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Performance of Zambia's Co-operatives – A Case Study of Kabwe, Lusaka & Kafue Based Co-operatives

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Abstract:
The majority of Zambian population depend on smallholder farming, predominantly organized into co-operatives, for their livelihood and have not performed well in addressing poverty and job creation in spite of interventions from the government and private institutions.
The success of the agribusiness in Zambia depends on the use of innovative business models. The changing consumer buying habits favor product-oriented and not production-oriented farmers; whereby farmers should see themselves as suppliers of consumer products in an integrated national/world food system.
In order to understand the specific challenges that Zambia's co-operatives visa-a-vie agribusinesses in agricultural value chain are facing, this study examined the effectiveness of the business models used by a selected co-operatives. The outcome of the study would useful in designing alternative entrepreneurial business model that takes into consideration the local conditions and current trends in agrifood industry.
The findings have revealed that the co-operative business model were ineffective in creating, delivering and capturing economic and social impact, prone to property rights constraints, undercapitalized, non-profitable, hardly employ, mostly production-oriented, and poor management and technical skills. The legal, policy environment were outdated.

Keywords: *Business model, Co-operative, Social venturing and co-operative entrepreneurship business model, Social venturing entrepreneur/entrepreneurship, New generation co-operative business model, Institutional environment and institutional arrangement, Smallholders, Traditional co-operative business model*

1. Introduction& Background

Amongst the agreeable themes, despite conceptual differences in different or within silos among researchers, is the notion that business models can be used to create, deliver and capture both commercial and social value (Zott, et al., 2010). Several case studies and surveys have proved that there is a relationship between business model and the success of the firm (Zott et al,2010; Casadesus-Masanell and Ricart, 2010; Lambert, 2008, p.277) and even change the economics of an industry (Magretta, 2002). Mitchell and Coles (2003, p15-21) study revealed that those companies that were most successful in sustaining a position were frequently making fundamental improvements in several dimensions of their business model for serving their customers, end users, and other important stakeholders.

Similarly, entrepreneurial co-operative business models have been found to be resilient in times of financial and economic crisis (Birchal and Ketilson, 2009). The entrepreneurial co-operative business models maintain the livelihood of communities in which they operate, support the development of MSMEs, create sustainable employment and improved social standing of the members and their families (Von Ravensburg, 2011). Furthermore, according to international Co-operative Alliance (ICA), co-operatives represent I billion individuals and provide at least 100 million jobs worldwide and nearly 3 billion people's livelihood has been made secure by co-operative enterprises.

Although co-operatives have proved to be highly effective in North America and Europe since Robert Owen (1771-1858) and William King (1786-1865) and the Rochdale Pioneers in England, Charles Fourier (1772-1837) in France, and Friedrich Wilhelm Raiffeisen (1818-1888) *Volksbanks* in most European countries, this has not been the case for Eastern European, African, Asian or Latin American markets (von Ravensburg, 2011; Zeuli and Cropp, 2009; Klein, 2009). In particular, Zambia's co-operatives have not performed satisfactorily since early 1980s in spite of increased government spending on agricultural development such as Farmer Input Supply Program (FISP), co-operative movement support through Zambia Co-operative Federation (ZCF), buying of cereal crops by Food Reserve Agency (FRA) (Mason et al., 2013; Lolojih, 2009). In case of government policy on general agricultural development and co-operative business development in particular, Zambia switched from state-led development (1964-1990) to the dominant market-liberalization (1991-2001) and to the current partial-liberalization paradigm since early 2000s. This has not contributed to significant improvement on co-operative production and productivity (Wanyama et al., 2009; Lolojih, 2009; Kirsten et al., 2009).

Increasingly, scholars have shown that there is a relationship between business models and enterprise success, profit/financial performance as well as firm survival in the market place (Zott et al., 2010; Casadesus-Masanel& Ricart, 2010; Lambert, 2008; Weil et al., 2005; Hamel, 2000). We hypothesize that co-operative business model is responsible for the poor performance of the majority of co-operative enterprises in Zambia. Paraphrasing Mageratta (2002), the application of innovative co-operative business models would change the economics of agricultural industry in Zambia.

In this paper, we view a co-operative enterprise business model as comprising social and technical systems and therefore we call the business model as "*social venturing and co-operative entrepreneurship business model (SVCE-bm)*" and define it as "*multi-actor framework for value creation, delivery and capture*. The value includes both commercial and social impact". The SVCE-bm is a multi-actor in the sense that it is composed of different players working together to achieve identified common multiple goals and often constitutes two-layered enterprise. These may include individuals owning smallholder farms, co-operatives or MSMEs producing commodities and the jointly owned value adding enterprise producing products. The social venturing entrepreneur drives the SVCE-bm enterprise (SVCE-bmE). The success of social venturing entrepreneur is to ensure that the goals of SVCE-bmE and individual member's (smallholder/MSMEs owners) for whom the enterprise was set-up are being achieved. The members are not only interested in the profitability of SVCE-bmE but also the growth of their own individual smallholding or MSME since the proceeds of value adding enterprise are used to improve production and productivity of their individual enterprises. Thus, the SVCE-bmE has two goals: entrepreneurial success of the group – the SVCE-bmE and the members, whereby the goals of the members are prime (Van Dijk, 2011).

1.1. Background

The problem of agricultural development in general and particularly agri-business in Zambia as well as other African countries is well documented. The professionals in main stream economics and economics of agriculture have been paying attention to institutional issues of exchange, natural resource management and the state agricultural and agri-business policies (Kirsten e al., 2009).

However, the focus for this study is on business models as an institution affecting the growth of not only smallholder farming but also co-operative business models that are commonly used in Zambia. Smallholder agricultural and co-operative business enterprise developments has long been regarded by the polity in Zambia, researchers, and professionals in international development institutions, as panacea for poverty reduction through job creation, improved livelihood through food security and improve nutrition (Mtonga et al., 2013; Wanyama et al, 2009).

Zambia's poverty and inequality is still very pronounced and has remained at well over 60%, with rural areas being the most poor and urban better off. The pattern of income inequality favours the urban areas at the expense of rural areas. Subsistence agriculture is the single largest occupation, with about two million people working as subsistence farmers, Bertelsmann Stiftung, BTI (2012, p12). Agriculture and agro-processing are considered to be among the top productive areas with greatest potential for growth in Zambia. This potential has very important livelihood implications as 68% of Zambia's economically active population engaged in smallholder agriculture. The government and other development agencies in Zambia acknowledge the importance of not only strengthen the capacity of small-scale farmers but also facilitate micro, small and medium enterprise, co-operatives included, engage in value addition in order to reduce poverty, create jobs and provide food security (USAID/Zambia, 2011-2015; UNDP, 2000; National Agricultural Policy (NAP), 2004, p.2).

Since independence in 1964, the Zambia's successive National Agricultural policies and National Co-operative Development Policies have focused on supporting and developing small-scale farmers, providing a conducive environment for the growth of the large scale-farming sector, and encouraging small-scale farmers to form and register co-operatives and other farmer organizations through relevant registration (NAP, 2004; National Co-operative Development Policy (NCDP), 2009, p.vii, ix, 1).

However, a number of researchers and practitioners who have conducted surveys and case studies into the performance of smallholders, co-operatives and MSME in general argue that co-operatives are either defunct or non-performing (Lolojih (2009, pv1, 5-6); the introduction of a complex set of subsidy programmes (FISP and FRA) via co-operatives does not seem to be the most efficient route to develop agriculture (Bigsten and Tengstam, 2008, p.5);the MSMEs performance is low and lack growth (Bonger and Chileshe, 2013, p.vii; ZBS, 2010, p.7-; Mbuta, 2007, p.viii, ix).

1.2. Problem Statement

The economic and social livelihood of the rural population in Zambia is supported by smallholder agriculture farming business and increasingly organized in co-operatives as a matter of policy in order to access government input supplies. However, the performance of co-operatives has not been satisfactory. Consequently, the rural poverty levels, food security and malnutrition are and unemployment are still an acceptably high. Solutions to enterprise success, co-operatives in particular, are needed.

1.3. Research Objectives

Our study general objective is to examine the effectiveness of Zambian's co-operatives. The specific objectives are: a) to evaluate the performance of co-operatives; b) to evaluate the supporting institutions; c) to assess the nature of co-operative business model used.

1.4. The Benefits of the Study

Our theoretical framework postulates that the performance of any co-operative business model is dependent upon the enterprise internal governance and the external supporting institutional, legal and policy environment. The outcome of the study will shed light on how these variables affect the performance of co-operatives and what co-operative business model innovations needs to be introduced to ensure value creation, delivery and capture of sustainable economic and social impact. The outcome of the study will provide input to future case studies on co-operative business model design.

1.5. Paper Outline

This paper proceeds with theoretical framework, literature review, research methodology, findings, and discussions, recommendations and conclusion.

2. Theoretical Framework

Our study is premised on the notion that an innovative SVCE-bmE performance across the agricultural value chain is dependent upon the role of social venturing entrepreneur, the institutional environment and arrangement, the legal and policy environments, the internal governance and the incentive structure. Thus, ***SVCE-bmE performance = Social venturing entrepreneur + Institutional, legal and policy environment + Internal governance + incentive structure***, as shown in figure 1. These variables constitute the analytical study framework for explaining the performance of SVCE-bmE.

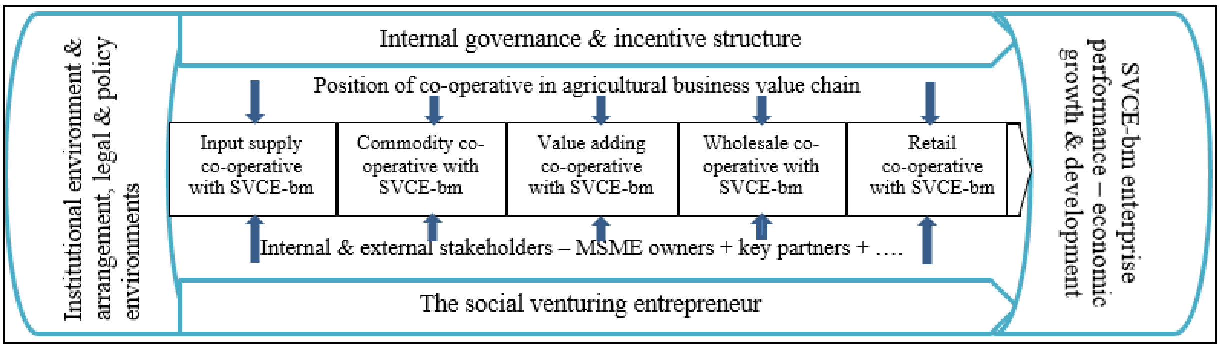


Figure 1: Theoretical concepts and their relationships

The smallholder farmers or MSMEs owners who face challenges to grow in a free market economy may choose to set-up a jointly owned input supply, commodity, value adding, wholesale, and retail co-operative or a combination thereof. According to van Dijk and Klept (2005), such an alliance is a special type of enterprise with stronger position in the market, serving dual or multiple goals – specifically, entrepreneurial success of the group (the SVCE-bmE) and the member (smallholders/MSMEs), whereby the business goals of member are the prime consideration. In this case, a two-layered enterprise is created as corporate vehicle serving economic and social interest of its members. The members define the economic and social impact.

Central to the SVCE-bmE is the entrepreneurial role of the social venturing entrepreneur. The social venturing entrepreneur is a Raiffeisenian (1818-1888), Von Misesian (1919), Kirznerian (1973), Schumpeterian (1934), Smithian (1759) and Knightian (1921) entrepreneur. Social venturing entrepreneur(ship) is defined as solving societal problems by entrepreneurial method and it is entrepreneurship with ***"a calling"*** unlike conventional entrepreneurship which is associated with extreme pursuit of profits (Wall Street entrepreneurship) He/she is a creator of effective social change in a context of economic, social and political conditions (Van Dijk 2011). For Kievit (2011), social venturing entrepreneur master the skills of networking and lobbying and create their own markets, legal, social and political environment. The social venturing entrepreneur is an entrepreneur who is willing and able to address wicked problems in an entrepreneurial manner.

To achieve this role, the social venturing entrepreneur brings-in key partners with varied interests such as economic, social impact, ecological, political, technological etc. to participate in the SVCE-bmE. The key partners refer to individuals, public and private institutions and organizations who are invited to provide financial, technical, technological and physical resources for setting-up and managing value adding enterprise for which smallholder/MSMEs owners are the members. *For a new generation co-operative, the farmers themselves have the resources and technical knowhow to start a value adding co-operatives but not so for the smallholder/MSME members* (Siame, 2014 p.713-714; Patrie et al, 1998; Fulton, 2001; Harris, 1998). They need special key partners who have interest to see them succeed.

At this level of *coordination*, a social venturing entrepreneur must be able to obtain various resources needed to establish and manage the SVCE-bmE and also facilitate the exchange of products and services with buyers (Dorward et al., 2009). The key partner brings about innovation network, support structures that cannot be obtained from the market or according to van Dijk and Klep (2005) "when markets fail".

Internal governance refers to the decision-making processes adopted, the role of the different governing bodies (shareholders, the board of directors, management, employees), and the allocation of control rights to professional management. The issues of separation of ownership from control. Overarching these groups is the relevance of Zambia's Co-operative Societies' Act and the Co-operative

By-laws giving the entity the rights and the terms to exist. Further, the internal governance refers to issues such as organization structures of the co-operative enterprise (e.g. the formation of subsidiary companies) (Slangen et al., 2008).
The motivation for the players in the SVCE-bmE (as institution) is varied, e.g. economic, social ecological *incentives* etc. The alignment of these incentives to smallholders/MSMEs owners and key partners is important for the success of the business. These must be met constantly for co-operation to exist. Conversely, the SVCE-bmE should create profitable opportunities for investment and exchange for which key partners and smallholders/MSME owners look for to invest.
The institutional environment provides *low-cost exchange* and it refers to the social, cultural, political, legal and policy context in which co-operative operates, and which may have a supporting or constraining effect on the co-operatives' performance (Poppe and Bijman, 2012, p.8; Dorward et all., 2009, p.25; Davis and North, 1971). It describes property rights, enforcement mechanisms, human behaviors and power relations in the business. It also includes beliefs, such as religions; norms, such as trust and lawfulness; constitutionally determined government structures; the legal system. The institutional environment provides the structures in which economic decisions, actions, transactions are embedded.
The institutional arrangements in SVCE-bmE, as distinct from institutional environment, describes the sets of rules and structures governing the *allocation and exchange of resources* through specific transactions. In this case, it describes market exchange, institution, sometimes referred to as company or hierarchies exchange and gift exchange. The SVCE-bmE relies on hybrids between gift exchange, hierarchy, and the market arrangements.
Market exchange comprise market transactions between SVCE-bmE with customers and other business partners. Gift exchange comprise shared values stressing shared responsibilities, amongst key partners, the members and management, in social groups with imprecise terms of mutual obligations that are heavily reliant in investing in social values and social capital. (Slangen et al., 2008; Williamson 1991; Coarse 1992; Hall and Soskice 2001; United Nations 1999; Yusuf 2001).
In summary (Figure 2), the institutional arrangement and environment facilitate coordinated exchange, low-cost exchange, incentive for exchange of resource management respectively and allocate facilitate allocation and exchange of resource management. This leads to SVCE-bmE performance.

Figure 2: Institutions and business performance

3. Literature Review
In order to familiarize with current developments in agricultural business enterprise business models, the study provides a review of entrepreneur co-operatives, changes and adaptations to TC-bm, market power of co-operatives and NGC-bm, current co-operative issues, the co-operative theory, contract farming and other vertical linkages and Zambia's agribusiness environment.

3.1. Entrepreneur Co-Operatives
The study to analyse the set-up and economic, social and employment benefits of entrepreneur co-operatives was undertaken by Von Ravensburg (2011). The objective for the study was to learn how the model could be rendered useful elsewhere. The study was under the auspices of COOPAFRICA, a program that promotes favourable policy and legal environments, strong vertical structures such as co-operative unions and federations, improved co-operative governance, efficiency and performance covering nine countries – Botswana, Ethiopia, Kenya, Lesotho, Rwanda, Swaziland, Tanzania mainland and Isles, Uganda and Zambia from ILO office in Tanzania with technical support from ILO COOP.
Though the study didn't specifically deal with the actual business model configuration of entrepreneurs' co-operative, it provides relevant concepts that are important in its design worth the review for this study. The author notes that there was a virtual void of descriptions of entrepreneurs' co-operatives in some parts of the world. This is true in Zambia's case where co-operative business model was confined to agricultural sector, especially smallholders co-operatives dealing in commodity production, processing, marketing, or input supply. Even though the MSMEs show distinctive co-operative features, there is no reference for them being entrepreneurial co-operatives. This is due to either limited scope for co-operative policy or lack of knowledge despite the fact that collective socio-economic undertakings play an important role in the economy, argues the author.

The recent re-alignment of the Department of Co-operatives to the Ministry of Commerce Trade and Industry from the Ministry of Agriculture can now be seen as part of the wider renaissance of co-operative business models for the entire private sector as opposed to the past when they were restricted to agricultural co-operatives in the Ministry of Agriculture in Zambia. This development will give rise to promotion of entrepreneurs' cooperatives amongst MSMEs as well as the informal sector businesses (President's 1st inaugural speech to National Assembly, 2016).

Wherever the entrepreneurial co-operatives have been established, they have supported the development of MSMEs, created sustainable employment and livelihood of the members and their families. Some of the advantages for entrepreneurs' co-operatives are shown in table 1.

Efficiency Goals	Quality Goals
• Economies of scale & scope – including sharing of resources & risks • Access to new – domestic& foreign – products markets – including participation in larger public tenders • Easier access to finance • Fixed costs can be lowered by: vertical and/or horizontal integration of product chains; sharing R&D; use of standardized components; & use of common logistics and markets • Enlargement of markets through common marketing & distributions • More diversified clients & markets • More stable relationships of buyers and producers • Risk-sharing through joint funding and/or operations • Management-training, development • Shortening the development cycle and • Use of purchasing advantage	• New materials, processes & products can be created by combining complimentary R&D compatibilities • Systems solution through product combinations • Improvements in customer proximity • Acceleration of knowledge transfer & technology upgrading & • Enhanced skills, standards & capacity

Table 1: Advantages of forming entrepreneurs' co-operatives
Source: Von Ravensburg (2011, p. 23)

The writer contends that:

a) Entrepreneurial co-operatives are best served by competing promotion agencies in market-driven environments that offer room for experimentation with different organization structures, norms and learning processes
b) Promotion of use of entrepreneurial co-operative by MSMEs and informal sector enterprises should encompass national co-operative dialogue in order to tap the resources which already exist. This should include co-operative business image building, education and training for promoters and entrepreneurs' co-operative leaders, access to finance and capacity building for entrepreneurs' co-operatives and modern concepts of entrepreneurial co-operative federations roles
c) When promoting the use of entrepreneurial co-operatives by MSMEs, national and local partnerships between the ILO and its constituents are suggested as well as carefully selected authorities and business membership organizations such as chamber of commerce trade and industry. Any assistance should be based on co-operatives' ability to pay back and this can be established through feasibility studies
d) The promotion strategy for entrepreneurs' co-operative must be the selection and training of promotion personnel, development of basic routines for strategic planning and adequate monitoring and evaluation.

An entrepreneurs' co-operative is a special form of co-operative. It differs from consumer and producer co-operatives in that its members are predominantly (formalized and/or informal) enterprises, SMEs, self-employed persons and professionals, sometimes municipalities or other public bodies. Members have businesses producing for and/or trading in markets, or are supplying paying customers with services. Members can be legal entities or individuals. Membership is taken for the sake of obtaining services, which are of key importance to members' businesses. Members expect benefits to income and economic well-being, not primarily for consumer, social or cultural reasons.

Progress in promoting entrepreneurs' co-operatives and other cooperatives has been made possible in recent years by macro-level changes, legal reforms and technical and financial support. Despite comprehensive legal and institutional reforms in some countries, the co-operative approach as a whole still suffers from the legacies of the past when governments used co-operatives to control people, markets and products. Moreover, many countries have yet to realize the full benefits of horizontal and vertical integration, especially for professionals, SMEs, local government service providers and the informal economy. As a special supplementary report by the Director General of the ILO (2003, p. 11) states, more needs to be done in regard to: establishing a conducive legislative, regulatory and institutional framework; organizational and managerial tools to foster ownership, accountability and effective participation; the integration of different types of co-operatives into national co-operative movements; and the application of the co-operative concept "…to new areas, such as shared service co-operatives for small businesses".

The State has an important role to play in providing the political, legal and administrative framework and certain public goods necessary for the development of private organizations. However, less than favourable local and national public policy environments hamper potential members of entrepreneurs' cooperatives as well as the entrepreneurs' cooperatives themselves in their business development. Property rights systems, competition law, business licensing fees and procedures, tax structures, and regulatory compliance requirements are only some examples of policy areas which can obscure market relationships, favouring certain business sizes, certain sectors or certain individuals over others. In any case, injustices in all the policy areas mentioned above can impose disproportionately high costs on craft persons, SMEs and professionals, and, in so doing, limit their growth and capacity to form entrepreneurs' co-operatives. These barriers may even keep SMEs in the informal economy, where they may be unable to enter certain types

3.2. Excessing Finance

For entrepreneurs' co-operatives to succeed, European countries have undertaken legislative efforts not only to help reduce the restrictions for co-operatives in the founding process, but also in reaching financial markets. Such reforms have included (EC, 2001, p. 17): reducing the minimum number of persons required to create a co-operative; the possibility of giving some members more than one vote; broadening the limits on activities and on trading with non-members; the possibility of issuing specific bonds, representing risk or debt capital; allowing third parties to participate in share capital; and permitting the transformation of co-operatives into joint stock companies

Though some of these developments are contrary to TC-bm principles, they have been considered desirable in order to satisfy the needs for growing co-operatives in a modern economy. For Zambia's MSMEs to embrace entrepreneurs' co-operatives, such changes need to be incorporated in the Co-operative Societies Act, 1998.

3.3. Changes and Adaptations to TC-Bm

In order to exploit the untapped enormous capabilities that co-operatives have in the globalised free market economy, Baarda (2006) outlined changes and adaptations that ought to be done to TC-bm. The TC-bm adheres to a set of principles statements – the User-Owner, the User-Control and User-Benefits. The User-Owner principle specifies that those who own and finance the co-operative are those who use the cooperative. This principle attempts to balance the amount of equity a patron has invested with the amount of patronage – the benefits received are proportional to use so the burden of financing should be similarly balanced; and differences in equity invested will be returned at some time to patrons who contributed it. The User-Control Principle states that those who control the co-operative are those who use the co-operative. This principle is put into practice when board of directors are chosen (using one vote rule) by members who are members of the co-operative. The User-Benefits Principle specifies that the co-operative's sole purpose is to provide and distribute benefits to its users on the basis of their use. Patronage refund system is the basis for this principle.

Since these principles guide the way the TC-bm is governed and financed, the TC-bm fails to exploit the opportunities presented by the current changes in agricultural production, marketing and agricultural supply chains; specifically, the involvement in value-added activities if farmers are to capture the benefits of participating in downstream portions of the supply chain. These operations require huge capital, beyond what the farmer's members can contribute.

3.4. The Market Power of Co-Operatives and NGC-Bm

Various gurus in co-operatives in Egerstrom et al., (1996) shade light on the form of farmer organization for the new era. Regarding to changes occurring in the world markets, Professor Douglass North urged farmers and their TC-bm to decide the future form of their organization that reduces transaction costs for their members or else they risk being excluded or eliminated. For Professor Hughes, changes in consumer tastes and preferences (consumer power) offer new opportunities for farmers and co-operatives because power no longer lies with the large retail chains. He therefore proposed that co-operatives to combine forces to supply the chains directly under their own brand names. The changes occurring in world agriculture favour vertically-structured co-operatives than horizontal expansion of farms, advised Lee Egerstrom. He sees horizontal expansion as a threat that holds back rural economic development because of volatility in world commodity prices, whereby the farmers gain in good year(s) is/are eroded in bad year(s). The instability leads to the quest for ever more increase in farm operations. For this, Professor Gert van Dijk, whatever the case, the idea that a farmer's interests stop once the buyer (e.g. FRA in case of Zambia), wholesaler or exporter has taken delivery of their produce – without any stake in the process up until sale to the consumer – is completely behind the times.

There are now successful models for farmers wanting to move farther-up the food chain, advises Professor Michael L. Cook, an American expert on co-operatives and architect of NGC-bm. For him, NGC-bm provide members a better return on investment and labour than commodity markets.

3.5. Current Co-Operative Issues

Concerns with the new definitions of co-operative have several bases (Baarda, 2006). Sharing co-operative control may sooner or later undermine the strengths of co-operatives as sole representatives of farmers' interests. Conflicts in motivations and objectives between those who wish to benefit from use and those who wish to benefit from returns on investment will make good governance difficult if not impossible. Concerns also exist with the restrictions on true co-operative operations brought about by such major changes. Others believe that well-designed and well-run co-operatives can achieve their goals by other means that do not require fundamental changes in the definitions of co-operatives. At present, information and analysis is inadequate to assess the implications fully. At the same time, expressions of objections are viewed as obstructionist and non-responsive to the dramatically changing environments in which farmers and their co-operatives exist.

3.6. The Co-Operative Theory

For Van Dijk (1996), the changes in agricultural sector require changes in theoretical perspective of co-operatives. The co-operatives and farmer organization are institutional arrangements, like any other, has to deal with misunderstandings, conflict, delay, confusion and a breakdown of business relationships on daily basis. Such friction embodies "transaction costs". *To survive competition, according to transaction theory, an organization must be run efficiently by reducing transaction costs*. This is a departure from neoclassical economic theory that says "*only the most technically efficient organization will survive the competition in the market*" as though change and harmony are reached without friction. Transactions specific to co-operatives that cannot be taken for granted is information asymmetry – farmer-members and management will often not have equal access to information and to technology, therefore, co-operative managers cannot automatically count on their members' approval to react to new market developments. The board may not share the same view with supervisors appointed from outside the co-operative. North (2000) wrote, "*The cost of transacting, to put it in its bluntest form, is the key to economic performance. When I go to third world countries and look at why they perform badly and examine how factor and product markets are really working, in every case, be it capital, labour or product markets, one observes that the cost of transacting is high. The cost of transacting results in the economy performing badly because it is so costly for human beings to interact and engage in various kinds of economic activity that the result is poor performance and poverty and so on. Where this takes us, of course, is to try to understand why the cost of transacting is so high…*"

The institutions and institutional framework provide incentives for efficient production and for people to engage in economic activity. Therefore, institutional analysis can be used to explain why the cost of transacting is so high in developing countries. The new institutional economics (NIE) and its branches - property rights collective action, transaction costs, and organizational/contracting theories - can inform the design of such organizations and co-operatives to prevent their failure (Williamson, 2000b).

The NIE operates at two levels, the institutional environment and institutional arrangements. The institutional environment, or the rules of the game, affect the behaviour and performance of economic actors within which organizational forms and transactions are embedded. Williamson (1993) describes it as the set of fundamental political, social, and legal ground rules that establish the basis for production, exchange and distribution. The institutional arrangement deals with the institutions of governance, especially the modes of managing individual transactions such as market, quasi- market, and hierarchical modes of contracting and questions regarding organizational forms like co-operatives and farmer organizations.

The advantages of organizing farmers into groups (co-operatives etc.) is to reduce transaction costs of accessing input and output markets, as well as improving the negotiating power of smaller farmers vis-à-vis large buyers or sellers. Historically, the problem with traditional co-operatives in developing countries is that they have not always been successful at serving the needs of its members. For example, members never had a major financial stake in the co-operative and were supported by governments, they co-operatives suffered from various organizational problems and a lack of clearly defined property rights assignments resulting in opportunistic behaviour (such as free riding, moral hazard, agency problems, etc.), bureaucratic inefficiencies, and under-investment (Cook, 1995; Cook and Iliopoulos, 2000).

There is now a renewed interest in a new type or "new generation co-operative" that addresses the weaknesses of the traditional co-operatives by strengthening the assignments of property rights to its individual members and reducing the incentives for opportunistic behaviour (Cook and Iliopoulos, 2000). Since new innovative co-operatives require substantial capital investment beyond farmers' capacity, outside investors are allowed by statutes to buy tradable equity and have control by voting and eligible for election as board of director members, and distribution of benefits according to investment rather than in relation to use as well as the opportunity to capture increased co-operative value at the equity's disposition.

3.7. Contract Farming and Other Vertical Linkages

The increased need for vertical coordination and supply chain management create a potential new role for contract farming as a way to link small farmers to high-value markets in the wake of market liberalization in developing countries (Kharallah and Kirsten, 2001; Stefanson and Fulton, 1997, p6). Due to the requirements of the new agriculture, food-marketing firms prefer to engage in marketing and production contracts with farmers in developed as well as developing countries to ensure greater coordination of quantity and quality of supply. Production contracts can vary quite a bit, but in essence under contract farming, a trader contracts with a farmer to buy a specific quantity and quality of produce at a designated price. The price may be fixed at planting time or determined by the market at harvest time. In many instances, farmers benefit from access to technological information and extension services provided by traders. In some cases, traders also provide inputs on credit. Contract farming reduces both production and marketing risk by ensuring a guaranteed source of supply with specific quality requirements to processors or intermediaries and ensuring farmers an immediate market outlet for their produce (as well as access to inputs). This type of contract is common for cash crops such as cotton and coffee, processed and canned vegetables, and highly perishable commodities such as fresh vegetables and daily.

The proponents of contract farming argue that it enables smallholder farmers to participate in new high-value product markets and improves quality standards, thus increasing and stabilising farmers' incomes. Because most farms in developing countries are smaller than two hectares, integrating smallholder farmers into global value chains is an important step towards reducing poverty, Prowse (2008, p1).

However, contract farming is not a panacea for integrating small farmers to high-value globalized markets. Contract farming schemes face many problems – inability to enforce contract with farmers, unequal bargaining power between producers and traders, monopsonistic trader behaviour. It also displaces decision-making authority from the farmer to the downstream processor or distributor making the farmers aquasi-employees. Similarly, contract farming has high per unit costs of contracting with small-scale farmers and farmers have greater problems in meeting stringent quality and safety requirements and therefore agribusinesses favour contracts with medium to large scale farmers (Key and Runsten, 1999). These factors could contribute to the danger that small holders might be excluded from contracting arrangements. Smalley (2013) argues that the effect of smallholder contract farming business model (SCF-bm) and large commercial farming business model (LCF-bm) for rural societies present dilemma for economist. Neither of the two business models have any practical successes story.

A case study of out grower schemes, such as COMACO, Dunavant Kaleya and Nega models in Zambia show-case that they do increase farmer income and contribute significantly to livelihoods (Bangwe and van Koppen, 2012). Similarly, the constraints cited in the previous paragraph pose a challenge for this model too.

If contract farming remains an important vehicle for keeping small farmers involved in markets for high-value crops and animal products, then the lessons from the experience with contract farming should be used to improve the working of this institution. Several aspects in the NIE such as contract theory, agency relationships (principle agent problems; incomplete contracts), transactions costs and the boundaries of the firms can be used to improve the organization (Barry e.t al., 1992). This theoretical framework is useful in analysing the relationships between the farmer (agent) and the vertical coordinator/integrator/agribusiness (the principal), where decisions about the extent of vertical coordination and related contract specifications can influence the financial position and performance of both the principal and the agent. In the context of contract farming, this framework can be used to analyse and address the problems that could typically constrain or lead to the break-down of contractual relations.

3.8. Zambia's Agri-Business Environment

According to Conway and Shay (2010), Mbuta (2007, p.ix), Bonger and Chileshe (2013, p19) survey reports, the Zambian agri-business environment is characterised by financial, market, production machinery and tooling constraints, and inadequate education and profession. Most micro, small and medium enterprises (MSMEs) fail to access start-up capital, working capital and investment capital. Debt interest rates are inhibitive for most MSMEs. The foreign exchange rates are unstable.

The MSMEs face unfair competition from imported subsidized and smuggled products. They face stiff competition, fail to access government tenders, and they have too few customers. The level of education and professional qualification for most entrepreneurs and workers is low with resultant low productivity and poor quality products. Most enterprise lack appropriate production tools and machinery. The cost of maintenance spares, business premises and land are exorbitant.

Conway and Shay summarized the composition of MSMEs and business environment as follows:

<u>3.8.1. MSMEs Sectoral Distribution</u>

The sectoral distribution of firm in figure 3 shows that agricultural firms dominate the MSME sector; large firms are in more diverse sectors. Figure 1 below presents the sample distribution of firms by sector. We see that 70% of MSMEs are located in agriculture; most of the remainder-21%-are located in the retail sector. Only 2% of firms are located in service industries such as hotel, restaurant and transport. Manufacturing comprises only 3% of the sample, and these are mainly small agro-processing activities.

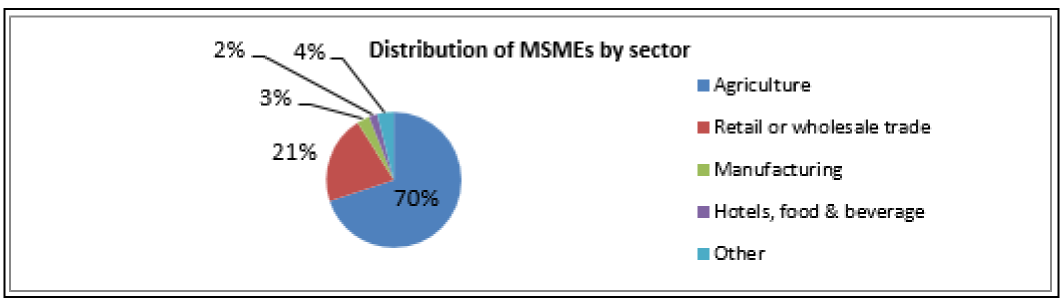
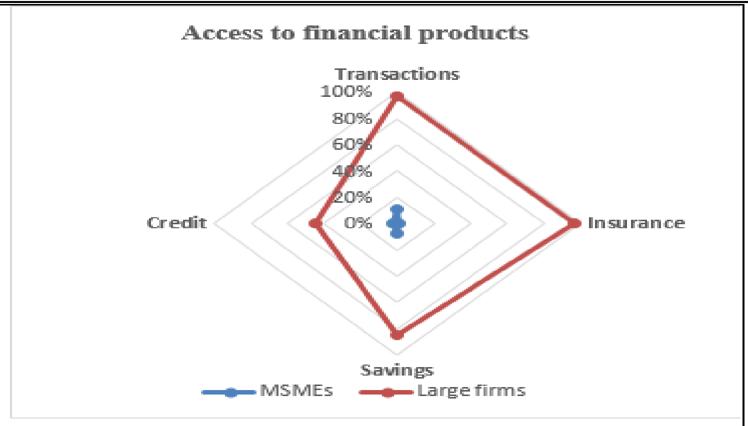


Figure 3: MSMEs distribution by sector
Source: Conway & Shah (2010, 7), Zambia Business Survey

<u>3.8.2. MSMEs and Large Firms Access to Financial Products</u>

As seen from figure 4, large businesses have near-universal access to banking services for transactions and insurance. Nearly 85% use banking services for saving, and over 45% receive credits from the banking sector. The micro, small and medium enterprises that dominate the survey, by contrast, have much less access. Only 11% use banks for transactions purposes, and only 0.9% have insurance services. Less than 8% use saving instruments, while only 2.3% receive financial credits. As is evident, the MSMEs are much less likely to use banking services.

	MSMEs	Large firms
Transactions	11%	97%
Insurance	1%	97%
Savings	8%	85%
Credit	2%	45%



Source: Conway & Shay (2010)

Figure 4: Accessibility to financial products

3.8.3. Level of Education

Many of the MSME owners have basic levels of education – especially in rural areas. About half of MSME owners in rural areas have no education or only a primary education and about 45% have only a secondary education. Very few have any vocational training in rural areas and virtually none have a university education in either urban or rural areas.

From the literature review, there are different types of business models being used in the agricultural sector – TC-bm, SCF-bm, and LCF-bm – and entrepreneur co-operatives that include different types of new innovative co-operatives such as NGC-bm. The practical success stories for these business models in Zambia is anecdotal and a search for more practical business model is inevitable.

4. Research Methodology

A case study design was undertaken in order to evaluate co-operatives performance, business model and its supporting institutions. The essence was to hear from those managing the co-operatives what they say and feel about the above mentioned phenomenon. The study design was picked because it is similar to other studies that were conducted to ascertain whether particular government programmes were efficient or whether the goals of a particular programme were reached (Zainal, 2007 p.1; Taylor & Berridge, 2006). In other examples, such as in education, evaluative applications were conducted to assess the effectiveness of educational programmes and initiatives. In these types of study, limiting to only quantitative method would obscure some of the important data that need to be uncovered.

The researcher prepared open and semi structured questions that were administered face-to-face and telephone interview for those whose appointments were difficult to fix. Other sources of information were co-operative bronchus, by-law booklets, the Zambian Co-operative Societies Act 1998, and observations of operations from work places (Mpima Dairy Co-operative in Kabwe). For case study design, multiple sources of evidence are permissible and methods to use can be qualitative and quantitative (Yin, 1984 p. 23; Tellis 1997).

The subjects to be interviewed were purposefully selected. The criteria were that they needed to have a better understanding of the co-operative operations and preferably holding a management position and the co-operative needed to be active and operational for a reasonable period of time. This was meant to avoid the non-performing ones and those that were registered simply to obtain input supplies and the fact that one can learn more on those co-operatives that are determined to grow but were facing challenges (Lolojih; Bigsten and Tengstan op.cit). The District Agricultural Co-operative (DACO) offices in Kabwe and Kafue provided the advice and a list of co-operatives and individuals to be interviewed while the ZCF office provided the names and co-operatives in Lusaka (see appendix 1). A sample of 20 co-operatives was obtained; 2 from Lusaka, 11 from Kafue, and 7 from Kabwe. Case study method enables a researcher to closely examine the data within a specific context. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study (Yin, 1984 p. 23).

The case study was qualitative and evaluative. The researcher interpreted the primary and secondary data and information by inferring whether they describe the architecture of the co-operative. By adequately describing the architecture of an enterprise one is able to infer the effectiveness or efficiency of its business model. Similarly, through inference the researcher was able to envision whether the responses and the available secondary data adequately provide answers to questions on how the co-operative was able to create, deliver and capture economic and social values. Since co-operatives are social enterprise, inference was made to Ingrid Buckett Knode Business Model for Social Enterprise (BMSE) template questions through which the researcher was able to evaluate Zambia's co-operatives business model performance and the adequacy of supporting institutions. The graphs were used for evaluations. The BMSE is an adaptation from Osterwalder and Pigneur (2010) Business Model Canvas. Asking relevant questions based on the nine building blocks gives sufficient information to assess the effectiveness of the business model (Osterwalder, 2011; Osterwalder & Pigneur, 2009 p. 16-41).

Through interpretive and evaluative case study category, the researcher aims to interpret the data by developing conceptual categories, supporting or challenging the assumptions made regarding them. In evaluative case studies, the researcher goes further by adding their judgement to the phenomena found in the data (McDonough, 1997; Zainal 2007 p. 3).

4.1. Validity and Limitations

Multiple sources of data were used to accomplish the study as well as evidence of people and institutions interviewed. The analyses, evaluations and interpretations were linked to the study theoretical framework.

The low level of education for some co-operative management officials that were interviewed posed a challenge. The terminologies used had to be paraphrased to suite the interviewee and this might have distorted the meaning in one way or another. The secondary data or information for the studied co-operative was scanty due to poor record keeping or the available records weren't useful for the study. Similarly, the fact that the researcher added his evaluative judgement to interpret the findings, this might be a problem to some who would have seen it differently.

5. Findings and Analysis

This chapter presents the findings and analyses from the interviews observations and secondary data and information. In some cases, graphs have been used for easy presentation and reading.

5.1. The Respondents and Co-Operatives

Figure 5, 6 and 7 presents the respondents portfolios and gender, education qualification and age distribution respectively.

The respondents' portfolio and gender distribution shown in figure 5 revealed that 50% were chair persons, 20% secretaries, 15% vice chair persons, and 10% each for committee member, treasurer and accountant. On gender, 90% were men and 10% female.

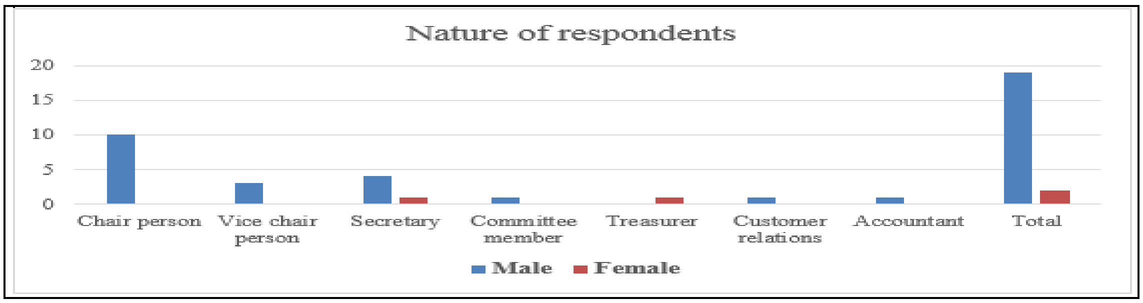


Figure 5: Interviewee positions
Source: Field data

We are confident that the persons interviewed (fig 5) had a good understanding of co-operative operations since most of them held positions of responsibility. However, there was gender imbalance in favour of men. The reason for gender imbalance was not investigated. The secondary probing question revealed that the co-operative board of directors and management were selected on the basis that they were active members of the co-operative.

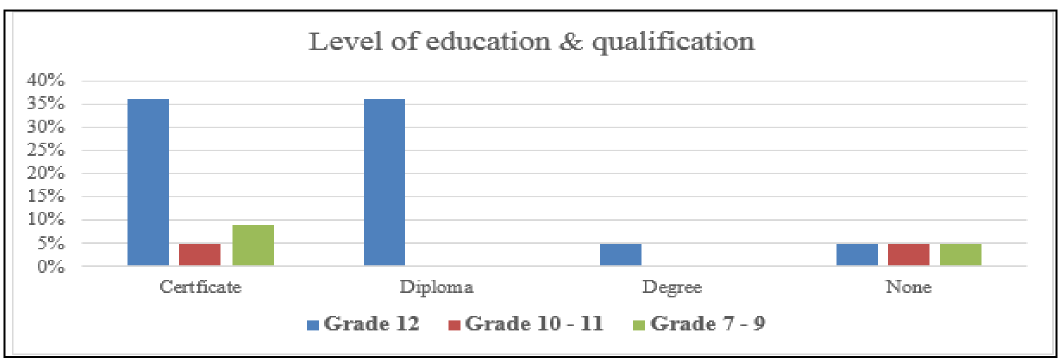


Figure 6: Education and professional qualification
Source: Field data

The statistics for education attainment and profession qualifications (figure 6) show that35% of grade 12s were holders of certificates, 35% were holders of diplomas, 5% were degree holders while 5% didn't have any certificate. Additionally, 5% of grade 10-11 had certificates and 9% of grade 7-9 had certificates. However, the additional probing question revealed that only 15%had relevant qualifications in co-operatives and/or good knowledge on co-operative business.

Similarly, we can argue that the levels knowledge and of qualifications were still low, just like in (Lolojih, 2009; Mbuta,2007; Conway and Shay,2010) studies. For NGCs, Patrie (1998), talks of degree holders with high level of numeracy for planning, forecasting and technical qualifications to be able to eligible for a management position in the co-operative.

The age distribution in figure 7 indicate that there were none below 30 years and above 64 years. The majority were between 40 years and 55 years old while the mean average age was 49.9.

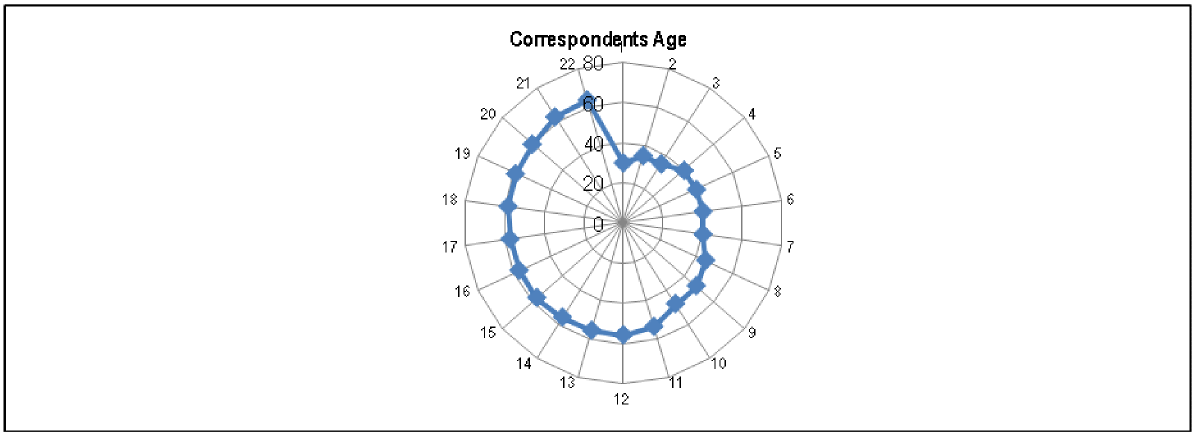


Figure 7: Interviewee age
Source: Field data

Thus there were more adults heading the co-operatives than the youth, if we consider youth to be a person between 20 - 40 years of age as generally accepted in Zambia. From entrepreneurial point of view, this might pose horizon and portfolio challenges as members develop risk aversion for long term investments (Iliopoulos 2005, p16-17). In Patrie (1998) study for NGCs, leaders need to have energy, college educated, aggressive and young, not intimidated by sophisticated marketing and processing plans. Thus, there is need for more youth to be involved in collective form of enterprise.

5.2. Co-Operative Characteristics

For the co-operatives studied, 75% were engaged in agricultural products, 5% retailing, 10% finance and another 10% combined financing and other products. These co-operatives are grouped in sectors shown in figure 8.

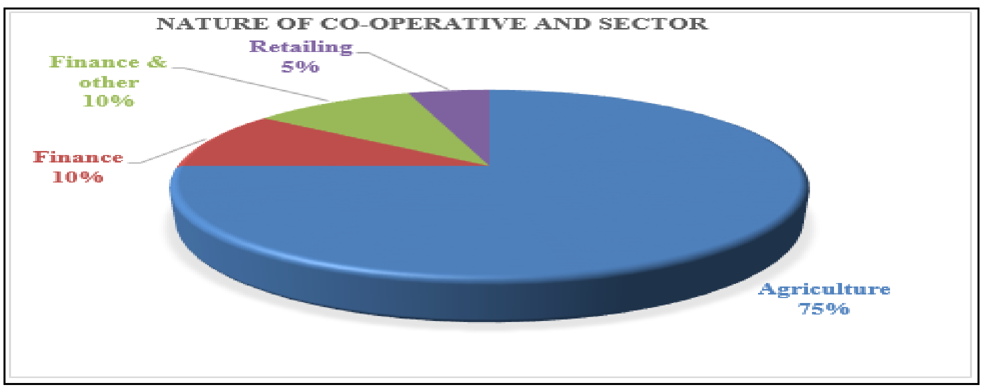


Figure 8: co-operative sector
Source: Field data

Those in agricultural sector (75%) are further divided in figure 9, of which 20% were in poultry, animal husbandry, crop production and crop buying and selling respectively; 13% were in horticulture and 7% in dairy processing.

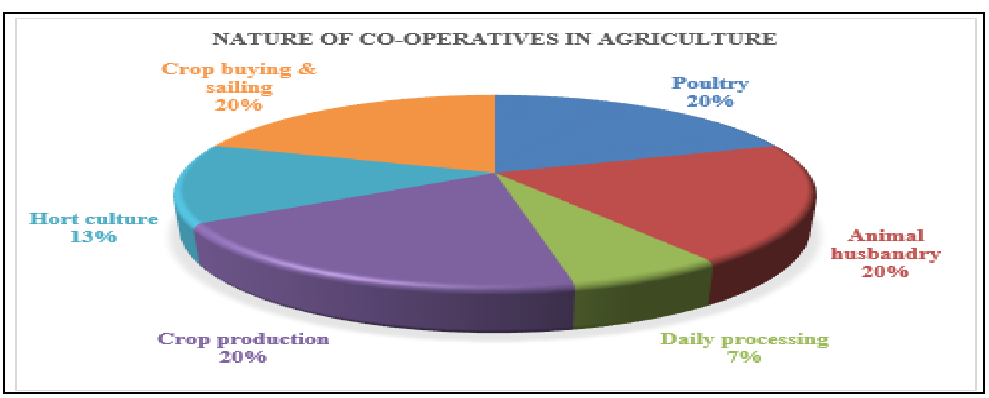


Figure 9: Co-operatives in agriculture sector
Source: Field data

Generally, most of the co-operatives were transacting in agri-food commodities/production, and only one was also involved in value addition – dairy processing. Those in finance were involved in thrift savings and loan disbursements to members only while others combine thrift saving, small loan disbursement and other products such as tailoring and storage of member's merchandize.
It is worth mentioning that the credit and savings co-operatives for police officers in Lusaka was performing fairly well in terms of loan disbursement to members. Members join the savings and credit union by paying membership fee and buying shares through pay role and, in turn, they are eligible for low interest general purpose loans. This model has the potential to expand through business model re-engineering and outward looking for financing and expert management resource (Chaddad and Cook 2000, p351).

5.3. Operating Costs, Access to Finance and Variation in Employment

The major co-operative operating costs were summarized in figure 10; whereby transportation cost, cost of farming inputs including the feed and holding meetings were the most frequently mentioned. Those that had incurred no operating costs were 15% and the reason given was that members pay for any cost.

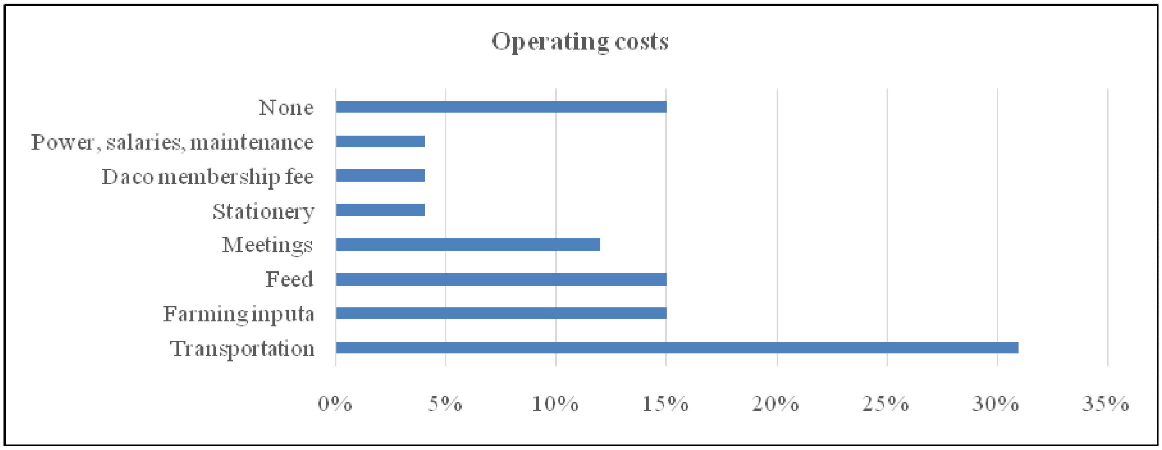


Figure 10: Operational costs
Source: Field data

We can infer the nature of co-operatives from the costs in figure 10 that they were mostly primary, engaged in crop farming or rearing animals and poultry. The costs were devoid of those associated with key activities and resources for value adding co-operative. Additionally, the combined percentage of power, salaries and maintenance (4%) is an indication that most co-operatives didn't have employees, capital equipment and operating premises. This tallies with the response where only one co-operative (4%) indicated that it was experiencing seasonal variations in employment while 96% weren't because their operations weren't large enough nor generating sufficient revenue to employ and pay salaries, but rather relied on voluntary services from co-operative members themselves. Only one co-operative faced seasonal variations in employment due to inadequate orders for uniforms during which they engaged fewer tailors.
Similarly, figure 11 shows co-operative accessibility to finance whereby most co-operatives (86%) hadn't obtained any loan for investment except for three (representing loan and grant) even when some of them had been operating for over 9 years.

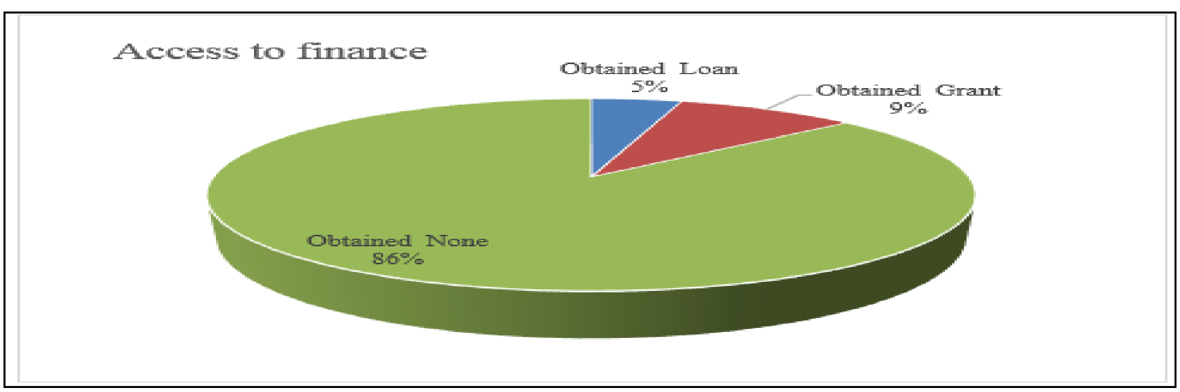


Figure 11: Access to loan
Source: Field data

The reasons for not being able to get loans ranged from risk aversion, lack of information, strict loan requirements, and high interest rate. Further information revealed that there was no specific financial institution dedicated to offer investment finance for co-

operatives except for FISP that was offering fertilizer, seed and packages to small scale and emergent farmer co-operative members annually.
The small combined percentage 4% of power, salaries and maintenance in figure10 and none availability of loan (86%) in figure 11 meant that the co-operatives couldn't invest in capital equipment required for value adding co-operatives and the absence of cost associated with training in figure 10 is an indication that the co-operatives weren't delivering social impact.
To succeed in value adding enterprise such as NGC-bm capital investment and availability of institutional support are required (Fulton, 2001). None availability of finance and institutional support lender TC-bm as well as NGC-bm ineffective.

5.4. Variations in Sales Revenue
All the co-operatives experience variations in sales revenue due to seasonal products, rising input prices such as feed, low or unpaid membership fee contributions and scares daily cattle feed in the summer season. The customers for the co-operatives were predominantly either co-operative members, the community around or the general public and the Government through Food Reserve agency (FRA). Only the dairy co-operatives had specific customers such as Pamalat, Supermarkets, and retailers. The revenue streams for most co-operative were not sustainable thereby constraining their growth and unable to address members' social concerns such as training (Nilson, 1997; Bostrom, 1994; Patrie, 1998; and Fulton, 2001). This is not by default but because of adhering to TC-bm principles.

5.5. Core Competence and Competitive Advantage
The specific co-operative core competences as well as being the main parameters for customer attraction mentioned are shown in figure 12.

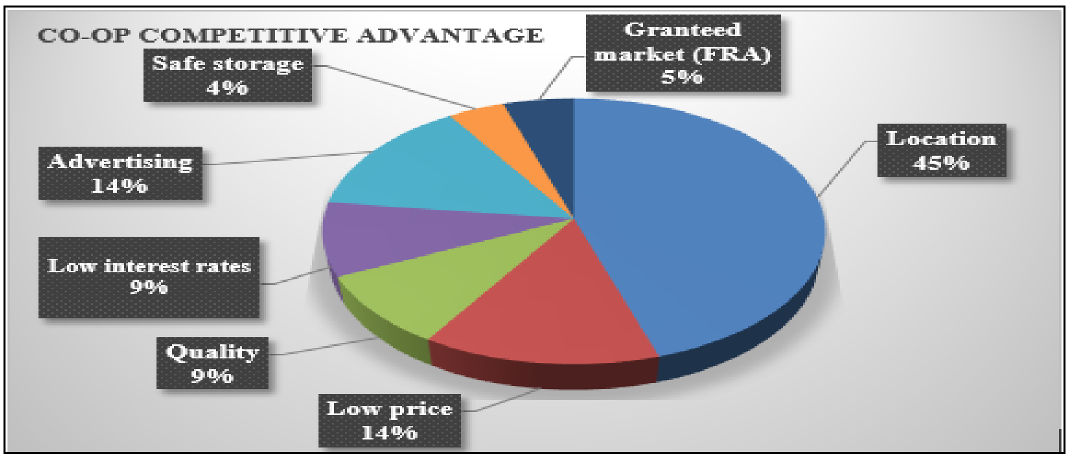


Figure 12: Competitive advantage parameters
Source: Field data

Of the respondents, 45% attributed to the location as their main source of customer attraction. The other 14% of respondents attributed to lower pricing. As members of co-operatives, they buy at lower prices. Of the respondents, 9% attributed product quality as a contributing factor by saying "Our milk is richer in cream than the one sold by competitors who remove cream from their products". The savings and credit co-operatives attributed low interest rate as the main attraction for their members (9%). The others attributed to goods safety (4%), effective advertising (14%), offering credit facilities to members (5%) and the guaranteed sale to FRA (5%).
These responses reflect what co-operative management felt they were good at and were satisfying their members but not the views of the consumers. Whilst these variables would provide competitive advantage, they were reminiscent of traditional co-operative operandi. None of them reflected novelty in tandem with business model innovations as a tool for competitive advantage postulated by Mitchell and Coles (2003) and Morris et al. (2005).

5.6. Records of Accounts
In figure 13, 27% of the respondents claim that their co-operatives do not keep books of accounts, while 64% claim that they keep an audited books of accounts. Only 9% claim they had audited books of accounts. The 27% that do not keep books of accounts due to lack of bookkeeping skills.

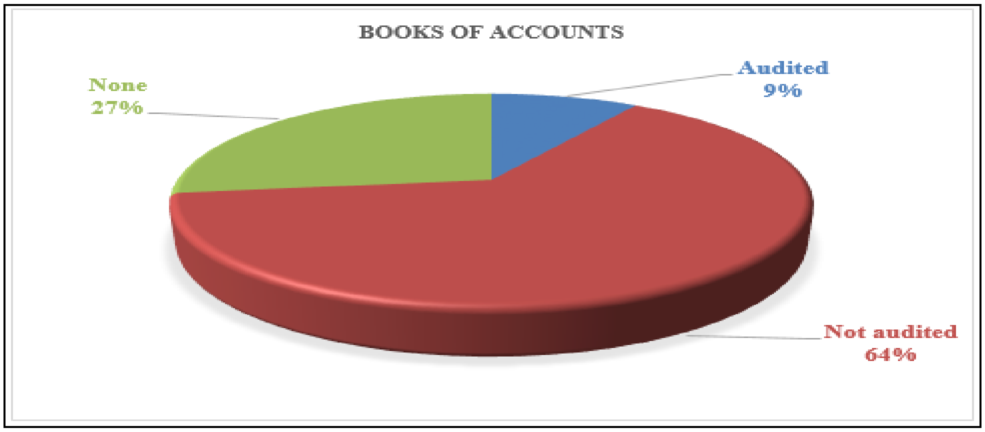


Figure 13: Books of accounts
Source: Field data

This confirms with other research findings indicating that most co-operatives fail to access loans from financial institutions since they demand audited books of accounts and that most co-operatives were formed in order to access FISP services (Lolojih, 2009). This can be explained in part by the low level education and technical qualification found in figure 6 and is a significant area of concern for co-operative development in Zambia

5.7. Outsourcing

The co-operatives outsource the services indicated in figure 14, of which transport (24%) tops, followed by bookkeeping 4%, equipment repair 4%, and 68% mentioned that they do not outsource any service. Outsourcing is an entrepreneurial strategy through which an entrepreneur obtains resources, material, technical expertise, etc. elsewhere using market or hierarchies' mechanisms to complement what the enterprise lack in value creation, delivery and capture. Through outsourcing, we can infer the level of partnerships and networks present or absent in sample and indeed we can conclude that these variable are absent or negligible. Therefore, co-operative leaders are not utilizing this strategy due to lack of entrepreneurial knowledge.

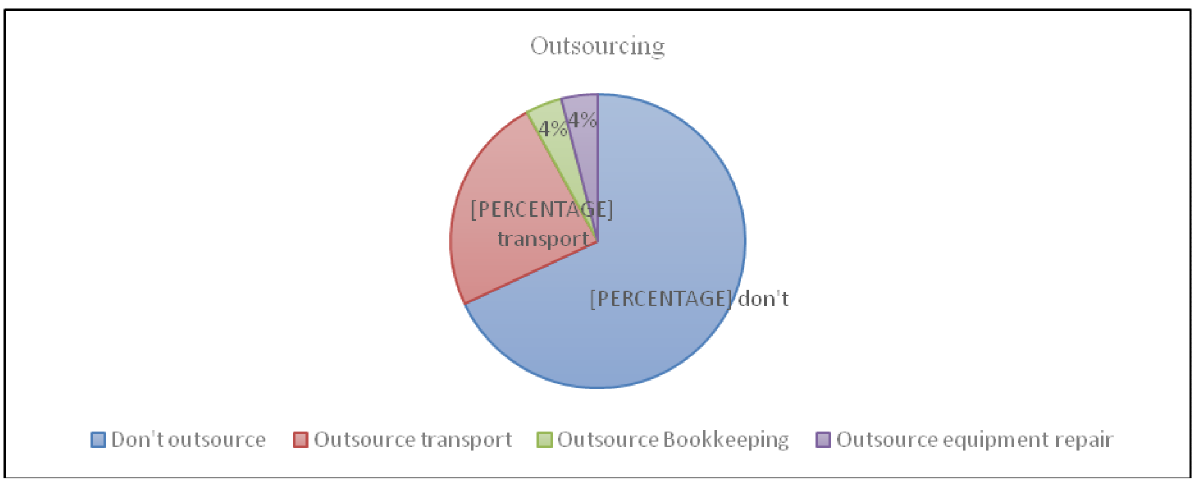


Figure 14: Outsourcing statistics
Source: Field data

5.8. Customers

The customers that co-operatives were serving are shown in figure 15. We can further regroup the mentioned customers in figure 15 into four, namely co-operative members (16%), companies (8%), FRA (8%) which is government and the community (84%) by taking the general public, surrounding community, and local market as one and the same thing.

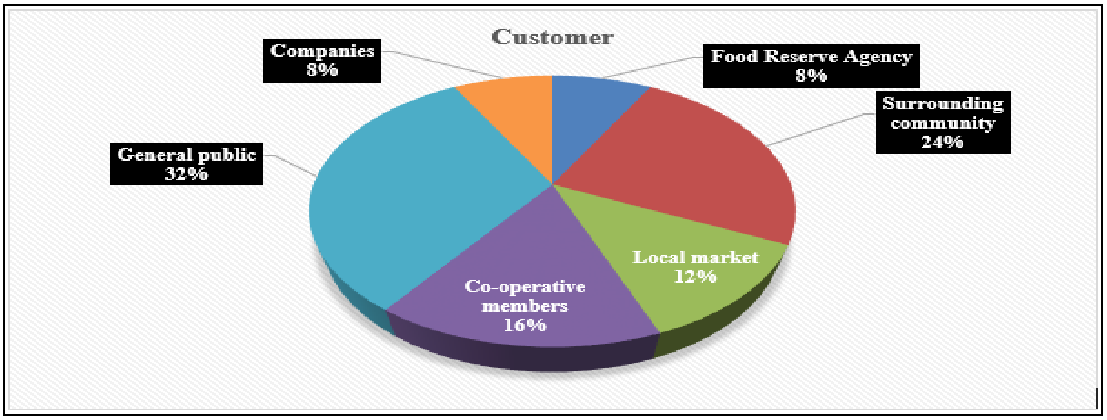
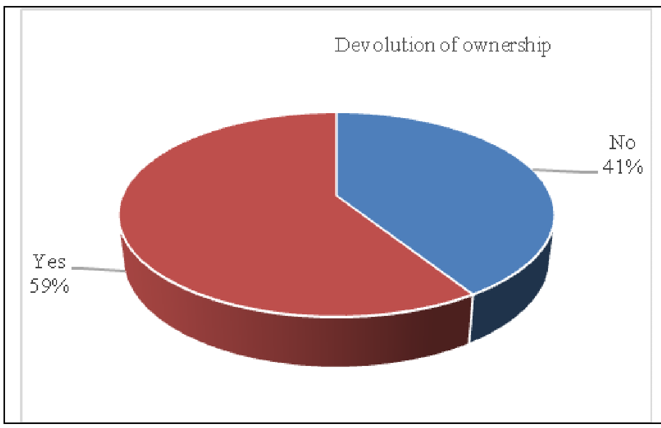


Figure 15: Co-operative customers
Source: Field data

As a producer or manufacturer, the significant customers are those who buy in large quantities. In this case, significant co-operative customers were only 16% and the remainder were customers who buy small quantities at a time for consumption. Therefore, we can conclude that the revenue stream business model element for the co-operatives studied was weak and required further broadening to include premium customer base with premium products/services.

5.9. Widening Equity Ownership

When asked to gauge willingness to allow outsiders to own equity shares in their co-operative, the response and comments are summarized in figure 16 below.



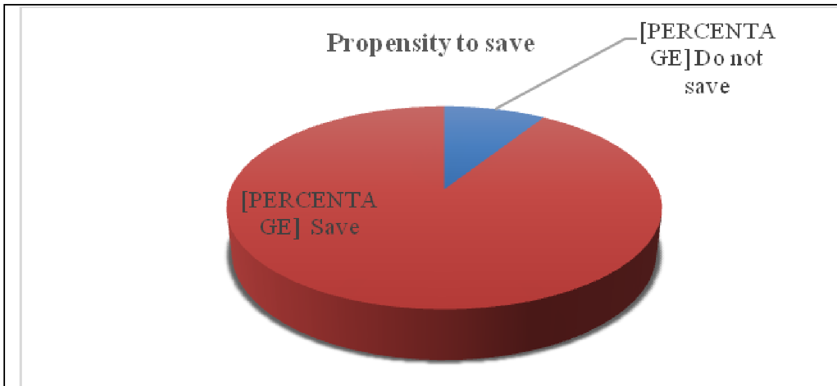
- Reasons for denying: no provision in the By-law; until By-law is amended; we haven't considered the option; only if outsiders stay in our area
- Reasons for accepting: if they own minority shares; if we amend By-law; idea is welcome; we haven't been approached; if it is meant to improve our business; if they are Zambians; as long as the contract signed favor our members

Figure 16: Willingness to share ownership
Source: Field data

From the above statistics, we can conclude that there was no significant difference between those who were and weren't willing to allow non-co-operative members to own equity shares. The statistics also give an impression that co-operative leadership was only familiar with TC-bm. They were not privy to available innovative new generation business models that could improve their enterprise financially whilst still enjoying their ownership rights, (Iliopoulos, 2005; Egerstrom, 1996).

5.10. Savings

The statistics on savings summarized in figure 17 show a positive saving culture (91%). However, most of the savings, though insignificant, went to meet members' social needs.



Reasons for saving: petty cash for loans, funerals and other incidental requirements – 81% and about 20% is reserved for investment

Reasons for not saving: had not been making sufficient profit.

Figure 17: Co-operative savings
Source: Field data

The majority of the co-operative don't have access to bank loan for investment (see Figure 11) and relied on their own savings even though insignificant.

5.11. Co-Operative Employment and Membership

In terms of employees, fig 18 show that 91% of co-operatives didn't have employees except for9% that had contractual employees. Lack of business and sufficient income were the reasons given for not employing. It confirms with other previous surveys' that claim co-operatives didn't contribute to employment generation, (Lolojih, 2009).

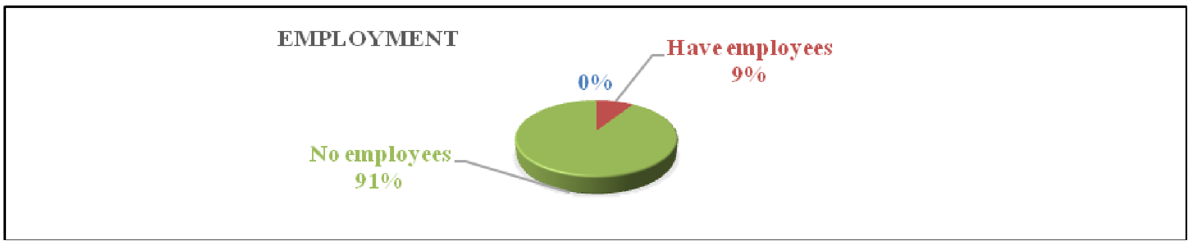


Figure 18: Employment generation
Source: field data

The surveyed co-operatives had the following summarized membership: the smallest co-operative had 36 members, the largest had 300, while the savings and credit union had 1500 members. Most of the co-operatives had an open ended membership policy. As long as a person met by-law requirements, they were allowed to join. This is in contrast to NGC-bm that have closed membership policy (Stefanson and Fulton, 1997).

5.12. Sources of Capital

The sources of capital for investment and working capital for co-operatives come from the following sources shown in table 19 below.

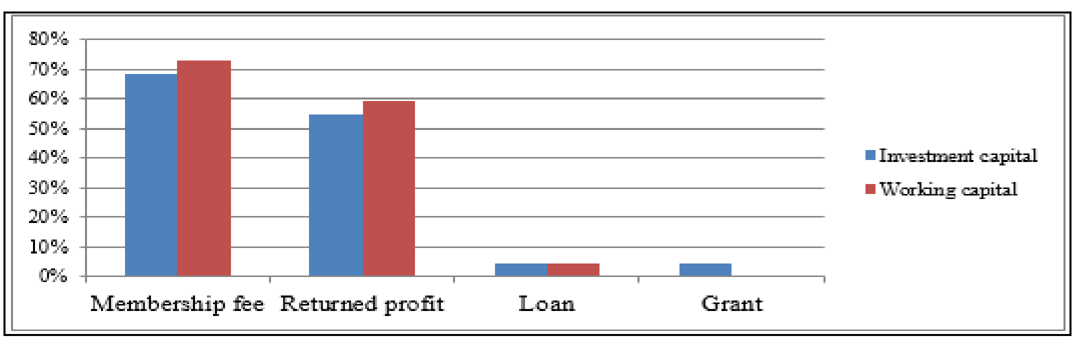


Figure 19: Sources of investment and working capital
Sources: Field data

The statistics indicate that much of the capital used for investment and operations come from members' contributions and returned earnings. Co-operatives use negligible loans and grants for investments – see also figure 11. This picture reflects (Conway and Shay, 2010; Mbuta, 2007; and Bonger and Chileshe, 2013) research findings. Membership fee and returned profit is neither sufficient for recapitalizing co-operatives nor setting-up innovative none-traditional co-operatives.

5.13. Channels Used

Most co-operatives (95%) utilize single channel (business model element). They sold their products and services at their premises or delivered in order to sell farm commodities to Food Reserve Agency depots. Only 5% co-operative (i.e. Mpongwe daily in Kabwe) used other channels such as retailers and wholesalers to sell their products to customers. The reason for using single channel was low production outputs and the fact that they were meant to serve local communities only and no other distant customers (see Figure 15). The business model focus on internal and surrounding community customers only. According to Ingrit Buckett Knodes' business model for social enterprise, the channel element is not developed or innovative to deliver value to valuable customers.

5.14. Vertical Integration and Value Addition

Essentially, in figure 20, only one daily co-operative (9% producer & processor) was into value addition. Other co-operatives are not involved in vertical integration.

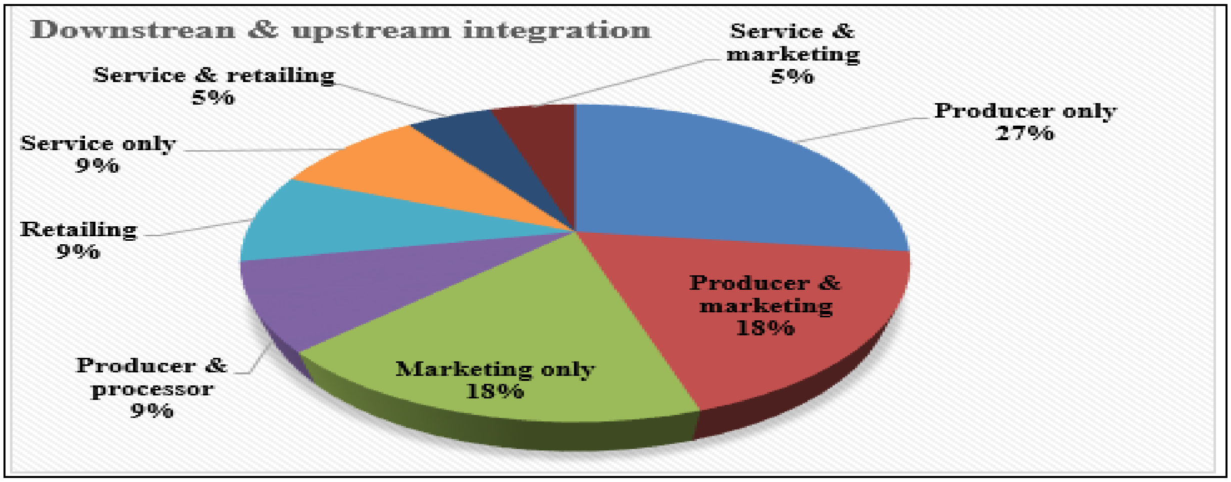


Figure 20: Vertical integration
Source: Field data

For value addition, only 9% of co-operatives were adding value to their primary products while the 81% were only involved in producing, trading or handling primary products with negligible value addition. The remaining 9% were in services whose value addition was difficult to perceive as the services were offered to co-operative members only. Thus the need for smallholder producers, co-operatives or MSMEs to fully integrate downstream in line with changes in agricultural sector and to meet consumer needs wasn't fully being realized (Prowse 2008). Consequently, other players benefit more than the producers of agricultural commodities (Smally, 2013; Eaton and Shepher, 2001; Grover and Kusterer, 1990; Little and Watts, 1994; and Vermeulen and Cotula, 2010).

5.15. Co-Operative Challenges & Mitigation

The major challenges co-operatives were facing and their mitigations mentioned by interviewee during data collection were summarized in table 2 below.

Challenges	Possible methods of mitigation
Ineffective co-operative boards	Separate co-operative boards, one to deal with producer co-operative and the other to deal with processing co-operative. E.g. daily farmers board and daily processing board
Lack of building land for co-operatives	Source money to acquire land and buildings - loans
Long distances to FRA and delays in paying farmers (payments)	Co-operatives to acquire own transport and have access to loan facilities
FRA delays in delivering farm inputs to farmers co-operatives	Avail loans to farmers so that they can purchase inputs from the market
Poor attendance to co-operative meetings	Motivate members to attend meetings
Dishonest between and amongst members and co-operative management	Provide training in leadership and ethics
Poor co-operative management	Provide management and technical training to co-operative managers
Inadequate capital to recapitalize and expand co-operative operations	T to create specific funds to help co-operatives in this area
Inadequate daily animals	Government to increase breeding of daily animals
Low milk prices	Process own milk and find own market
Costly animal and poultry feed	Produce and process own feed
Inadequate extension officers for daily, agriculture farming	Government to provide veterinary and agriculture extension officers
Loan defaulters	Limit loans to each member share ownership
Lack of co-operative knowledge among members	Provide co-operative training knowledge to members
Lack of value addition to commodities	Start processing and packaging
Long distances between daily farms and milk collecting points	Acquire delivery transport

Table 2: Co-operative challenges & mitigation strategies
Source: Field data

The summarized problems and mitigation measures in table 2 offer a general picture of challenges that the co-operatives understudy faced ranging from governance, to weak institutions. While the mitigating strategies mentioned might help, they may not be conclusive. The table provide a gripes of challenges that co-operative business models should endeavour to overcome in order to create deliver and capture economic and social value.

6. Discussions and Conclusion

The discussions and conclusions herewith are based on research findings and analyses, the theoretical framework, the literature review and the study objectives.

The research objective was to evaluate the co-operative performance, their supporting institutions and the nature of business model used for creating, delivering, and capturing socio-economic value. The advanced theoretical framework (fig 1 &2) argues that the enterprise performance depends on the active role that the social venturing entrepreneur plays in the enterprise, the supporting institutional, legal and policy environments, the prevailing internal governance and incentive structure that binds the internal and external stakeholders together in order to achieve the agreed economic and social goals.

From the study findings and analyses, those entrusted to manage co-operatives (Figure 5) had challenges that inhibited them to play an effective role in the enterprise (see fig 6, 7 analyses and table 2). The institutional, legal and policy environments were found inhibiting (institutions to provide loan, training, open membership policy, Co-operative Societies Act of 1998; see also figure 11 & table 2). The prevailing governance and incentive structure were inadequate as may be construed from the challenges presented in table 2 as well as poor sales revenue (see variations in sales revenue and Figure 18).

Based on the foregoing discussions, the performance of the co-operatives can be summarized as below acceptable level since most of them could not generate sufficient revenue and create employment. The institutional environment and legal, policy environment was equally not conducive to spur enterprise growth and innovations. The co-operatives understudy deployed TC-bm since they were following the Co-operative Societies Act, 1998 and By-laws that are based on traditional co-operative principles (Baarda 2006).

The theoretical concept presented in figure 1 and summarized in Figure 2 postulate the role of social venturing entrepreneur, in this case the managers of co-operative. The poor sales performance, the inability to outsource (fig 14) and create channel (Figure 20) can be attributed to lack of entrepreneurial skills on co-operative managers. Consequently, the TC-bm elements couldn't generate economic and social value for the members and the country.

Most of the co-operatives were dealing with agri-commodities and very few were involved in value addition (see fig 9). From the literature review, sustainable farmer organization (agri-business enterprise) can only be achieved if they are involved in producing, processing and selling of final products – forward and backward integration, see Figure 1 (von Ravensburg, 2011; Egerstrom et al., 1996).

6.1. Conclusion

The equitable, sustainable social economic development for the majority of our people, whose livelihood is in agricultural industry, depends on integrating smallholder owners to own equity and delivery rights in downstream and upstream agribusinesses, see Figure 1. This can be achieved by using a value adding SVCE-bmE. In this business model, the smallholder farmer not only owns his/her smallholder farm/MSME individually but also owns downstream integrated enterprise collectively thereby earning income from his/her farm commodities as well as shared profit from the sale of value added collective enterprise products and services.

Contract farming limits the potential smallholders have for growth. Similarly, commercial farming disrupts the social-economic livelihood of the displaced indigenous people if not handled properly. In most cases, issue of commercial farming is poorly handled living the indigenous landless and poor farm labourers (Vermeulen and Cotula, 2010; Richardson, 2010; Clapp, 1988; Carney, 1988; Mbilinyi, 1998; Eaton and Shepherd 2001; and FAO/ILO/IUR, 2007).

Future research shall be undertaken to design a SVCE-bm that mitigates the challenges faced by co-operatives as elaborated in this study findings and analyses.

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Appendix 01:
Questionnaire

Section I General
1. Name of the respondent: ………………………………………………………
2. Position occupied in the coop: …………………………………………………
3. Sex of the respondent: Male [ ] Female [ ]
4. Age of the respondent: …………..
5. Formal education level of the respondent: ……………………………..

Section II Business Characteristics
1. Name of the business: ….…………………………………………………………………..........
2. Contact address of the business:
   Telephone: ………………………….. … E-mail: ……………………….………………
3. Type of business:
   Manufacturing [ ] Service [ ] Trading [ ] Agriculture [ ] Consultancy [ ] Construction [ ]
   Retailing [ ] Transport [ ] Dairy farming [ ] Other [ ]
   If answer is other, please specify: …………………………..
   ……………………………………………………………………………………………...
4. Were any of the business owner's relatives involved in business before or at the start-up stage?
   YES [ ] NO [ ]. If yes, please specify: ……………………………………………………
   ……………………………………………………………………………………………………
5. How do you rank the following as most costly to your business? (Enumerator: rank in chronological order, as 1, 2, 3 …
   Transportation [ ] Inventory [ ] Storage [ ] Electricity [ ] Telephone [ ]
   Farm equipment [ ] Seed [ ] Pesticides [ ] Packaging [ ] Fertilizers [ ]
   Salaries & wages [ ] Other [ ]
   If answer is other, please specify: ………..…………………………..…………………………….
6. Have you had any difficulties paying back the loan? YES [ ] NO [ ]. Give the reasons for your answer:……………………………………………………………………………………..
   ……………………………………………………………………………………………..….
7. Does the business experience seasonal variation in employment? YES [ ] NO [ ].If the answer is yes, please specify the season and the reasons:…………………………………………..
   ……………………………………………………………………………………………..…..………………………………
   ………………………………………………………………………
8. Does the business experience seasonal variation in Sales/revenue? YES [ ] NO [ ]. If the answer is yes, please specify:……………………………………………………………………….
   ……………………………………………………………………………………………..…

10 State your customers for your product or services:…………………………………………………
   ……………………………………………………...………………………………………………….

11 What do you do to make same customers keep on buying from you instead of them going to buy elsewhere?
   ………………………………………………………………………………………
   ....……………………………………………

12 Do you prepare accounts when they are required? YES [ ] NO [ ]. State the reason for your answer:
   …………………………………………………………………………………………

13 Does your firm out-source? YES [ ] or NO [ ]. State the reason for your answer: ………..
……
……
Would you accept to share ownership with someone else in order to improve your business? YES [ ] NO [ ]. If yes, which one? ……………………………………………………………

14 Do you save for rainy day? YES [ ] NO [ ]
15 Number of employees:
At start-up: …….. At peak: …….. Current: ………
What category are the employees?

Worker Category	Legal status	
	Signed contract	Verbal contract
Permanent		
Permanent		
Fixed contractual		
Temporal/casual		

16 Do you own any property? If not indicate which one and how you would want to own it.

Property	Yes	No	Nature of ownership		Traditional/communal	
			Lease/borrowed	Hire purchase	Yes	No
Building						
Land						
Machinery						

17 Which one is a major source of your seed capital and working capital

Item	Seed capital		Working capital	
	Yes	No	Yes	No
Own savings				
Bank loan				
Returned profit				
Friends				
Relatives				
Grant aid				
Donation				

18 What is it that customers like about your product or service in relation to your competitor's?

19 What channels do you use?

Channel	Own channels	Partner channel	Combination	None
Response				

20 Where do you operate along the value chain?

Item	Primary Producer	Primary supplier	Processor/ manufacturing	Wholesaler	Retailor	None
Response						

21 State value addition you want to add to your core product or service and if not state the type of value addition you would wish to undertake and how.

Value addition you add	Value addition you would wish to add	How would you wish to add
a)	a)	
b)	b)	
c)	c)	

22 What else would you want to be doing in order to increase the price for your current product or service?
……………………………………………………………………………………………..
……
23 What have been the major challenges the business has faced in recent years? ....
……
……………………………………………………..…………………..
24 How do you envisage overcoming your challenges? ....
……

Appendix 02: Research Contac persons

#	Name	Position	Organization	Cell #	Location
1	Mr Brian Kashowe	Vice chair	Lusaka Tuesday Market	0978 009 304	Lusaka
2	Mr MilaseLonard (PR)	Customer relations	Zambia Police Credit Union	0977 809 060	Lusaka
3	Mr Tembo Stephan	Chair person	Westwood Coop Society	0977 847 718	Kafue
4	Watson Kantini	Chair person	Tione Poultry	0977 794 317	Kafue
5	Gloria Banda	Secretary	Mulima Women – Food Processing	0979 259 917	Kafue
6	Nsefu Samuel	Chair person	Nangombe – Storage	0977 445 941	Kafue
7	KaminaLemmy	Chair person	Twafane ZNS – Storage	0979 721 490	Kafue
8	David Katanga	Secretary	Kafue Hunger Peasant – Farming	0977 604 916	Kafue
9	FebbyTembo	Treasurer	Chikupi Women – Goat rearing & Tailoring	0975 123 534	Kafue
10	Peter Mvula	Secretary	Shakulya – Piggery	0979 580 456	Kafue
11	Leonard H.	Chair person	Umoyo – Poultry	0976 177 633	Kafue
12	Banda James&Simfukwe H	Chair person	Twaange – Piggery (0975229498)	0978 691 970	Kafue
13	Anderson Simucho	Chair person	Taonga – Food Processing	0977 303 011	Kafue
14	Bodwin Banda	Committee member	Soppic – Piggery	0978 886 345	Kafue
15	Chooye P.M.	Vice chair person	Mapepe Multi-purpose – Storage	0977 437 364	Kafue
16	Njamba Reuben	Accountant & A/bus Mgr	Mpima Daily Producers	0977 768 156	Kabwe
17	Mr Mwale F.M	Vice chair person	Kabwe Research Agri – Processing with Hammer Mill	0977 488 281	Kabwe
18	Siansimbi A.B. Manyonga	Secretary	Bantu Development	0977 690 831	Kabwe
19	Muhango/ Shafuti	Chair person	Munga Coop	0977 725 001	Kabwe
20	Chamunda Zulu	Chair person	Meat Processing	0977 571 593	Kabwe
21	KampambaMaybin	Chair person	TwatashaMarketeers	0977 653 836	Kabwe
22	ChandaEvance	Secretary	Tiyeseko Savings & Credit	0966 654 872	Kabwe

ZCF – Zambia Cooperative Federation
DACO – District Agriculture Cooperative

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