment, and subsequent loss of members. Management problems were strongly linked to low levels of education, lack of production and management skills training and weak marketing arrangements. The study recommends that some well-structured business management training and development programmes be instituted to improve agriculture cooperatives business and management efficiency. Government should formulate a strategy for rebuilding the cooperative movement and monitor its progress until the culture of taking farming as business is fully adopted by farmers.

Key words: Agriculture cooperatives, business performance, extra value, Malawi, management

Résumé

Le gouvernement du Malawi promeut la mise en place des organisations paysannes y compris les coopératives dans l'effort d'aider les petits agriculteurs à améliorer leurs revenus et développer leurs compétences managériales en se lançant dans une approche orientée commercialement vers l'agriculture. Cependant, malgré les avantages associés aux coopératives, l'adhésion générale aux coopératives est encore très faible au Malawi et leur performance n'a pas été clairement étudiée. Cette étude a examiné la performance des producteurs et des coopératives agricoles de commercialisation comme des entités commerciales. L'étude a examiné la performance financière des coopératives agricoles en utilisant le ratio, les analyses de la valeur supplémentaire et de DuPont. L'étude a également évalué les éléments de la culture organisationnelle et de la gestion des coopératives agricoles. L'étude a révélé que les coopératives étudiées ont lancé leurs affaires inefficacement. En utilisant le taux de base de la Banque de réserve du Malawi de 17,75% comme coût de la dette, l'étude a révélé que les coopératives ont diminué la valeur de l'investissement des membres. La performance des coopératives agricoles sélectionnées des petits exploitants a également été influencée par des problèmes d'organisation et de gestion. Des problèmes d'organisation ont donné lieu à de faibles niveaux de capitaux propres et la dette, le recours à un financement du gouvernement, de faibles niveaux d'investissement, et la perte subséquente de membres. Les problèmes de gestion ont été fortement liés à de faibles niveaux d'éducation, au manque de production et de formation des compétences en matière de gestion et aux prévisions défaillantes dans la commercialisation. L'étude recommande que certaines formations bien structurées en gestion des affaires et des programmes de développement soient mis en place pour améliorer le business des coopératives agricoles et l'efficacité de gestion. Le gouvernement devrait élaborer une stratégie pour la reconstruction du mouvement coopératif et surveiller ses progrès jusqu'à ce que la culture de considérer l'agriculture comme un business soit entièrement adoptée par les agriculteurs.

Mots clés: Coopératives agricoles, performance des affaires, valeur supplémentaire, Malawi, gestion

Background

The history of the cooperatives movement in Malawi, particularly over the last 50 years, is characterised by low growth, relatively low economic impact and grudging acceptance by government. With the passing of time however, government policy changed in favor of cooperatives again. One of the strategies spelt out in

the Malawi Growth and Development Strategy Paper 2008 is the formation of agricultural rural producer organisations as a deliberate move within Malawi's Poverty Reduction Strategies to bring the rural poor into the mainstreams of the economy. A cooperative structure provides agricultural producers the opportunity to process and market their crops in a joint business venture with other producers. The objective of this study was to examine the financial and management performance of selected agricultural cooperatives in Malawi.

Literature Summary

An agricultural cooperative is "a voluntary association of farmers or growers who jointly perform one or more functions to their mutual advantage, such as marketing their produce, purchasing farm supplies, sharing expensive equipment, or supplying services such as storage or transport" www.cooperative.org.uk. Agricultural cooperatives are considered suitable institutional structures for addressing market failure problems experienced by small-scale farmers (Centner, 1988; Normark, 1996; Chirwa *et al.*, 2005; Dorward, 2006). It is argued that farmer organisations like cooperatives do and could solve these problems by empowering farmers to negotiate effectively for better output and input prices (Parnell, 1992; Harper, 1992; USDA, 1990; Ngwira, 2001). It is generally hypothesized that when farmers group up into cooperatives or any other organised group, individual problems are significantly reduced (Mpesi, *et al.*, 2001; Kumwenda and Kachule, 2003; Malawi Government, 2002).

Study Description

The study was conducted in Salima and Dedza Districts in the central region of Malawi. Purposive sampling techniques were applied to come up with cooperatives that were studied. Due to the exploratory and theory building nature of the study, in-depth studies of only three cooperatives was conducted. The study used both secondary and primary data which comprised both qualitative and quantitative approaches. Secondary data were obtained from various sources such as reports from the Malawi Ministry of Commerce Trade and Industry, farmers union, Swedish Cooperative and past financial records from individual cooperatives. Primary data were obtained from sampled agricultural cooperatives through a structured questionnaire. The data on business and economic variables used included annual income and expenditure, assets available, liabilities, tax and interest charges, access to market, access to input and credit, loan available, purchases, sales and business activities involved. Collected data were analysed using computer packages including Excel and Statistical Package for

Research Application

Social Scientist (SPSS). This study used three broad categories of data analysis, i.e., ratios, DuPont and extra value approach.

Extra value index which indicates the rate at which a cooperative is creating extra value for its members, showed that Chitsanzo and Nsangu cooperatives were reducing member value at a rate of MK 13.28 (US\$ 0.047) and MK15.03 (US\$0.053) respectively per hundred kwacha of its operating capital. On the other hand, Ngolowindo reduce its member value at a higher rate of MK78.49 (US\$ 0.280) per hundred Kwacha of its operating capital (where US\$1=MK280) (Table 1). Assuming basic interest charge that lenders were offering at 17.75%, all cooperatives under study fell into the category of negative return on equity with no extra value generated. The cooperatives in their current state were considered not sustainable based on the evidence of their failure to provide a positive return on equity with an additional extra value on investment to their members. Cooperatives failed to successfully manage their businesses and maintain their assets and capital.

Table 1. Performance of Chitsanzo, Nsangu and Ngolowindo farmer cooperatives in central Malawi.

	Chitsanzo	Nsangu	Ngolowindo
Extra value	-745,512.71	-749,475.56	-733,912.09
Extra value index	-13.28%	-15.03%	-78.49%
Current ratio	0.98:2	0.75:2	0.64:2
Debt ratio	29%	94%	1.35%
Return on total assets	1.24%	1.47%	0.30%

In conclusion the study showed that the agriculture cooperatives under study performed their businesses inefficiently and that; though members perceived it to be a good idea for addressing their goals, they were doubtful of their business survival due to the many challenges they faced. There is a need therefore for a well-structured business management training course and development programmes to be instituted in order to improve agriculture cooperatives business and management efficiency. Government should prepare a strategy for rebuilding the cooperative movement and monitor its progress until the culture of taking farming as business is fully adopted by farmers.

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