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'Strengthening of Cooperatives for Social Economic Transformation in Uganda

By

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Key Messages

1. Cooperatives have the potential of increasing production, productivity, and value addition and hence critical for Uganda's transformation towards an inclusive middle-income country.

2. For sustainability and survival in a liberalized market, cooperatives should be market driven. They must compete in the market by offering better incentives, products and services than middlemen. In this regard, cooperatives must provide farm gate prices plus a mark-up accrued from the entire value chain. For this to happen, cooperatives should be in charge of the entire value chain right from production to marketing.

3. Provision of selected cooperative public goods including; education, auditing, affordable finance, extension and targeted subsides through an efficient delivery mechanism is key for the success of cooperatives.

4. Entrenching cooperative education, in particular, is key for imbedding the cooperative culture, values and strengthening capacity of the cooperative movement. It is important for building internal organizational values, entrepreneurship, strong leadership and management that are critical for survival of cooperative enterprises.

5. An organic bottom up formation of cooperatives (voluntary[2], democratic, and shared purpose) based on guiding principles, creates social cohesion and mutual trust (social capital) that is necessary for sustainability of cooperatives. Formation of cooperatives should not be incentivized by handouts from the government or development partners.

6. Diversity of cooperatives portfolio as they grow is key for hedging against product specific risks and widening the economic base of cooperatives.

7. A well-developed tertiary level of cooperatives is critical for provision of dedicated services including; insurance, finance, marketing, and transport among others. Particularly, a dedicated cooperative financing framework is critical for harnessing and enhancing access to affordable credit for cooperatives.

8. An appropriate mechanism for compensation of cooperatives for losses incurred during political instability is desired.

9. The political economy of the time determines the success of cooperatives. Government commitment to the revitalization of cooperatives requires that government policies and interventions leverage cooperatives in all possible ways.

10. An appropriate policy, legal, regulatory and institutional framework (self-accounting, with administrative and regulatory clout) that takes regard of the diversity of cooperatives and provides for cooperative autonomy is critical for the vibrancy of cooperatives.

[2] Government may stimulate voluntarism through provision of adequate education and sensitization about the benefits of cooperating as well as putting in place the required incentives and conducive environment.

1.0 INTRODUCTION

Low production and productivity is a development challenge hindering social economic transformation in Uganda (Dennis, Taye, Yutaka, & Zeufack, 2016). Whereas this is manifested in all sectors of the economy like tourism, energy and industry, it is more pronounced in agriculture (Gollin, Mugyenyi, & Rwitika, 2016) which is a backbone of Uganda's economy. Table 1 demonstrates a trend in Uganda's agricultural productivity gap[3]. The relative productivity of labour (as measured by the value added per worker) in the agricultural sector is significantly lower than that in the non-agricultural sectors. Additionally, agricultural Total Factor Productivity (TFP)[4] in Uganda has been declining over time (World Bank, 2011). A study of agricultural productivity in Sub-Saharan Africa by USDA/ERS (Fugile & Rada, 2013) finds that TFP in Uganda grew between 1961 and 1981 but then began to decline. It decreased annually by about 1.3 percent from 1991 to 2006 (Table 2).

Uganda's high dependence on agriculture calls for the need to address low sector productivity. To this end, Government has come up with targeted agricultural policies and several programmes. This is in addition to other efforts by the Private Sector, Development Partners and the Civil Society. However, despite all these efforts, the performance of the sector continues to be very depressing. Perhaps missing in all these multi-stakeholder efforts is a vibrant delivery mechanism. There is apparent consensus of opinions by key stakeholders, that strengthening of cooperatives is the gateway to resuscitation of the agriculture sector and the economy in general from this present dismal performance (Action Aid, 2013).

Cooperatives have been suggested as the appropriate delivery mechanism to address productivity challenges and resuscitate the economy. By definition, cooperatives are 'autonomous associations of persons united voluntarily to meet common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise' (International Cooperative Alliance, 1995). Due to their democratic and locally autonomous nature, cooperatives have a potentially strong role in reducing poverty and social exclusion, and promoting rural and national development (Develtere et al., 2008; Birchall, 2004). It is for this reason that cooperatives have been promoted virtually in all African countries since the colonial period (Wanyama F. O., 2010).

Cooperatives in Uganda enjoyed their most illustrious period between 1950 and 1970 as the main drivers of production and productivity (Kyazze, 2010; UNDP, 2016). This was evidenced in the growth levels and agricultural boom at the time; for example, by 1965, the total value of agricultural produce sold through co-operatives including coffee, cotton and other minor crops and animal products amounted to UShs. 325,311,500[5]. In addition, co-operative unions handled 267,420 bales (61%) of 437,923 bales, 40% of the Robusta coffee (valued at Shs. 60 million) and 90% of the Arabica coffee valued at Shs. 30 million (UN-Sacco, 2015). However, majority of the

[3]The agricultural productivity gap (APG), or the relative productivity of the non-agriculture sector compared to the agriculture sector), is measured as the ratio of value added per worker in the non-agriculture sector (numerator) to the value added per worker in the agriculture sector (denominator). Thus, if the APG>1, this implies that workers in the non-agricultural sector are more productive than workers in the agricultural sector.

[4]The ratio of total output to total inputs. A 1 percent increase in TFP, for example, means that 1 percent fewer agricultural resources are required to provide a given bundle of crop and livestock products.

[5] One Pound Sterling then was equivalent to UShs.20, today it is equivalent to UShs. 4,700.

cooperatives collapsed in the aftermath of this period. Those that survived operated amidst challenges. The major reasons for most of the cooperatives' collapse include poor cooperative leadership and management, political factors and partly the competition from middlemen, which cooperatives were not able to handle after liberalization (Kwapong, Korugyendo, & Illukor, 2013); (UNDP, 2016). Most of the cooperatives are still facing these challenges to date.

There is a strong Government commitment to use cooperatives to enhance production and productivity (National Planning Authority, 2015; Kwapong, Korugyendo, & Illukor, 2013). The Second National Development Plan (NDPII) recognizes the need to revamp the cooperative enterprises given their role in empowering members. This cooperatives' empowerment to members is illustrated through access to economic and social services like financial services, delivery of inputs to farmers, access to markets, enhancing small scale producers' bargaining power, imparting skills for better production and marketing services. Further, Government has encouraged the organization of the population into cooperatives so as to reap from the economies of scale at both the production and marketing levels. Currently, there are 16,408 registered cooperatives in the country and 1,014 of these were registered in 2015 alone (MTIC, 2016). Majority of these cooperatives are SACCOs and agricultural marketing cooperative societies. In addition, Government through the One Village One Product (OVOP) Programme has provided equipment to over 40 cooperative societies in 18 districts and trained them in business studies and value addition (MTIC, 2016). This is on top of helping cooperatives access international export markets like the fair-trade market and providing financing facility through the Micro-Finance Support Centre at below market rates of 9 percent and 13 percent for commercial and agricultural loans respectively (MTIC, 2016). Also, the Uganda Warehouse Receipt System Authority was instituted to help in agricultural storage while Uganda Development Corporation has played an instrumental role in forming 53 fruit Growers cooperatives in the Teso region (MTIC, 2016).

Despite recognizing cooperatives as the appropriate delivery mechanism to address productivity challenges and resuscitate the economy for socio economic transformation in Uganda, the debate on how this should be achieved is weak and haphazard. Indeed, despite all the efforts undertaken by the Government of Uganda, private players, Civil Society and Development Partners, they have not yielded much to unlock the potential of the cooperative enterprises in fostering development and enhancing production and productivity. This is attributed to weaknesses along the necessary prerequisites for co-operatives to be vibrant namely: the culture of cooperation; the trust among cooperators; the legal, policy and regulatory framework for cooperatives; cooperatives' enabling institutions; prevailing socio-economic environment; and the political economy. Therefore, understanding and addressing these weaknesses in Uganda's unique context is critical for the much-needed revitalization of Uganda's cooperatives.

In light of Uganda's unique historical, political, socio and economic realities; defining a framework that addresses the cooperative sector challenges in this context, is required to underpin their success. This paper understudies the cooperatives sector in Uganda to propose how effectively it can be sustainably strengthened so as to drive Uganda's economic transformation.

The rest of the paper is organized as follows: section two draws lessons from national experiences both from the historical perspective and selected case studies; Section three reviews the existing legal and institutional framework governing cooperatives and identifies gaps. Section four provides international cooperative experiences and best practices. Section five proposes a framework under which cooperatives can be revitalized, sustained, and enabled to grow under a liberalized environment. And lastly, section six concludes.

2.0 Methodology and Data

2.1 Conceptual Framework

Mazzarol et al. (2011a) specify that cooperatives should be examined in three perspectives, that of the; member, cooperative as a business entity and wider systems. This framework seeks to address the co-operative at the macro-environment or "systems" level and to capture the two-way relationship between the co-operative and its socio-economic environment. The framework also considers the three primary objectives for cooperatives, as the need to build: identity; social capital; and sustainability. Additionally, vibrant cooperatives are based on aspects of; purpose, profit formula, key processes and key resources for a vibrant cooperative system (Mazzarol et al., 2011b; Osterwalder et al., 2005; Teece, 2010).

The conceptual framework presented by Mazzarol et al. (201l) entails aspects of the five major key themes which are discussed in details in this paper. For example, aspects of the internal organization and governance help in building member identity and commitment through; service quality, member satisfaction, perceived value, member loyalty, member identity, membership commitment. Additionally, it involves other aspects of building sustainability and a resilience architecture. This is done through adaptability and transience; building effective cooperative lifecycles and solving generic problems among others.

A successful cooperative system also requires an efficient socio-economic environment; this is achieved through building social capital and economic capital. Economic capital involves creation of jobs, wealth and the acquisition of assets whereas social capital involves elements of trust, reciprocity and networking. A good socio-economic environment also helps cooperatives to build a strong industrial or business structure by becoming competitive, developing both buyer power and supplier power and eliminating threats for entry and substitution.

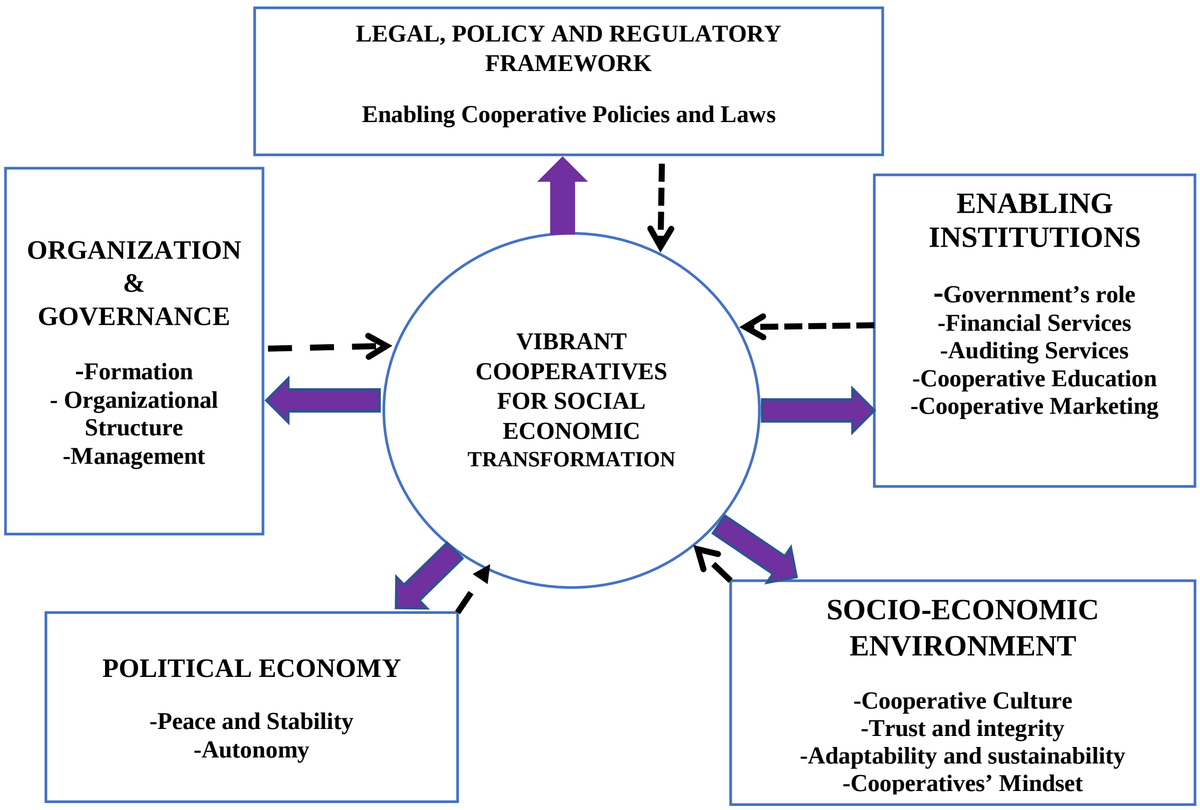
A developed institutional framework is necessary for cooperatives to be vibrant; this is exemplified in aspects of: an efficient Government's role; vibrant financial services; efficient auditing services; up to date cooperative education; and cooperative marketing among others. Efficient institutions are needed to strengthen the management and institutional capacity of cooperatives especially in regards to maintaining the cooperatives code of conduct, dispute resolution, protection of member's savings, and provision of education.

An appropriate policy, legal and regulatory framework provides an enabling environment for cooperatives to operate and thrive. This should be witnessed in favourable cooperative laws; favourable economic policies; favourable social policies; favourable market interventions; tax laws and competition laws among others. Relatedly, a country's political environment is critical in the success of a country's cooperative system. A cooperative system will be vibrant if aspects of political control or cooperative are handled well. Additionally, the economy must be peaceful and safe for these cooperative activities.

ICA (2013) and (Sumelius et al., 2013) conceptualize cooperatives as an identity which can only be successful if aspects of: legal framework, capital, participation and sustainability are solved.

The current study synthesizes the literature to create the best/feasible conceptual framework for the revitalization of Uganda’s cooperative system. It is based on five key aspects which include: socio economic environment; political economy; internal organization and governance; legal and legislative framework and enabling institutions.

Figure 1: Conceptual Framework for Revitalizing Cooperatives



Source: Authors’ articulation

(Coloured arrows show the direction of influence whereas the dotted lines imply coordination and feedback aspects within the framework)

At the member level, cooperative members are motivated to support the cooperative for different reasons. Fairbairn (1994) pointed out that the way investment returns and profits are distributed within a cooperative has significant strategic implications. The cooperative enterprise level focuses on how the cooperative business model values its members. Ultimately, the system level of the conceptual framework consists of six elements; four of which are inputs and two of which are outputs. The four inputs relate to the: need for social cooperation in the country; role of Government; structure of industry in which cooperatives operate; and effects of nature. The two inputs relate to both the economic and social capital.

The cooperative business model values its members economically if either it offers economic terms already in the market or it betters what the market offers. Therefore, if the market offers a market price (Pm) the cooperative should offer a markup (Pc). This can be represented as follows;

$$Coop = f(Pm, Pc) \qquad (1)$$

Where $Coop$ is cooperative economic viability to members.

For cooperatives to remain economically viable to its members, the markup (Pc) must be non-negative (it must either be zero or above). This is represented as follows:

$$Pc \geq 0 \qquad (2)$$

For this condition to hold, cooperatives must offer farm gate prices plus benefits accruing from value addition across the entire value chain. Therefore:

$$Pc = \sum_{i=1}^{n} BV_i \qquad (3)$$

Where BV are benefits from the value chains of production. The higher the levels of the value chain, the greater the benefits. Substituting equations (3) into (1) yields the following cooperative economic viability model:

$$Coop = Pm + \sum_{i=1}^{n} BV_i \qquad (4)$$

Where variables are as already defined.

2.2 Data and Methods

In achieving the objectives of the paper, the study adopted a qualitative approach, focusing on understanding the environment necessary for cooperatives to thrive. Specifically, the study used the following methodologies i.e.:

a. Literature survey of published and unpublished material on cooperatives was done so as to get a clear understanding of cooperatives. Specifically, the analysis included trends of the cooperatives movement in the country during the pre-colonial period, through the colonial era, early post-independence period and the current era of economic liberalism. Additionally; the existing legal, policy and institutional frameworks; and international experiences was explored. Insights into the potential of cooperatives to help achieve social economic transformation were made thereafter.

b. In-depth interviews of experts with specialized background and extensive knowledge and understanding of cooperatives in Uganda, including policy makers and members of cooperatives is undertaken. This included the Minister of State for Cooperatives, The Registrar of Cooperatives and the staff of Department of Cooperatives at the Ministry of Trade, Industry and Cooperatives (MTIC); Bank of Uganda Officials specifically on Agricultural Credit Finance (ACF); and NPA's internal capacity among others.

c. Field study and administration of survey questionnaires to capture some of the necessary quantitative aspects that may not be acquired through the FGDs. The survey sample involved cooperatives from different regions of the country i.e., Northern, Central, Eastern, Southern and South Western. This was done to capture for regional specific differences. Additionally, the sample involved both long standing (traditional) and recent (new) cooperatives to capture for the different dynamics between the two categories of cooperatives. The sample also included success cooperative stories and failures to learn from both experiences of success and failure. Different types of cooperatives were also involved in the sample; these involved agricultural cooperatives, multipurpose cooperatives and financial cooperatives among others.

Case studies from specific cooperatives were also done on: Bugisu Cooperative Union, Gumutindo Cooperative Union, Banyankole Kweterana Cooperative Union, Nyakatonzi Cooperative Union-Kasese, Kayunga ACE, Amuka cooperative Union-Lira; Acalt SACCO-Lira; Agweng Farmers' Cooperative-Lira; Arapai Fruit Growers- Soroti; Katine Joint Farmers' Cooperative -Soroti; Kamuda Fruit Growers – Soroti; Busiu SACCO-Mbale; Epicenter Rural Financial Facility- Bungokho, Mbale; Wamala Cooperative Union-Mityana; and Masaka Cooperative Union.. The case study methodology was chosen because it offers a suitable opportunity for explaining cooperative dynamics in depth in an environment where there is limited established theory.

3.0 LESSONS FROM NATIONAL EXPERIENCES

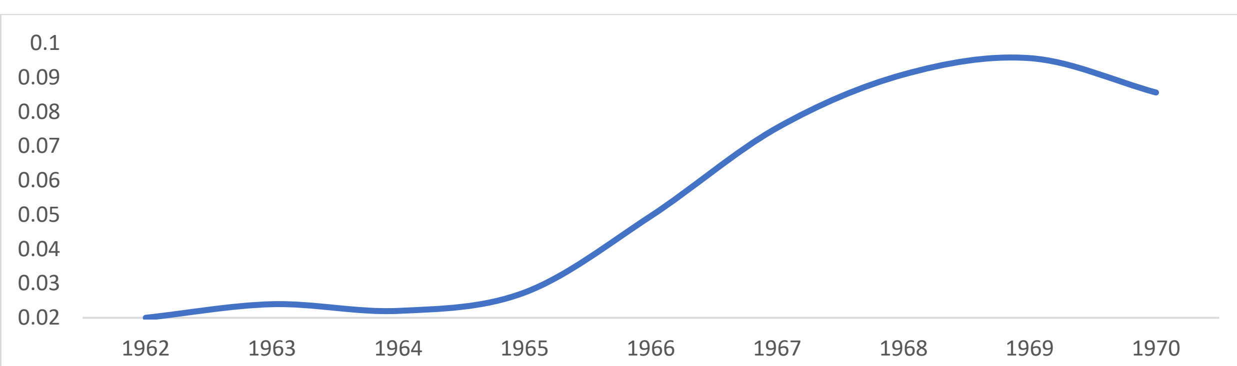
3.1 HISTORICAL PERSPECTIVE

3.1.1 Pre-Liberalization Phase

The first cooperatives in Uganda were created to curb market exploitation of producers by middlemen. In the 1910's, the distribution of economic roles along the value-chain by the colonial government was race-based as indigenous farmers were restricted to the low earning cultivation (UNDP, 2016; ActionAid, 2013). Cooperating was the surest way that indigenous farmers could rally against the restrictions, obtain economies of scale, increase their bargaining power. As a result, the first cooperative society, "Kinakulya Cooperative Society", was established in 1913 and many others followed thereafter (Kabuga and Kitandwe, 1995). Even then, the early cooperatives operated informally as they were denied recognition and legal status by the colonial government. Initial efforts to legalize and formalize cooperatives were met with limited response by cooperators for fear of Government control (UNDP, 2016; ActionAid et al, 2013; Kwapong et al, 2013; Mamdani, 1976).

The autonomy given to cooperatives by the 1952 Cooperatives Societies Act unlocked their productivity. However, this autonomy was reduced by the 1963 post-independence Cooperatives Societies Act. Nonetheless cooperatives continued to thrive as they benefited from the Government public goods. Between 1952 and 1962, there was a 100 percent registration of cooperatives, membership increased eight-fold to 252,378 and the yield of crops increased six-fold (UNDP, 2016). In addition, cooperatives were given permission to operate cotton ginneries and coffee curing plants while at the same time receiving financial backing from government (Kabuga and Batarinyebwa, 1995). The 1963 Cooperative Societies Act reduced cooperative autonomy which worsened misuse of cooperative finances. Despite this, cooperatives continued to flourish stimulated majorly by heavy government support through direct assistance and subsidized services (UCA, 2012b). The government created Bukalasa Cooperative College in 1963 and later the Kigumba Cooperative College in 1964 to provide educational services for cooperatives. Additionally, the Cooperative Development Bank was created in 1964 to mobilize cooperative savings and generate savings for cooperative development (UCA, 2012b). As a result, agricultural productivity rose (Figure 2).

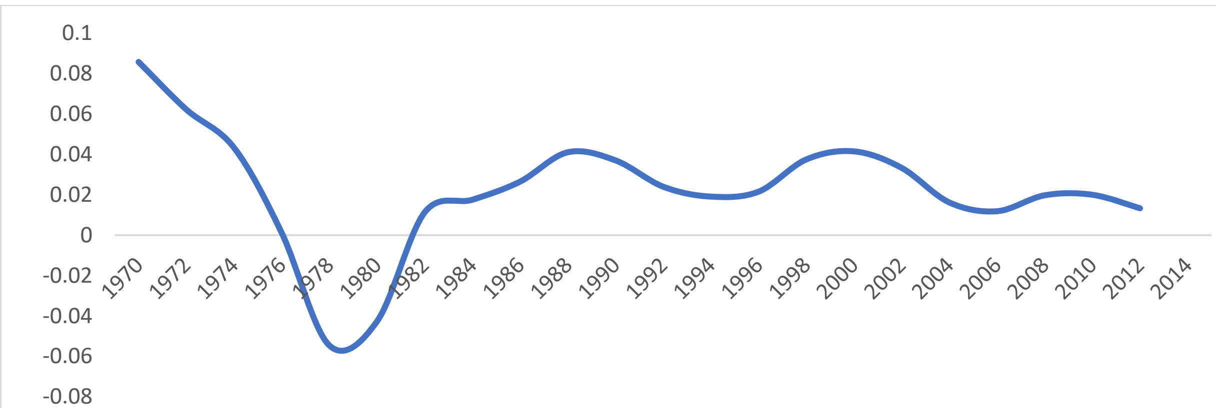
Figure 2: Cooperatives and agricultural productivity growth in Uganda between 1962 and 1970



Source: World Bank Data

Marketing Boards were created with an aim of bulking trade and collecting foreign exchange on behalf of Government, however they monopolized trade leading to the weakening of cooperative's performance. A number of Marketing Boards for critical products like cotton, coffee, diary and produce among others were created and played a critical role of stabilizing prices and improving incomes of farmers. However, these Boards were mismanaged by civil servants leading to a decline in agricultural marketing and productivity (Mrema & Ndikumana, 2013). With the enactment of the Cooperatives Act of 1970 in an attempt to address mismanagement, corruption, embezzlement and the political economy at the time, all the remaining autonomy of cooperatives was lost, further dampening their productivity. This decline is illustrated in Figure 3[6].

Figure 3: Uganda's Agricultural Productivity Changes between 1970 and 2015



Source: World Bank data

Political instability and war in the early 1980's directly and/or indirectly dampened Cooperatives' activities. The then Government administration attempted to revive cooperatives using them as instruments of rural development but was overcome by excessive government involvement and political instability. However, the guerilla war interrupted cooperative activities and destroyed a lot of property and lives especially since it took place in cooperative movement strongholds. Notable among the cooperatives that were directly affected include; Masaka Cooperative Union, Banyankole Kweterana, West Mengo, East Mengo and BCU among others (UCA, 2012b). Indirectly, political instability led to looting and vandalism of the productive assets, which dampened the opportunities for effective operation of cooperative. To date, some cooperatives are still grappling with war debts.

3.1.2 Liberalization Phase

With economic liberalization, Government divested its interest in cooperatives, withdrew direct support to cooperatives and abolished the monopoly along the commodity value chains. However, cooperatives were not prepared to survive in a liberalized and competitive market. **The immediate effect of liberalization was the collapse of many cooperatives mainly because they were not prepared to stand on their own.** The timing of liberalization was not

[6] With the introduction of Marketing Boards, the momentum of agricultural productivity was slowed. Productivity continued to increase though at a decreasing rate. This was partly in response to the transmission effect of the introduction of the Marketing Boards.

conducive for them to survive in this environment given the adverse effects suffered during the war and the unstable economic environment at the time. On the background of heavy indebtedness, severe weaknesses in entrepreneurship, management and commitment in leadership, cooperatives would not compete with new investors with superior organizational and managerial capabilities, with access to cheaper capital and better technologies to obtain produce from farmers for marketing (Nannyonjo, 2013). Amidst challenges, some cooperatives survived because of internal strength which enabled them to adapt to the new macro-economic environment.

Liberalization led to proliferation of a diversity of cooperatives largely away from agricultural production to service and consumption, among others. In particular, SACCOs have become more prominent to largely fill the financing vacuum created by the collapse of the credit facilities which were embedded in the cooperative network. Currently, there are 16,408 registered cooperatives in the country. Majority of these cooperatives are SACCOs and agricultural marketing cooperative societies. Apart from these, there are cooperatives in almost every sector of the economy ranging across: energy, transport, market based, health, dairy, apiculture, housing, fishing, services, workers, handcrafts and multipurpose among others. For instance, there are; 17 energy cooperatives, 232 Drivers cooperatives, 88 "Boda Boda" based cooperatives, 105 market based cooperatives, 5 health cooperatives and 241 dairy cooperatives (MoTIC, 2016).

To overcome the effects of liberalization, a new organizational structure of cooperatives, parallel to the traditional setup, has evolved creating a leadership gap within the cooperative movement. Traditionally, cooperatives were organized in a hierarchal order with farmers at the lowest tier and the marketing boards at the highest tier (Kwapong and Korugyendo, 2010). The new and old structures are not any different. The new parallel organizational structure operates through Rural Primary Organisations (RPOs) and Area Cooperative Entreprises (ACEs). Further, the old one is more organic whereas the new one is more of a top-down and is majorly driven by development partner financing.

3.2 LESSONS FROM SELECTED NATIONAL CASE STUDIES

This section summarizes lessons learned from national experiences of selected cooperatives that survived and/or collapsed following the political instability, war and liberalization. These experiences were obtained from literature reviews (Kwapong, et al, 2013 and BTC, 2010), field studies and interviews. The study focused on identifying the underlying factors that resulted in the survival and/or collapse of the selected cooperatives. It also examined how cooperatives reorganized themselves to adapt to liberalization. The selected cooperatives studied include: Bugisu Cooperative Union, Gumutindo Cooperative Union, Banyankole Kweterana Cooperative Union, Nyakatonzi Cooperative Union-Kasese, Kayunga ACE, Amuka cooperative Union-Lira; Acalt SACCO-Lira; Agweng Farmers' Cooperative-Lira; Arapai Fruit Growers- Soroti; Katine Joint Farmers' Cooperative -Soroti; Kamuda Fruit Growers – Soroti; Busiu SACCO-Mbale; Epicenter Rural Financial Facility- Bungokho, Mbale; Wamala Cooperative Union-Mityana; and Masaka Cooperative Union.

Formation of cooperatives should not be incentivized by handouts from the government or development partners but rather the deep-rooted interests of members to solve their common problems. Most of the traditional Cooperatives that developed through the desire to address a common need were able to create sufficient social capital that is needed for them to survive. For example, besides controlling prices and elimination of middlemen in coffee trading, the Banyankole Kweterana Cooperative Union (BKCU), which was founded in 1956 by the coffee farmers, built sufficient social capital by maximizing the wellbeing of members through provision of farm inputs to the farmers, training, and employment opportunities. To this end, when it halted its operations in 1999, its members initiated talks with Government in 2003 to pay its war debt, of which Ushs.4 Billion (approx. US$ 1.5 million). The Union used this money to buy back the processing plant at Kakoba at Ugshs. 950 million (approx. US$ 348,000) and paid off loan debts of Ushs. 2.5 billion (Approx. US$ 915,000). An additional Ushs. 5 billion (approx. US$ 1.83 million) was also paid to the Union in 2009 which was used as working capital to buy coffee from the farmers.

The loyalty and commitment of members of Bugisu Cooperative Union (BCU) also contributed to its survival as its senior members lobbied for government support of the union and protested the selling of union assets. Many members continued to sell through the union and made coffee donations to the union to enable it to raise funds. Such commitment and patronage of the union enabled the cooperative to continue existing even though faced with a number of challenges (Kwapong, et al, 2013).

However, cooperatives that were formed through external influence have had sustainability challenges. Development Partners and Civil Society, most notably, USAID, KULIKA, TechnoServe, FAO, PROLIFERA, AMREF, Guardian Newspaper UK, the Hunger Project, Food Trade Uganda, The East Africa Grain Council and Farm Africa, through UCA have achieved a lot in terms providing financing for capacity building for cooperatives. This has enabled setting up of many cooperatives during the liberalization period. However, the sustainability of these cooperatives has been a challenge particularly after the support is withdrawn. A case in point is Kayunga Area Cooperative Enterprise (KACE), which was formed under the new cooperative organizational structure with support of development partners, is struggling to survive. UCA organized members of primary cooperative societies in Kayunga and parish farmer associations under the Uganda Farmers Federation to form Rural Producer Organizations (RPOs) which are affiliated to KACE. This was supported by a development partner financing under UCA for sensitizing the young people on how best to develop through cooperatives. Farmer groups were trained and after graduation; they were supported to register as cooperative societies. However, when the support from UCA stopped, the farmers lost interest.

Additionally, cooperatives that are production based are bound to succeed more than cooperatives that play an intermediation role. The loan repayment rate for most SACCOs is low majorly because they do not have productive units from which these loans can be repaid. A “true” cooperative should have a financial arm and this could make it easy for them to retrieve the loan since they know the portfolio of their members. Cooperators therefore advised that the cooperative movement can become very successful if a productive aspect is integrated with SACCOs OR traditional cooperatives are enhanced with finance to enrich their productive activities.

Organizational values and good leadership are critical for survival of cooperative enterprises. Cooperative societies that survived the 1970 – 1980s' political and economic unrest, and the 1990s' liberalization challenges did so because of robust internal institutional mechanisms that guaranteed transparency and accountability of the cooperative society leadership. This prohibited the leadership from developing discretionary power which leads to exploitative behaviour and thus financial mismanagement that befell many failed cooperatives. For many cooperatives, the leadership was reserved for the elders who perpetuated a 'Big Men' culture instead of competencies (Kiranda, 2017).

In this case, BCU survived because its leadership was based on individual competencies rather than seniority. As a result, its dynamic and visionary leadership appropriately invested in assets like land, schools, buildings and processing plants among others during the good times which later bailed out the union in times of crisis. Following liberalization, which led to withdrawal of direct financial support from government, the innovative leadership of BCU sought partnerships with private investors and Development Partners through which they were able to raise funds to pay for the produce from the farmers and thereby compete with private traders (Kwapong et al., 2013). In the case of Nyakatonzi Cooperative Union in Kasese, its strong management team came up with strategies to adapt to the changing market environment during liberalization by looking for markets and financial support for the union. With no direct Government financial support amidst heavy indebtedness; they hired a competent, innovative manager who advised them to retain their processing plant and improve its efficiency, instead of selling it off as was the trend, in order to repay their debts.

The quality of produce suffered as liberalization was not accompanied by an appropriate regulatory and enforcement framework for quality control and standards. There was no mechanism to regulate the market, not even to license the traders, most of whom were more interested in quantity than quality. The argument in support of liberalization was a free market guided by the forces of demand and supply. However, the ground was never quite level for all the players in the produce market. Whereas the cooperatives had a collective responsibility to maintain the quality of their produce, the private traders were more interested in quantity and quick money than quality (Kiranda, 2017). Consequently, Uganda's reputation in the international market was damaged by exporting poor quality produce, more especially coffee. Much as these private traders were considered to be better than the cooperatives, most of them closed up shop (Okello & Ahikire, 2013).

Cooperative finance is central to survival of Cooperatives. The closure of Cooperative Bank left a deep gap in accessing cooperative financing which severely affected the cooperatives. The cooperative bank used to provide cooperative financing at affordable rates. As such many cooperatives acquired financing from the Bank. However, with the effect of war and economic unrest, most of the cooperatives lost their ability to service and repay their loans. This weakened the Cooperative Bank and partly led to its closure. With the closure of the Cooperative Bank, affordable cooperative financing was lost, leaving cooperatives with expensive commercial financing ranging as high as 40 percent at the time. This adversely affected the cooperative activities as they could not compete with the private traders. For example, BKCU had acquired loans to the tune of Ushs2.6 billion from the Bank using coffee as collateral. However, with the coffee lost during the war, it lost the collateral that could have been used to acquire finance necessary in running the union activities and faced challenges paying back the loan. Stanbic Bank, which took over its loan after the closure of the Cooperative Bank was not based on the cooperative financing principle, consequently the union had to sell off its assets to clear the outstanding loan at higher interest rates. Also, Bwetyaba Cooperative Society in Kayunga which had acquired a 6 million loan, had to sell its assets to pay UShs24 million to Stanbic Bank in 2003 due to interest.

Alternative sources of affordable financing have been vital to the survival of cooperatives after the closure of the Cooperative Bank. Due to the high cost of capital in Uganda, several cooperatives have been able to innovatively acquire relatively cheap credit from foreign financial institutions with flexible terms in order to survive. For example: Nyakatonzi Cooperative Union cooperative financing from Rabo Bank in the Netherlands at interest rates of 8 percent without collateral; BKCU accesses cheap finance from Shared Finance, a UK cooperative union, through the Cooperative Bank of Kenya at an interest of 8 percent without collateral but using a tripartite agreement between the lender, the cooperative and the buyer; and it also accesses financing from FESSO in France. BCU has benefited from HSBC Equator Bank of USA which has been providing financing at competitive rates which made it feasible to participate in export trade. Also, some cooperatives have been able to access pre-financing for their members through the fair-trade system.

Further, surviving cooperatives including; BKCU, BCU and Nyakatonzi Cooperative Union went into partnership with the traders and provided pre-financing to unions to acquire produce, which enabled them to have working capital to continue with their operations. BCU for example, traded some of its land (619 acres) with the government in exchange for this financial assistance to a tune of Ushs3 billion (US$ 1.1 million). The Union also leveraged its diverse asset base to act as guarantee in securing loans; and around 2008, a campaign was started were farmers were urged to donate 1 kilogram of coffee to the Union so as to pay off its debts. Gumutindo Cooperative Union was involved in strategic partnerships with NGOs like TWIN based in the UK, BTC and Shared Interest which helped in financing its operations. However, all these financing options have been accessed creatively by the innovative cooperatives and a common financing mechanism specifically made for cooperatives is still lacking. Cooperatives that have failed to get external sources of cooperative financing have either collapsed or are struggling, for example, Masaka Cooperatives Union, Wamala Cooperative Union and Kayunga ACE.

Government has attempted to bridge the cheap financing gap through the Uganda Micro-Finance Support Center (MFSC) and Agriculture Credit Facility (ACF). However, they have faced challenges. Whereas MFSC provides relatively cheap credit compared to commercial banks, the process of accessing credit is quite long and bureaucratic. For instance, despite previous loan history, on a new loan application they require one to go through the same process of filing identification documents, and yet these are submitted in earlier loan applications. This delays the process of acquiring a loan. This particularly affects the agrarian cooperatives as often credit is accessed after the elapse of the agricultural season. Consequently, without an alternative source, cooperatives end up not delivering to their customers as required. On the other hand; The Agricultural Credit Facility (ACF) was set up by the Government of Uganda (GoU) in2009 in partnership with other Participating Financial Institutions (PFIs) like; Commercial Banks, Uganda Development Bank Ltd (UDBL), Micro Deposit Taking Institutions (MDIs) and Credit Institutions. The Scheme aimed at facilitating the provision of medium and long-term financing to projects engaged in Agriculture and Agro processing, focusing mainly on commercialization and value addition. However, the scheme requires upgraded or bankable farming projects to which most farmers or cooperatives don't subscribe.

In this regard, a Cooperative Bank would be useful not only in providing banking services, affordable credit to cooperators, and a mechanism through which the development partners channel their support, but also an avenue through which cooperators can leverage other external financing. Further, such an institution understands the principles upon which cooperatives operate and is therefore able to serve them better.

State intervention should be limited to ensuring a strict adherence to the accountability framework as a safeguard from risks of abuse of cooperative autonomy. The loss of autonomy by cooperatives to the state meant loss of democratic control of cooperatives by their members (Kiranda, 2017). For example, by the end of 1966 Bugisu Cooperative Union was subjected to government intervention. This greatly weakened the powers of the elected Board and Management Committee members. This was accompanied by a steep decline in both leaders and general membership involvement in Union activities and the intense competition for leadership positions was replaced by a dispirited apathy among members. Meetings were held less frequently than before. BCU evolved into an extension of the Government rather than an autonomous agency (Young, et. al, 1981).

Cooperatives Were Used as Vehicles of Political Influence: The post-independence leadership in Uganda had been part of the cooperative movement and had benefitted enormously from the cooperatives in their ascendance to power and thus sought to control and manipulate the cooperative movement (Kyazze, 2010 and Nuwagira, 1993)[7]. The leadership of various cooperatives became de facto representatives of the ruling party with a lot of power to exercise discretion in the decisions of the cooperative administration. In the end, they undertook activities that were in direct contravention of the cooperative society laws (Kiranda, 2017). For example, sometimes loans were made to the members of Gondo Cotton Cooperative Society (GCCS) in the Teso sub-region in excess of the regulation value (Nash et al., 1976:88). There is need to manage the political economy governing cooperatives for them to survive.

Government support in form of essential public goods is required for cooperatives to effectively drive production and productivity. During the liberalization period, cooperatives lost the benefits of government support through direct assistance and subsidized services. In addition to financial support through the cooperative bank, other services included: affordable cooperative education services; auditing of cooperatives financial accounts; extension; research; and input supply, among others. For instance, the separate Ministry of Cooperatives and Marketing used to provide specialized services for the promotion and development of cooperatives up to the district level with a dedicated District Cooperative Officer. The District Cooperative Office used to offer cooperative education, training and auditing services, among others. The current set up does not give adequate attention to the specific needs of cooperatives., for instance, at the district level, the cooperative functions are fused under the district commercial officer who is more focused on trade

[7] For example, Ignatius Musazi , the former leader of the Uganda African Farmers Union (UAFU) / Uganda Federation of African Farmers (UFAF), formed the first political party, the Uganda National congress (UNC), which was later reorganised and renamed the Uganda People's congress (UPC).

issues than providing the necessary services critical for cooperatives growth such as membership development, training, regular inspections and management advisory services.

Further, in regard to cooperative education, since the placement of the Uganda Cooperative College – Kigumba (UCCK) under the supervision of the Ministry of Education, very little training of cooperators has been conducted. The cooperative wings of the college, numbering 14 and spread around the country, are largely not functional. The weakening of UCCK and high cost of training has created a void which government, development partners and civil society organization have tried to fill. However, their training is piecemeal, uncoordinated, inadequate and unsustainable. For instance, the content offered is basic and does not meet the needs of advanced learners and does not cover all the existing and potential members. In regard to auditing services, cooperatives are required to acquire audit services through a transparent competitive process to annually audit their financial accounts, at their own cost. This creates two challenges: affordability and the viability in quality of the services.

Cooperatives should be distinguished from profit driven private sector organizations. The taxation policy should reflect the fact that cooperative enterprises operate differently from conventional businesses. While private sector businesses are solely profit oriented, cooperatives are welfare maximizing social enterprises. The current practice however is that cooperatives are treated as conventional businesses in application of tax obligations. Cooperatives in Uganda are currently taxed under the Income Tax Act which treats cooperatives just like private companies. They are subject to a number of taxes including corporation tax of 30%, 15% withholding taxes on dividends, 15% withholding tax on interest on members' deposits and stamp duty of UGX 5,000 on every loan agreement exceeding UGX 3 million. Because cooperatives majorly generate their incomes from their membership levying withholding taxes on members' dividends after corporation tax would be double taxation unlike companies which generate incomes from the general public. This leaves them with little to pay their members and stay afloat at the same time.

Cooperatives are an engine for promotion of high quality products, value addition and exports, but need government support. BCU directly exports its coffee enabling its members to get premium prices. Towards this end, BCU produces premium grade (PG) coffee which brings premium prices from both the domestic and international markets. Similarly; BKCU, Gumutindo Cooperative Union, and Ankole Coffee Producers Cooperative Union Limited, are also exporting coffee to Europe and America. Their primary cooperative farmers deliver their produce to the union stores where it is bagged in 60 kg sacks and stored before being transported to Mombasa port for exportation. To ensure high quality, there is coordination of the entire production process from the farm to the market. Further, some cooperatives[8] are participating in the international fair-trade system which has ensured high quality of exports, and in addition provided pre-financing to members for their harvests. To participate in fair-trade, exporters are certified to meet quality standards required by international traders such as CafeDirect and Equal Exchange who pay premium prices. The cooperatives with expert assistance undertake research and use anti-erosion

[8] BKCU, also a participant in the fair-trade system, purchased processing facilities using a grant it obtained from the United States African Agency to ensure production of Fair Average Quality (FAQ). It incentivized its members by paying more for FAQ than Kiboko. For example, it pays Ushs6,000/= and Ushs2,500 for FAQ and Kiboko respectively.

techniques to obtain the best possible yields without harming the environment in order to meet the certification requirements.

Contrary to the liberalization spirit, monopolization of certified standard packaging materials for exports of their products (e.g. export bags for coffee) by Quality Procurement Services Ltd is limiting their export potential. For instance, in times of shortage of these packaging materials there are delays which lead to cooperatives' inability to meet contract obligations. Further, the 1 percent export levy given to the Uganda Coffee Development Authority (UCDA) for every container exported before the actual earnings from exports is received is contrary to the norm of taxing actual earnings rather than potential.

4.0 LEGAL, POLICY, REGULATORY AND INSTITUTIONAL FRAMEWORK FOR COOPERATIVES IN UGANDA

4.1 LEGAL, POLICY AND REGULATORY FRAMEWORK

To date, the cooperative movement has been guided under the following legal framework: Cooperative Societies Ordinance (No. 5, 1946), the Cooperative Ordinance of 1952, Cooperatives Societies Act and Rules of 1963, Cooperative Societies Act 1970, the Cooperatives Societies Act 1991 and the Cooperative Societies Regulations, 1992, the East Africa Cooperatives Act (2014), the Tier 4 Microfinance Institutions and Money Lenders Act (2016), Amendment Bill, 2015. In addition, there exists the National Cooperative Policy, 2011. These have had different levels of success in driving the cooperatives agenda in the country. As such, this section provides a brief analysis of the frameworks.

The Cooperative Societies Ordinance (No. 5, 1946) formalized the operations of cooperatives, however, it faced challenges that necessitated the Cooperative (Amendment) Act, 1952 and the Acquisition of Ginneries Ordinance (1952) and the Coffee Industry ordinance (1953). The Cooperative Societies Ordinance (No. 5, 1946) provided for government regulation and support, nevertheless it was biased in favour of the European/Asian traders. The Ordinance provided for registration of societies. Registered societies became a body corporate. They were granted tax remission on their transactions involving duty or tax, stamp duty or any other tax payable under the law of registration for the time being in force. However, the Ordinance included many "controlling and restrictive features" which reflected the desires of the European and Asian mercantile interests. By the end of 1946 a majority of cooperatives were unregistered because they were not in agreement with the terms of the Ordinance (Nuwagira, 1993). As such, the Cooperative (Amendment) Act, 1952 relaxed and streamlined government control over cooperative societies, inducing cooperatives to formalise. In addition, the Acquisition of Ginneries Ordinance (1952) and the Coffee Industry ordinance (1953) were passed to open up the processing stage of the produce value chain to indigenous farmers by providing affirmative action to cooperatives (Nuwagira, 1993).

The Cooperatives Societies Act and Rules of 1963 increased government control over cooperative societies but they retained significant control, however, the Cooperative Societies Act 1970 monopolised all cooperative societies' control to government. The Cooperatives Societies Act and Rules of 1963 restored the powers of the Registrar of cooperatives and other technocrats who had complained of being powerless in enforcing their directives at the expense of member cooperators' authority. However, it still maintained clauses which made it more difficult for government to institute any preventive measures against incompetence and malpractices in cooperative societies (Nuwagira, 1993). The Cooperative Societies Act 1970 gave all control over cooperative societies to government. It vested too much power to the Minister (Marti et'al, 1984).

The Cooperative Societies Act (1991) and the Cooperative Societies Regulations, 1992 relaxed control over cooperative societies by government however, it has faced challenges that have necessitated the Cooperative Societies (Amendment) Bill, 2016. Cooperative Societies Act (1991) and the Cooperative Societies Regulations, 1992 is more top down, instructive and with limited institutionalization. To address the challenges which have emerged over time as the cooperatives sector continues to diversify and grow, the Cooperative Societies (Amendment) Bill, 2016 has been tabled before Parliament. A review of the proposed amendments revealed that the Bill is an improvement of the Act; however, it still falls short. The Bill still maintains the excessive powers given to the Registrar (Commissioner) under the principal Act (Nkandu, 2010). In addition, the Bill maintains some provisions of the principal Act which don't promote self-reliance - a core value of the cooperatives. Further, the Bill doesn't streamline the responsibilities for registration and cooperative development which are still fused under the Commissioner of Cooperative Development (registrar). Also, the Bill does not specify Uganda Cooperative Alliance (UCA) as the Apex Body for cooperatives as was the case under section 4 (2) of the principal Act. It only notes that there shall be only one Apex body for all registered cooperative societies.

The Tier 4 institutions and Money Lenders Act (2016) was enacted to give direction to SACCOs, Non-deposit taking microfinance institutions, self-help groups, and community groups, however, it is not yet popularized and implementation could be a challenge. The Act establishes an autonomous body known as Uganda Micro-Finance Regulatory Authority (UWRA) mandated to regulate, license and supervise tier 4 micro finance institutions and money lenders. The Act is however not yet popularized and known to the SACCO players and it remains to be seen how it will fare when actual implementation starts. Additionally, for the law to be successful, it should put a clear distinction on which specific SACCOs it governs given that it operates in the presence of the Cooperative Societies Act 1991 Cap 112 which controls all cooperative activities, SACCOs inclusive.

The National Cooperative Policy (2011) provides for strengthening of cooperatives however, its operationalization is a challenge. It identifies problems and suggests solutions on how to harness cooperatives' advantages. For example, it refers to a drive to establish at least one SACCO for each sub-county. However, little has been done to operationalize some of these policy actions. For example, there is still a general lack of specialized services as well as published codes of conduct; and specialized services to benefit cooperatives like cooperative insurance, cooperative banking, exports and up-to date cooperative education services among others.

4.2 INSTITUTIONAL FRAMEWORK

The institutional framework governing cooperatives in Uganda can be grouped into two: the government and cooperative movement.

4.2.1 Government

In 1946 the government created a Department of Cooperatives under the Ministry of Agriculture to regulate cooperative societies' activities in Uganda. Nevertheless, it was assumed that all cooperatives were agricultural cooperatives. The Department's administrative functions were split, with the introduction of the office of the Administrator General who was responsible for registration of and vested with the power to liquidate cooperative societies considered due for liquidation. However, cancellation of registration of a registered society could also be done by the courts of law upon application. In addition, a semi-autonomous agency - the Uganda Cooperative Development Council was created to oversee the general administration and direction of the movement was created (Nuwagira, 1993).

State Marketing Enterprises were set up to control the marketing of all commodities. The Coffee Marketing Board (CMB) was set up in 1953. After processing, all coffee was marketed (exported) through the CMB. Similarly, The Lint Marketing Board (LMB) was set up in 1959 to function as a price stabilization agency. Growers were required to sell to a primary cooperative society which would in turn sell to a cooperative union for ginning. The final sale of both lint and cotton seed was a responsibility of the LMB. The structure was inherited after independence. The Produce Marketing Board was also established in 1968 to promote the commercialization of the food sector. The primary cooperative societies were to act as collection points or agents of PMB. Additionally, the Diary Industry Corporation and the National Trading Corporation were set up in 1966 and 1967 to control the marketing of milk products and trade respectively.

Between 1968 and 1976 there was an unstable government institutional framework for cooperatives as the mandate shifted from one ministry to another. Prior to 1968, all cooperatives development and marketing functions were handled by the Ministry of Agriculture. They were split off from Agriculture and placed under a fully-fledged under ministry of Cooperatives and Marketing, brought back to Agriculture in 1972, and then split off again in 1976. The activities of the marketing boards were supervised by the Marketing Department which was also responsible for: helping to determine what portion of the final sales price of coffee or cotton would be paid to the farmer, to the primary cooperative societies, and to the unions; licensing of domestic buyers; and serving as Uganda's representative to international bodies, such as the International Coffee Organization (ibid). The Ministry of Cooperatives and Marketing had a number field staff that operated out of the district offices throughout the country. The country by then was divided into 10 marketing zones each with a regional marketing office (Marti, 1984).

In 1983 the Agricultural Secretariat was created under the Bank of Uganda mainly to set commodity prices (Marti, 1984), however, this couldn't work in a liberalized environment. The Agricultural Secretariat functions included, among others: advising the government on the pricing of agricultural commodities and the amounts to be paid to the farmer and others who are engaged in processing and marketing; and making detailed studies of the costs of production, processing and marketing for all major agricultural commodities (ibid). The Agricultural Secretariat submitted its findings and recommendations on agricultural pricing and policy directly to the Agricultural Policy Committee - the highest authority in respect to agricultural matters. The Agricultural Policy Committee used to submit its recommendations to the President's Economic Advisory Committee (PEAC). Based on the information it received, PEAC set the prices that the farmer would receive for their coffee and cotton.

Currently, cooperatives development and marketing functions are under the mandate of the Ministry of Trade, Industry and Cooperatives (MoTIC). Within MoTIC, under the political guidance of the Minister and Minister of State for Cooperatives, the Registrar (Commissioner, Cooperatives Development) oversees the day to day monitoring, supervision and auditing of cooperatives. At the Local Government level, the District Commercial Officer (DCO) oversees cooperative activities in addition to other mandates of MoTIC at the District level while the Community Development Officer (CDO) does the same, in addition to other mandates of MoGLSD, at the sub-county level. The challenge with this is that the DCOs are oriented towards commercialization which is not necessarily the cornerstone to professionalizing cooperative management (Nkandu, 2010). Cooperatives responsibility is relegated to a secondary role limiting the development of the cooperatives. The District Production Officer who would take on such responsibilities is not mandated to do so hence cooperative activities are not well coordinated at the Local Government levels.

However, the regulation of SACCOs is particularly mandated to the Ministry of Finance Planning and Economic Development (MoFPED). It is not clear how this works within the general cooperative institutional structure under MTIC. For instance, while SACCOs are required to register under MTIC, they are regulated by MoFPED.

4.2.2 Cooperative Movement

The Cooperative Societies Act (1991) sets up a four-tier vertical institutional structure for the cooperative movement, however, it is currently operating at three levels. At the lowest level is the primary society which is at the village or parish level. At least two registered primary societies form a secondary society and at least two registered secondary societies for tertiary society; and two or more secondary societies form the apex society which advocates for cooperative societies both nationally and internationally. The apex also serves as the main policy advisor to Government on cooperatives issues; and implements various cooperative development projects. The apex society currently is Uganda Cooperative Alliance (UCA) Ltd which was created in 1961. In practice, the cooperative movement in Uganda is operating three levels of societies without the tertiary level.

UCA is the umbrella body for the cooperative movement; however, its ability to act as the common voice is under question. It changed from its role as an apex body to focus on development and training programmes for village-level societies, with UCA membership open to any primary society (Shaw, 2007). It is currently promoting an idea of grouping together approximately ten primary agricultural cooperatives also known as Rural Primary Organizations (RPOs) into a “mini union”, known as an Area Cooperative Enterprise (ACE). Consequently, its function as an umbrella body is being questioned, particularly by cooperators who existed under the pre-liberalization period.

The Uganda Credit and Saving Bank (Cooperative Bank) was created by ordinance number 20 of 1950, purposely to extend credit facilities to Africans with the aim of furthering agriculture and co-operative societies. The successor to the Uganda Credit and Savings Bank was the now defunct Uganda Co-operative Bank which began operations in 1964. Its purpose was to mobilize the financial resources of the cooperative movement by encouraging savings and provide credit financing for cooperative societies and their members, particularly in the rural and agricultural sectors. Before liberalization, the Ministry of Cooperatives and Marketing had broad authority to appoint members of the Bank's board of directors or “Management Committee” as they were referred to in the Act. Three members of the Management Committee were elected by cooperatives, and the Ministry of Finance also has a representative on the Committee.

5.0 LESSONS FROM INTERNATIONAL EXPERIENCES

The study is further enriched with lessons from international experiences, and the selected countries include Kenya, Malaysia and Almeria. Unlike other countries, Kenya not only shares the same story on the evolution of cooperatives but as well offers great lessons towards a strong and vibrant cooperative movement. The evolution of cooperatives in Kenya, just like in Uganda started as Kenyan farmers fought for their economic rights from the colonial masters. Wanyama (2009) and Gatugata et al. (2014) give detailed accounts of the Cooperative movement in Kenya. Further, before the era of economic liberalization, the cooperative movement in both countries was fundamentally characterized by close association with and control of the state. On the other hand, Kenya's cooperatives are the most vibrant and strongest in Africa, ranking 7th in the World. Cooperatives account for 45 percent of Kenya's GDP and 63 percent of its households' livelihoods (Ministry of Cooperative Development and Marketing, 2008). The Movement commands 67 and 62 percent of total assets and deposits/savings respectively. Lastly, the Kenyan Cooperative Movement is also the most regulated in Africa and Kenya acts as a role model on the African scene.

Like Uganda, Malaysia has had similar pre-colonial forms of cooperation. In addition, cooperatives are also the third largest sector in Malaysia after the Public and Private sectors. By 2011, Malaysia cooperative movement consisted of over 8,500 cooperatives with a membership of about 9 million people, snowballing to 17 million with family members included. The movement had an asset backing of RM79 billion accumulated over the 88 years of existence of people-oriented movement of middle and lower income groups of the nation.

Almeria is studied because its cooperative movement has been able to thrive despite past political turbulences. Further, like Uganda, Almeria has small-holder farmers with average landholding between 1.4 hectares and 1.8 hectares. Despite this, Almeria has maintained the agricultural cooperatives at the highest level to date. Almeria, a province situated in the South-East of Spain is the top fruit and vegetable growing province in Spain with more than 50 percent of the national output and the largest cooperative vegetable growing area in Europe. As a matter of fact, Almeria has used the cooperative model to transform the economy from basic peasant subsistence agriculture to a sophisticated and international agricultural sector, where benefits are equitably shared. And as such, the country is ranked among the top third of Spanish provinces in GDP per capita largely due to agricultural development. The agricultural cooperative sector is currently the only sector in the region which is generating employment and, given the cooperative structure of the agricultural sector, the economic benefits of such development are widely distributed.

Cooperative autonomy is critical for the success of cooperatives; however, it should be checked since it is usually misused. In 1997, the Kenyan government formulated the Cooperative development policy and passed the 1997 Cooperative Societies Act which set out a framework for the operation of cooperatives. In this framework, state control over the cooperative movement was withdrawn. The newly acquired freedom was abused by elected leaders. Many cases of corruption and mismanagement, such as: gross mismanagement by officials; theft of cooperative resources; failure of employers to surrender members' deposits to cooperatives (particularly SACCOs); failure to hold elections; among others were reported (Manyara, 2003). In Malaysia, the Cooperative movement is purely guided by the underlying principles of self-help, self-responsibility. Despite, their outstanding performance of the cooperative movement, they have long been associated with scandalous history of cash flow and mismanagement; criminal breach of trust and fraud; and lack of enforcement against members who break the law and deviate from the cooperative principles (Othman, 2013). As such, risks associated with cooperative autonomy need to be managed. In Kenya, the 1997 Cooperatives' Act was amended to the Co-operative Societies (Amendment) Act No. 2 of 2004 which subsequently led to the Co-operative Societies Rules, 2008. In addition, the SACCO Societies' Act, 2008 was enacted to pave way for vigorous enforcement of prudential standards for SACCOs with Front Office Service Activities (FOSAs). The new policy and legal framework gives prominence to Government's role in supervision and regulation by re-enforcing State regulation of the cooperative movement. This is done through the office of the Commissioner for Cooperative Development. Further, the Act widens the Commissioners' powers and scope of regulation over the cooperative movement to include promotion, inspection, enquires, auditing, surcharge, debt collection, liquidation and provision of technical extension services. Nevertheless, registration of cooperatives continues to be the main role of the Commissioner for Cooperative Development.

In Malaysia, the Government responded to the Cooperative management challenges by replacing the Cooperative Department with a statutory body mandated to strengthen the Government's Supervisory Framework of the cooperative sector (Yeop, 2007). The Co-operative Act 1993 was amended with the 1995 (Act 928), 1996 (Act 963) 2001 (Act A1128) and 2007 (Act A1297). The latest amendment brought forth the Malaysia Co-operative Commission and this was deemed necessary to tighten the regulations and provide better oversight of the movement.

Appropriate institutions need to be set up to strengthen the management and institutional capacity of co-operatives. In Kenya, the government established institutions for maintaining cooperatives' code of conduct, dispute resolution, protection of member's savings, and provision of education. The following institutions have been set up:

I. **SACCO Societies Regulatory Authority (SASRA):** The SACCO Societies Regulatory Authority (SASRA) oversees transparent and accountable operations of SACCOs in Kenya.
II. **Ethics Commission for Co-operatives (ECCOS):** The ECCOS promotes and enforces the cooperative ethical conduct and anti-corruption within the cooperative movement. A Co-operative Tribunal is empowered to enforce the cases tabled by the Ethics Commission.
III. **Co-operative Tribunal:** The Tribunal hears and settles co-operative disputes.
IV. **The Co-operative College:** The Cooperative College trains leaders and members in cooperative systems and has been crucial in increasing cooperative productivity. It has since been upgraded to a full university known as the Cooperative University of Kenya (CUK) under the Ministry of Higher Education (Wanyama, 2009).

In Malaysia, the Cooperative College of Malaysia (CCM) is a statutory body responsible for the provision of training and education on cooperative studies for the cooperative movements in the country. The College publishes, conducts research on co-operative activities and provides advisory services to co-operatives. Its allocation for administrative expenditure is from the Cooperative Education Trust Fund which comes from the net profit of co-operatives. It is compulsory for all registered co-operative to contribute 2 percent of their net profit into this trust fund.

A fully developed cooperative structure with an acceptable apex enhances operations of the co-operative Movement. An apex should not deviate from its core mandate or else reduces

its credibility as a voice for all cooperatives. In Kenya, the four-tier Co-operative structure is fully developed and operating smoothly. The structure consists of; Apex, Tertiary (NACOs), Secondary (County/District Unions) and Primary. The apex is the Cooperative Alliance of Kenya[9] (CAK) which is a successor to the Kenya National Federation of Cooperatives (KNFC). KNFC digressed from its core business of advocacy to other activities already being performed by some of its members. This led it to compete with some of its members thus leading to its collapse in 2009.

An operational tertiary cooperative is critical for provision of specialized services to its affiliates. In Kenya, the tertiary level is comprised of National Co-operative Organizations (NACOs) specialized in providing critical services to their affiliates. The services include: insurance; banking; housing; commodity marketing; and promotion of active relationship with social and economic partners in order to create favorable climate for co-operative development. They as well provide commercial and financial services, human resource development, advocacy and representation of co-operative unions and societies at the international level. Currently there are ten NACOs which are: Cooperative Bank of Kenya Ltd (CBK), Kenya Co- operative Coffee Exporters (KCCE) Ltd, Co-operative Development and Information Centre (CODIC) Ltd, Co-operative Insurance Company of Kenya (CIC) Ltd, New Kenya Co-operative Creameries (KCC) Ltd, Kenya Planters Co-operative Union (KPCU), Kenya Union of Savings and Credit Co-operative (KUSCCO) Ltd, Kenya Rural SACCO Societies Union (KERUSSU) Ltd, National Co-operative Housing Union (NACHU) Ltd and Cooperative Communication Holdings Ltd (CCHL). Below is the role played by selected NACOs.

Co-operative Bank of Kenya Ltd (CBK) provides the Kenyan Cooperative movement with both the financial credit and avenue for donor support. CBK started with a modest capital base of Kshs. 255,000; however, Government supplemented this capital with a Kshs. 214,000 interest free loan repayable in 10 years. The Government also granted the Cooperative Bank an exemption and offered a grace period within which Kshs. 2 million capital base stipulated by the Banking Act was raised. CBK has particularly provided finance to the cooperative unions in the agricultural sector that were experiencing difficulties in obtaining credit to facilitate marketing of members' produce (Wanyama, 2009). Further, in order to increase SACCOs liquidity levels so they can meet member demands for loans. Furthermore, the Cooperative Bank serves as a mechanism through which most development partners to the agricultural sector, such as FAO, the Swedish Cooperative Centre (SCC), Sida, Canadian Cooperative Association (CCA), and the European Union, among others channel their support.

The cooperative movement in Malaysia has 2 co-operative banks, that is the Bank Rakyat and Bank Persatuan. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) is a co-operative bank that has been the backbone of the Malaysian co-operative movement. Bank Rakyat's history started before Malaya's independence. It was established under the first co-operative law, the Co-operative Ordinance 1948 in September 1954. At this point of time, the co-operative movement was to be expanded to Peninsular Malaysia and the way to go about facilitating the expansion is by setting up union banks which in turn will provide financial needs to their members. The turning point for the co-operative bank happened on September 1954 when the Bank Agung or Apex Bank was formed when 11 of these union banks decided to merge. Twelve years later in 1967, Bank

[9] CAK was registered on the 22nd December, 2009 as the National Apex Organization for the Co-operative Movement of Kenya under the Co-operative Societies Act, CAP 490 Laws of Kenya.

Agung was then replaced by Bank Kerjasama Malaysia Berhad. From then to date, the bank's membership is open to both co-operatives and individuals. The bank was also able to open subsidiary companies and open branches to serve customers and their members with the subsequent changes in its by-laws. Another milestone occurrence is on the 6th January 1973 when the name was change to Bank Kerjasama Rakyat Malaysia Berhad or better known as Bank Rakyat. Bank Kerjasama Rakyat (M) Berhad act 1978 (Special Provision 202) and it's by law are two important laws that governs this bank. This also allows the bank to provide financing to non-members.

Bank Rakyat operates as an Islamic co-operative bank. Products offered by the bank are investment accounts, financing certificates, and savings accounts, personal financing, home, hire purchase, pawn-broking, and education financing; and accidental and disability insurance products. Besides these various other services such as ATM, bill payment, electronic banking, and personal financing for senior citizens are also offered. In addition, the bank provides other services, including report lost/stolen ATM card, financing application status, current rate information, product and services enquiry, and current promotion updates.

In terms of taxation, cooperatives should be treated differently from private business enterprises. For tax purposes, cooperatives in Kenya are classified according to the Income Tax Act (Cooperative Societies Cap 470) and Cooperatives Act (Cap 490). Some like KCC and KPCU are registered under the company's Act and the computation of taxable income is similar to that of other business. Those cooperatives registered under the Co-operatives Act 1997 including primary societies, district cooperative unions, apex societies and SACCOs are taxed differently. For instance, according to Section 9A of the Income Tax Act, 2004 clearly specifies the taxes to be paid by Cooperative Societies. "…total income for the year of income deducting therefrom an amount equal to the aggregate of bonuses and dividends declared for that year and distributed by it to its members in money or an order to pay money". In Malaysia, there is provision of tax relief and other tax exemptions such as free stamp duty and the issue of business licenses are other form of assistance. Under the Income Tax Act of 1968, co-operatives are exempted from paying tax for the first five years, from the date of registration. A further five years of tax exemption is given to co-operatives with members' funds of RM500, 000 or less (USD137, 703). The rate of tax is also lower than that for private companies. Tax exemptions are also given for the distribution of profits to co-operative members.

6.0 RECOMMENDATIONS

6.1 Framework for Revitalizing Cooperatives

6.1.1 Policy, Legal and Regulatory Framework

(i) Widely disseminate, sensitize and operationalize the cooperative policy, 2011 by immediately developing and financing the cooperatives development plan

(ii) Fast track the amendment of the Cooperative Societies Act, 1991 by passing the Cooperative Societies (amendment bill, 2015). The Bill should provide for:

a. adequate autonomy – reduce powers of the Registrar of Cooperatives

b. appropriate regulatory institutions and systems

c. streamline the responsibilities for registration and cooperative development

d. uniqueness and diversity in roles and focus of cooperatives

e. appropriate dispute resolution and ethics enforcement mechanism

(iii) Timely develop the cooperative societies regulations to take regard of the amendments

(iv) The different cooperative laws like the Cooperatives Act (Amendment) and the Tier 4 Microfinance institutions Act should be harmonized so as to have a well-coordinated and regulated cooperatives sector. Additionally, the Cooperatives Act should be aligned to the Audit laws or Act so that the cooperatives' audit function is streamlined. Ultimately, Government should support cooperatives to carry out auditing.

(v) The Taxation policy should also treat cooperatives differently. Taxes should be waived off on other cooperatives for one decade as it was done for financial cooperatives (SACCOs). Additionally, at the elapse of the decade, cooperatives should be charged lower tax than other entities. This is because cooperatives are not profit driven but rather surplus driven entities.

(vi) All the different Government policies should leverage cooperatives. If managed and regulated well, cooperatives have the capacity to transform the lives of cooperators, the society and the economy at large.

6.1.2 Institutional Framework

1) Elevate the current Department of Cooperative into a Directorate with the following separate and strategic functions/departments:

   i. **Cooperative development services** to handle the formulation, adoption and implementation of integrated and comprehensive plans and programs on cooperative development, developing management and training programs

   ii. **Cooperative registration services** to handle the registration and cancellation of registration of cooperative societies and for the conduct of inquiries.

   iii. **Cooperative audit services** to provide cooperatives audit service

   iv. **A Cooperative Tribunal** to hear appeals, review orders, and undertake revisions. The tribunal should also be mandated to define, promote and enforce the cooperative ethical conduct and anti-corruption within the cooperative movement. This tribunal should be able to handle the issues regarding the involvement of cooperative member, manager or senior staff person assumes political office in the cooperative movement.

v. **District Cooperative office should be formed and facilitated**

2) The regulation of cooperative colleges should to be brought under the Cooperatives Ministry to enable effective and efficient coordination of cooperative education in the country.

3) Partnerships should be created between government, the cooperative movement and the academia that will ensure that there is devotion to education, training people in cooperative professional management and governance.

4) **Efforts should be made to revive/strengthen the operations of the tertiary cooperatives which are critical for provision of specialized services to its affiliates**. These include the Cooperative Bank, Uganda Cooperative Insurance, Ltd, Uganda Cooperative Transport Union, Ltd Uganda Cooperative Savings and Credit Union etc.

5) **A comprehensive understudy on the circumstances that led to the dissolution of the earlier Cooperative Bank should be undertaken**. This will contribute a great deal in the plans to revive the Cooperative Bank. It is good to learn from the experiences that led to the dissolution of this bank so as not to repeat these mistakes when creating the Cooperative Bank. The Cooperative Bank Liquidation Report should therefore be produced.

6) **Plans to revive the Cooperative Bank should be fast tracked with financial contribution from the cooperative societies.**

    i. The starting modest capital base contributed by all cooperative societies should be supplemented by government through an interest free loan repayable in a period of not less than 10 years. The cooperatives have expressed willingness to pull their resources to establish a new cooperative bank in which various cooperatives buy shares to establish the necessary capitalization.

    ii. The Government should grant the Bank an exemption and offer a grace period within which the capital base stipulated by the Financial Institutions Act can be raised.

    iii. It is recommended that government role in the bank should take the form of provision of a portion of the required capital fund, technical advice and regulation.

7) **To maintain quality of cooperatives' produce, MTIC should regulate the quality or produce at the different levels across the value chain.** This will not only lead to improved quality of cooperatives' products but will also reduce the manipulation and or exploitation of the cooperators by the astute middlemen.

6.1.3 Political Economy

1) Cooperatives are the best and sustainable way to address the current youth unemployment and poverty which poses a high social disharmony and security risk.

2) To reduce undesirable political use of cooperatives, provision should be included in the cooperative law that *"As soon as any cooperative committee member, manager, or senior staff*

person assumes political office or takes political employment, he shall be required to take leave of absence, or resign, from his position in the cooperative, so that he will not be simultaneously engaged in cooperatives and politics."

3) In order to strengthen the present weak capital base of the current cooperatives, there is need to prepare a "Statement of Affairs" for all cooperatives should be prepared to determine their war debts and make arrangement to compensate them.

4) A comprehensive and feasible framework for the compensation of cooperatives that suffered war debts should be developed. The framework by MTIC should also be transparent such that the cooperators understand the modalities that were used for compensation.

5) To show Government commitment to cooperatives, government policies and interventions should leverage cooperatives. For instance, policies such as industrialization, export led strategies, poverty eradication programmes, agriculture interventions, agricultural credit facilities and market promotion should follow the cooperative model.

6.1.4 Cooperative Organization and Governance

1) As the country seeks to revive cooperatives in Uganda, focus should be put on building socially rooted democratic cooperatives with a shared purpose as well as a responsible and accountable leadership.

2) Incentives from government to cooperatives should be aimed at winners at each level (formation, structure, diversity etc.)

3) **To strengthen accounting systems, cooperatives should be compelled to employ competent accountants.** Cooperatives should be required to have on their staff one professional accountant with a degree in accounting and some previous experience, and should have one or two bookkeeper clerks to assist.

4) **The current Apex (UCA) should focus on its core mandate or else its credibility as a voice for all cooperatives will be damaged.** It should stop engaging directly with primary societies and thorough consultations needs to be made with all cooperative societies to own the parallel structure being promoted by UCA.

5) Primary societies should be allowed to purchase their inputs from or sell their produce to those sources which provide the best service and best prices, not necessarily from their District unions. The present pattern of inter-cooperative relationships is too rigid.

6.1.5 The Socio-Economic Environment

1) For sustainability and survival during liberalization, cooperatives should be market driven; they must offer better incentives, products and services than those offered by middlemen. The cooperatives must also be innovative, flexible and diverse to adapt to the different market opportunities. Cooperative members should see the benefit of belonging to cooperatives given the benefits that accrue to them at the different levels of the value chain.

2) **The bonuses and dividends declared and distributed by cooperatives to their members should not be taxed.** The tax regime governing cooperatives should reflect the conflicting role

and mission of cooperatives between the principles of profitability and the social objectives of the cooperative movement to enable them to drive the production and productivity.

3) **Cooperatives should be encouraged to network and build up their own corporate identity as a viable alternative to investor-driven enterprises**. This will enable them to survive in the current socio-economic climate characterized by high and ruthless competition for markets, profits and power, user-driven enterprises.

4) **Single-purpose primary societies should be permitted and encouraged to reorganize as multi-purpose cooperatives.** This would permit them to engage in the marketing of other commodities in addition to coffee or cotton.

5) **To reduce the risks of being so dependent upon a single commodity (coffee and cotton), investment directed toward agricultural diversification should be of top priority.** If most of the country's cooperatives continue to continue to be tied to the monoculture of coffee, then a severe and prolonged drop in world coffee prices could ruin them no matter how efficiently managed they might be.

6) **Cooperative education should be rooted in the school curriculum at all levels.** Currently cooperative education and training in Uganda is not well coordinated. Each cooperative society trains its own members and staff depending on its ability.

(Osterwalder et al., 2005) (Teece, 2010) (Fairbairn, 1994)

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Appendix

Table 1: Adjusted Agricultural Productivity Gap (APG) calculations for Uganda

Agriculture's Share of				
Year	**Employment**	**Value Added**	**Raw APG**	**Adjusted APG**
1991	0.74	0.4	4.3	1.6
2001	0.71	0.26	7.0	2.3
2009	0.66	0.24	6.1	2.3
2010	0.69	0.24	7.0	2.5
2011	0.69	0.24	7.0	2.1

Source: Gollin, Mugyenyi and Ritwika (2016)

Table 2: Changes in agricultural output, inputs, and total factor productivity in Uganda

	1962-70	**1971-80**	**1981-90**	**1991-00**	**2001-06**
Output	6.8%	-3.0%	3.7%	2.5%	0.8%
Cropland	3.2%	-3.5%	2.9%	2.5%	1.7%
Inputs	3.1%	-0.8%	1.5%	4.1%	2.4%
Labor	2.8%	2.4%	3.0%	2.1%	2.5%
Livestock	1.5%	1.4%	1.1%	2.2%	2.7%
Machinery	9.9%	7.1%	5.5%	0.4%	0.0%
Fertilizers	11.0%	-21.7%	-14.3%	35.4%	2.4%
TFP	2.5%	0.1%	0.8%	-1.3%	-1.4%

Source: World Bank (2011)