# Reengineering Cooperatives into Enablers of Agricultural Transformation in Uganda

UNDP

*Empowered lives.*
*Resilient nations.*

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# Foreword

Cooperatives are potential game changes in Uganda's aspiration to transform from a peasant to a modern middle-income country by 2040. In line with the Sustainable Development Goals' theme of "leaving no one behind", cooperatives provide a vehicle through which the predominantly rural work force and the dynamic urban sector can be integrated into Uganda's transformation agenda. Therefore development discourse on cooperatives should cease from confining itself to the agricultural sector and include all other sectors.

For the game changing potential of cooperatives to be fully harnessed, Government ought to deliberately coordinate and nurture them within the realm of liberalization. Evidence from UNDP Uganda's support to the development of inclusive markets in agriculture point to the urgent need to bolster the productivity and competitiveness of cooperative enterprises. This could be achieved by supporting them to improve: Production; post-harvest handling and quality control; bulking and marketing; corporate governance and overall business management.

It is critical to design for cooperators innovatively tailored financing solutions often lacking in the conventional banking system. For example, international tourism in Uganda yields the highest returns on investment but peaks only in two limited periods i.e. from December to February and from June to September. The inflexible traditional banking system has failed to tap into and boost this highly lucrative business. The report advocates for the design of an appropriate input sourcing system that offers deferred payment options to guarantee access to critical resources by actors excluded from other financing modalities. This however calls for a strong insurance safeguard for input suppliers in event of value-chain failures on the part of cooperators.

As Government addresses the fundamentals for cooperatives to thrive, the formal private sector should also be incentivized to support cooperatives because there is a strong business case for doing so. Beyond corporate social responsibility, the private sector should also be encouraged to develop inclusive business models that benefit low-income communities. This can be done by including them in companies' value chains on the demand side as clients and consumers, and/or on the supply side as producers, entrepreneurs or employees, in a sustainable way.

I wish to recommend this report to development actors in Uganda because I believe that it will add value to the ongoing policy discourse on agricultural development and achieving inclusive transformational development.

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# List of Acronyms

| | |
|---|---|
| AFO | Area Farmers' Organizations |
| BULOG | Badan Urusan Logistik, |
| CAO | Chief Administrative Officer |
| CDO | Community Development Officer |
| CoHo | Children of Hope |
| CoVi | Children of Vision |
| DCO | District Commercial Officer |
| DPO | District Production Officer |
| DSIP | Development Strategy and Investment Plan |
| EAC | East African Community |
| EALA | East African Legislative Assembly |
| FELCRA | Federal Land Rehabilitation and Reconsolidation Authority |
| FELDA | Federal Land Development Authority |
| FO | Farmers' Organizations |
| FOA | Farmers' Organization Authority |
| GHC | Group Healthcare Cooperative |
| ICA | International Cooperative Alliance |
| ILO | International Labour Organization |
| MoTIC | Ministry of Trade Industry and Cooperatives |
| PMA | Plan for Modernization of Agriculture |
| PMB | Produce Marketing Boards |
| SACCO | Savings and Credit Cooperative |
| SAP | Structural Adjustment Programme |
| SFO | State Farmers' Organizations |
| UCA | Uganda Cooperative Alliance |

# Executive Summary

Over the last three decades, cooperatives in Uganda have undergone several transitions, based on the dominant political and economic perspective of government. In the late 1980s and early 1990s, the dominant view was that cooperatives had a limited role in national development in an era of economic liberalization. In 1991, Uganda enacted the Cooperative Societies Act (Cap 112), followed by the Cooperative Societies Regulations of 1992, which sought to give effect to the Cooperative Societies Act. Notwithstanding this enabling legal framework, revival of genuine producer cooperatives has registered little progress.

By 2010, the discourse had tilted in favour of proactively pushing for the revival of cooperatives. In 2011, Cabinet passed the Cooperative Development Policy, signifying renewed interest in cooperatives in general and agricultural cooperatives in particular. Recently, Uganda, in partnership with other members of the East African Community (EAC), spearheaded the formulation of the East African Community Cooperative Societies Act, 2014. These efforts are rooted in the realization that cooperatives are critical institutions in various value-chains. These value-chains – which range from sourcing of agricultural inputs through farm-specific productive activities, value-addition, distribution, and marketing – are essential in stimulating meaningful agricultural transformation.

The importance of cooperatives in agricultural transformation, rural development, job creation and poverty reduction, is no longer debatable. Indeed, government policy, which is articulated by the Ministry of Trade, Industry and Cooperatives (MoTIC), is supportive of the revival of cooperatives. However, an important challenge persists. While the drive to revive cooperatives is undoubtedly visible, the effective translation of that drive into integrated cooperative institutions that control the full spectrum of agricultural value-chains, has not yet taken place.

This report examines the role of cooperatives as means of agricultural transformation, rural development, and national socio-economic transformation in Uganda. The central research question is two-fold: First, what role have cooperatives played in boosting the performance of the agricultural sector in Uganda? Second, in what ways can cooperatives be reengineered, revitalized, re-institutionalized and/or regulated to serve as instruments of agricultural transformation? To effectively answer this, the report outlines the problem of agricultural transformation and lends

conceptual clarity to cooperatives. It then proceeds to locate cooperatives in the global and historical context before narrowing down to the Ugandan context.

In part, the report recommends the following:

- Support establishment of industries that provide forward linkages with agricultural cooperatives.
- Create an office of the Cooperative Development Officer in the structure of Local Governments.
- Restore the institutions that allow smallholder farmers to get access to credit for production, agricultural inputs for increased agricultural productivity, storage facilities, and access to transport and marketing networks nationally, regionally, and internationally.
- Deepen the Government initiative to provide credit facilities, at reasonable rates per annum, to cooperatives that are integrated with high value-added manufacturing industries.
- Review the education curriculum to mainstream training in cooperative entrepreneurship. Section 49 of Uganda's Cooperative Societies Act (Cap 112) creates a National Cooperative Fund to which every registered cooperative society shall contribute 1 percent per year of its returns. By implementing the provisions of Section 49, the contribution could enable skills development of cooperators and managers of cooperatives.
- Support societies for adolescents and the youths with venture capital to ensure that the cooperative culture gets socially embedded at an early age.
- Reverse the production incentives to favour the members of cooperatives to become who will then become models for agricultural transformation.
- Build capacity of agricultural cooperatives and support establishment of institutions such as the Cooperative Bank.

# Contents

# Chapter One

## Introduction

# 1. Introduction

Since the early 1990s, Uganda has witnessed dismal growth and limited transformation of its agriculture sector. The sector recorded an average annual growth rate of less than 2 percent over the last 10 years, which fell far below the country's population growth rate of 3 percent and the average economic growth rate of 5.5 percent. Yet, since, the 1980s the country has implemented several reforms that were expected to improve its performance. One major reform was liberalization, which was expected to spur agricultural production and productivity.

The perception was that liberalization would lead to increases in farm-gate prices, which would, in-turn, provide bigger incentives to farmers to engage in agricultural production and enhance agricultural productivity. Uganda's Plan for Modernization of Agriculture (PMA) and the Development Strategy and Investment Plan (DSIP) were developed with these expectations. With reference to marketing, one of the fundamental problems was the effect of middlemen.

In the context of liberalized produce markets, middlemen were seen as saviours of farmers whose payment for produce used to be delayed by state-owned produce marketing boards (PMBs). While the middlemen were good at paying farmers on time, they often offered significantly low prices which de-motivated farmers, driving a substantial proportion of them out of agricultural production (Bategeka et al. 2013).

Government attempted to address this matter through several ways, including support to the development of an agricultural warehouse receipt system. This is undoubtedly important as a support system for farmers, but requires spreading across the country. Other challenges include absence of land reforms that empower the users of land, low incomes of farmers associated with low value-addition, poor post-harvest handling technologies, and limited integration with manufacturing industries.

The establishment of agricultural cooperatives is one way of addressing the production and marketing constraints that farmers face, particularly if they are reengineered to control the full spectrum of the value-chains – from sourcing of agro-inputs and production technologies through the actual farming, storage, distribution, and marketing.

According to some practitioners, the revival of agricultural cooperatives in a liberalized environment is hardly possible. For others, the degree of success or failure depends on whether or not government facilitates strategic coordination, support and guidance of the revival of functional agricultural cooperatives even in a liberalized market environment. This perspective emerges from the lesson of good practice drawn from Malaysia, Indonesia and Vietnam, where the adoption of economic liberalism did not absolve government of its responsibility of strategic institutional-building and national economic development. Therefore, revival of agricultural cooperatives is a necessary prerequisite for enabling smallholder farmers to enhance their incomes. Likewise, revitalizing producer cooperatives is a precondition for structural transformation of agriculture-based economies.

This report examines the role of cooperatives as instruments of agricultural transformation, rural development, and national socio-economic transformation in Uganda. The report addresses the following research questions: First, what role have cooperatives played in Uganda's agricultural performance? Second, in what ways can cooperatives be reorganized, revitalized, re-institutionalized and/or regulated to serve as instruments of agricultural transformation? To answer these questions the report outlines the problem of agricultural transformation and links it to the potential of cooperatives in boosting agricultural performance.

The report was compiled using a desk review of published and unpublished literature on the agriculture sector, discourse on cooperatives (at national, regional, and global levels), and rationale of cooperatives as socio-economic alternatives to unregulated or under-regulated capitalism. It provides a review of the legal, policy and institutional frameworks governing reforms, as well as the role of cooperatives in the agricultural sector. In addition, the report provides a trend analysis of the agricultural cooperative movement from the pre-colonial period, through the colonial era and early post-independence period, to the current era of economic liberalism. Existing literature was complemented with: 1) interviews with industry experts from government and non-government agencies, 2) one consultative meeting with experts from selected institutions, and 3) one policy dialogue comprising various institutions. The report is structured as follows: Section 2 provides a conceptual framework on cooperatives and explains the philosophy of cooperation. Section 3 outlines the global and historical context of agricultural cooperatives.

Examples of successful agricultural cooperatives from other countries are presented to provide a basis for comparison for cooperatives in the Ugandan context. Section 4 outlines the legal, policy and institutional framework for agricultural cooperatives. Section 5 discusses the functions of agricultural cooperatives in a liberalized economy. Section 6 examines the question of agricultural transformation, and the role of cooperatives in agricultural transformation. Section 7 provides the conclusions, lessons learned, and recommendations of the report.

# Chapter Two

Conceptual Framework

# 2. Conceptual Framework

## 2.1. The Concept of Cooperatives

There is often a tendency to confuse a group of people in cooperatives with others in a free market economy (private sector businesses). Briscoe and Ward (2005) are typical cases in point. In their description of USA's Group Healthcare Cooperative (GHC), Briscoe and Ward note as follows: 'With about 10,000 people employed in health-care and administrative positions, GHC is the third-largest private sector employer in Washington State, with revenues in 2002 of $1.7 billion' (p. 15 emphasis added). Also, Stern (2013) describes Mondragon Cooperative (a highly successful world-class social enterprise) as the seventh largest company (that is, a profit-oriented business) in Spain (on the basis of asset turnover).

A substantial difference, exists conceptually and practically between private sector businesses and cooperative enterprises. While private sector businesses operate in competitive market economies, cooperative enterprises operate in welfare maximizing social economies. In addition, private businesses are driven by the logic of individualism, while cooperative enterprises are driven by the spirit of collaboration and social networking. Also, private sector businesses seek profit maximization for the smartest actors, however, cooperative enterprises seek the largest good for the largest number of user-owners. Furthermore, private sector businesses disconnect shareholders/business owners from day-to-day management, but cooperative

***private businesses are driven by the logic of individualism, while cooperative enterprises are driven by the spirit of collaboration and social networking***

enterprises integrate them. Whereas in conventional businesses capital hires labour thereby signifying the supremacy of capitalists over workers and corporate control in the process of wealth-creation, in cooperative enterprises labour hires capital thereby signifying the supremacy of worker-owners over the means and ends of production.

Therefore, by implication, cooperatives are social enterprises that are planned, operated, and organized on the principles of voluntary membership, self-help, user-ownership, and democratic control of firm and/or farm affairs by members. Unlike conventional businesses where one's voting power depends on the size of one's shares, cooperatives operate on the basis of a one-member-one-vote principle. Moreover, unlike conventional shareholders whose consumptive behavior may be disconnected from the products of their companies, cooperative enterprises actively use their cooperative's services and/or products. As Carl (2005) notes, 'A co-operative is a self-help business, owned and democratically controlled by the people who use its services and share in its benefits'.

The International Cooperative Alliance (ICA) defines a cooperative as 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise' (ICA, 1995). For the ICA, a cooperative can have as few as three members with a tiny asset-base, or can be a multi-million dollar business.

## 2.2. The Philosophy of Cooperatives

The philosophy of cooperatives is simple – people-centered development with people's participation both as means and ends of development. The philosophy emphasizes the principles of (a) profits with a human face, (b) social networking, (c) teamwork, and (d) faith in social enterprises, as alternatives to conventional economic enterprises. These principles, which define the competitive advantage of cooperatives over conventional business firms, are elucidated further as follows:

*Principle of Profits with a Human Face:* Cooperatives are not at all opposed to profit-making. They only place people before profits, and are driven by the philosophy of mutual aid, self-reliance, social justice, and cost-effective provision of products or services that are customized to meet members' needs. In other words, cooperative enterprises are simultaneously economic as well as social institutions.

As economic institutions, cooperatives believe in profit-making, while as social institutions, ultra-economic considerations, such as social justice, job creation, and inclusive wealth-creation processes, are central to the philosophy of cooperatives.

*Principle of Social Capital Building:* Cooperatives help build social institutions commonly known as social capital. They build networks of trust by vigorously developing opportunities for inclusive management, community involvement in decision-making, and participatory control at the local/ grassroots level. The aim of social networking is to build solidarity (or a new social organism) (Russell 1982).

*Principle of Teamwork:* Cooperatives encourage teamwork. An important principle adopted by cooperators from contemporary business management is: *Together Everyone Achieves More (TEAM).* Teamwork empowers members, who are often marginalized by conventional businesses, to minimize their mutual vulnerabilities, utilize the magic of social capital development, and improve access to rewarding opportunities in a competitive environment. Teamwork also helps members to reduce social inequalities by amalgamating members' resources, developing skills of ordinary people through customized training programs, and increasing their collective bargaining powers.

*Teamwork empowers members who are often marginalized by conventional businesses, to minimize their mutual vulnerabilities, utilize the magic of social capital development, and improve access to rewarding opportunities in a competitive environment.*

*Principle of Challenging the Status Quo:* Cooperatives are *children of hope* (CoHo). Also known as 'children of vision' (CoVi). They reject the claim that no alternative exists to the current status-quo of unregulated capitalism, income inequalities, and environmental degradation. As children of hope (CoVi), cooperatives uphold the view that inclusive development is possible, and that innovative solutions to unemployment, inequalities, and unsustainable environmental destruction can and should be found through innovative approaches, such as social entrepreneurship, which place user-owners in control of capitalist development.

*Principle of an Integrated and Holistic Community:* Early Irish cooperatives and other foresighted cooperatives forecasted the usefulness of cooperatives. In Ireland, dairy cooperatives are not just means of obtaining a fair price for milk, they are a hub for good neighbourliness, job creation, social solidarity, and *community* development. In short, cooperatives simultaneously pursue profit and the common good of members in a socially, economically and environmentally sustainable manner. This implies that cooperatives are adaptable to different kinds of tasks. However, they only succeed if the members choose a kind of cooperative enterprise that is consistent with their critical needs or interests.

## 2.3. Types of Cooperatives

Two challenges hinder the current discourse on cooperatives. First, there is a notion that cooperatives are institutions for marginalized people, such as smallholder farmers. Second, there is a tendency to conceptually restrict the scope and breadth of cooperatives to a narrow set of economic sectors. A wide but mistaken assumption is that cooperatives are relevant for a few sectors of life.

In Uganda, cooperatives are typically associated with three sectors – smallholder agriculture, credit unions (or micro-finance firms), and revolving savings schemes for micro-to-small-entrepreneurs who are often seen as non-bankables by the commercial banks and private creditors.

Cooperatives are not just institutions of distress. According to Briscoe and Ward (2005), an estimated 725 million of the world's 6 billion people in 2005, were members of cooperatives affiliated to the International Cooperative Alliance. Curl (2010) also underscores the significance of cooperatives. According to him, 'Around the world, cooperatives provide jobs for more than 100 million people, and have more than 800 million members'[1]. These estimates do not include the *informal,* unregistered forms of cooperatives in less developed countries.

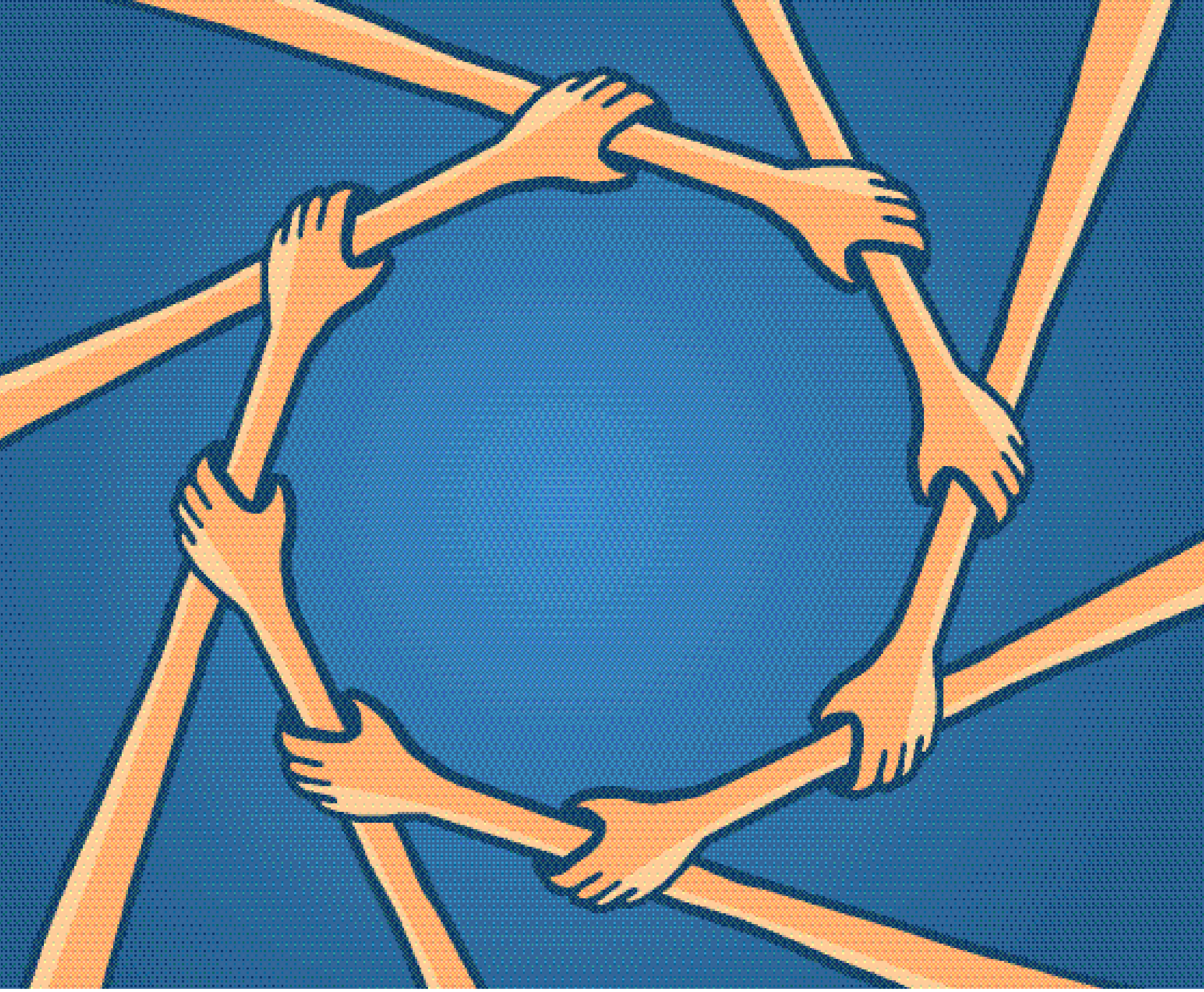
Table 1 presents the types of cooperatives that exist in Uganda and other countries. Cooperatives are found in almost every sphere of human need, including collective purchasing by consumers, affordable housing, social and business services, production/wealth creation, etc.

1. See: International Cooperative Alliance, "Statistical Information," http://www.ica.coop/coop/statistics.html.

**Table 2.1: Types of Cooperatives**

| Type of Cooperative | 'Deliverables' to Members | Examples/Comments |
|---|---|---|
| 1. Consumer Cooperatives | Collective purchasing, storage, discounted prices, jobs | Kampala Club |
| 2. Housing Cooperatives | Owner-occupied flats, Neighbourhood, Freedom from landlords | E.g. Sydney University Cooperative (student owned) |
| 3. Social Service Cooperatives | Customized social services, Jobs for members | Childcare Cooperative for Makerere workers, Funeral Cooperatives (e.g. Twezike Cooperative), Harvard Cooperative (student-owned departmental store) |
| 4. Business Service Cooperatives | Low interest rates; discounted prices; jobs | Credit Unions, Cooperative Bank, Cooperative Retail Store |
| 5. Producer Cooperatives | Procure inputs/capital e.g. tractors; share good practices | Fishery Cooperative, Women Handicraft Producers Cooperative |

| Type of Cooperative | 'Deliverables' to Members | Examples/Comments |
|---|---|---|
| 6. Workers' Cooperatives | Ownership/shareholding in a firm or farm; jobs for members; economic democracy | E.g. MASACCO (for Makerere University employees) |
| 7. Agricultural Cooperatives | Farm inputs, Hiring capital (e.g. tractors), Hiring experts (e.g. accountants), Common stores, Transportation, Global value-chains, etc. | Bugisu Cooperative Society, Banyankore Dairy Cooperative Society |



# Chapter Three

## Agricultural Cooperatives in Comparative Perspective

# 3 Agricultural Cooperatives in Comparative Perspective

The genesis of cooperatives is attributed to the industrial revolution in Europe, particularly, the birth of the Rochdale Pioneers Consumer Cooperative in 1844. While the Rochdale Consumer Cooperative is important in the *formal* history of cooperatives, its historical significance pales in contrast to the rich history of *cooperation.* Cooperatives as social institutions are 'new' compared to cooperation, which is as old as human civilization. North America is a typical case in point. Prior to the advent of European settlers, 'individual' rights, personal freedoms, and private 'spaces' were unheard of. The Native Americans stressed community values, teamwork and social solidarity over the 'luxury' of private spaces. For instance, hunting and food gathering expeditions were done in cooperation with others.

Pre-colonial African societies also emphasized group rights and community interests over individual 'spaces'. The guiding philosophy was Ubuntu loosely translated as 'human kindness'. The philosophy of cooperation, which underpinned Africa's social justice system, is summarized by John Mbiti as follows: *I am because we are, and since we are, therefore I am.* This philosophy suffered substantial erosion with the rise of free-market capitalism, together with the associated private spaces, and individual rights. Today's demand for cooperatives is devoted to the revival of the *humane* spirit of cooperation. The object is not to eliminate capitalism, but to humanize it.

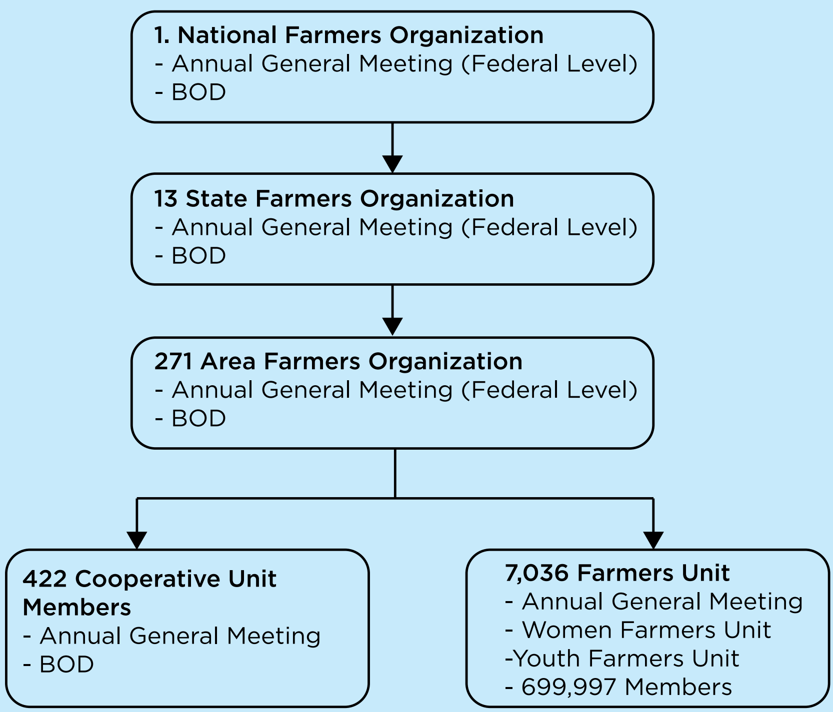
## 3.1 Agricultural Cooperatives in Malaysia

In a publication entitled *Agricultural Cooperatives in Malaysia: Innovations and Opportunities in the Process of Transition towards the 21st Century Model, Dato (2006)* highlights the rise, evolution and contribution of agricultural cooperatives to the economy of Malaysia. Like Uganda and other African countries, Malaysia had pre-colonial forms of cooperation. However, the country's 'modern' history of cooperation began in 1922 when the British colonial state formally sanctioned the cooperative movement (Dato, 2006). Initially, all cooperatives, whether rural or urban, in agriculture or non-agricultural activities, were supervised by the Cooperative Development Department.

However, in the 1970s, following the rapid growth of cooperatives and their significant contribution to the economy, the Malaysian government introduced legislative, institutional and policy reforms designed to boost their functionality. These included the Farmers' Organization Act of 1973, which replaced the Cooperative Ordinance of 1948. The Act created the Farmers' Organization Authority (FOA) whose purpose was to regulate agricultural cooperatives and serve as the registrar of cooperatives. Similarly, the Fishermen's Association Act of 1973 was passed. Other agricultural cooperatives were coordinated and regulated by the Federal Land Development Authority (FELDA) through its land resettlement schemes, and Federal Land Rehabilitation and Reconsolidation Authority (FELCRA).

By 2008, agricultural cooperatives in Malaysia were coordinated and regulated under the following structure (Figure1):

**Figure 3.1: Structure of Agricultural Cooperatives in Malaysia**




Source: Dato, 2006

Malaysia's agricultural cooperatives have several characteristics that have significance for the revitalization, functionality and utility of cooperatives in Uganda and other developing countries. First, characteristic is that Malaysia has a dense infrastructure of cooperatives running from the village (where 30 farmers may form a cooperative known as the Farmers' Unit) to the apex National Farmers' Organization (See Figure 2.1).

The State sees cooperatives as instruments of government policy. They are member-owned, member-focused, and driven by the goal of maximizing members' developmental interests. However, no disconnection exists between the interests of government and those of citizens. It is this mutual interest that makes Malaysia's cooperatives instruments of government policy.

Second, Malaysia's cooperatives are tools of a transformative rural development. They succeeded largely because of proactive state policies that shaped them as instruments of transformative rural development.

a key pillar in the development of the agricultural cooperatives, was created to lead state-guided land reform and resettlement. In 1957, FELDA, under the supervision of Prime Minister Tunku Abdul Raham, organized its first resettlement in Air Lanas in Keltan, which involved relocating 400 rural poor Malay settlers with no land to cultivate in the area. The settlers had to be 21-50 years old, married, and physically fit to qualify for relocation.

The second settlement measuring 29.5 square kilometers was created at Lurah Bilut in 1958, with a focus on rubber-growing. In the 1960s and 1970s government policy emphasized crop diversification. Thus, in 1961, FELDA's first oil palm settlement measuring 3.75 square kilometers was created. By 2000, 17215 square Kilometers (approximately 76% of the land under FELDA's scheme was devoted to oil palm cultivation. Each settler or household was given a plot of measuring 10 – 14 acres, and was obliged to grow either rubber or oil palm. Absentee landlords were not tolerated. Each settler was obliged to reside in a planned village on a 25 decimal plot.

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This strategy in an agrarian economy targeted land reform as a priority, which led to the passing of the Land Development Act in 1956. In the same year, the Federal Land Development Authority (FELDA),

This transformative agenda was driven by the long-term goal of provision of electricity, piped water, schools, health centres, and places of worship.

From the onset, FELDA settlements were organized as cooperatives in which settlers had equal shares, with none owning a 'private' plot. However, the system was abused by some free-riders. The Malaysian government adopted a three-phased plan. In the first phase, cooperatives were learning institutions that trained settlers on improved farming methods. In the second phase, each settler was given a plot of land to develop. In the third phase, a title was given to each settler. However, none was permitted to sell the land without prior approval by FELDA or the federal state. In addition, settlers were given loans for acquiring and developing the land, payable in monthly installments deducted from their income over a 15-year period. With the transformation of the economy into a high-tech industrial and knowledge economy, the state gradually relaxed some of its controls. For instance, some settlers were permitted to sell their plots and diversify their economic activities. FELDA has rebranded itself from a land development agency into a wide array of businesses, including marketing, transportation, milling, and even shareholdings in large Malaysian banks, such as Maybank.

The projects of cooperatives are financed using state grants or concessionary loans from the Malaysia Agricultural Bank. The objective of these sources is to ensure that farmers receive investment capital at no or very low interest rates. The net effect is subsidization of agriculture. However, public-private partnerships also exist as joint ventures that provide private sector capital, technology, and marketing networks and skills to Malaysia's agriculture. All cooperatives in Malaysia are, by law, obliged to declare their incomes. However, Farmers' Organizations (FOs) are exempted from tax for 5 years from the date of registration. After the initial 5 years, the state continues supporting the FOs for a while. For instance, any FO whose members' fund is less than US$197,368 million is exempt from taxes. Additionally, FOs are given special tax deductions on transfers made to a statutory reserve fund, an educational institution, or a cooperative established to promote the principles cooperation in Malaysia.

The principle of democratic control of cooperatives by members is taken seriously. For example, the Area Farmers' Organizations (AFOs) ensure direct participation of members in the running of the AFOs. Similarly, the FOs and the apex NAFAS actively support lower level organizations by encouraging active participation of members through their elected representatives.

At the primary level (AFOs), two members are elected to represent the first 50 members. Another two are elected to represent 50 additional members. At the state level (state FOs), five elected members represent the first 500 members, with an additional two members representing any extra 500 members. At the national level (NAFAS), five members are voted to represent every 5,000 members, and an additional two may represent the next 5,000 members (Dato, 2006).

Malaysian cooperatives carry out multiple integrated activities. One such example is the State Farmers' Organizations (SFOs), which develops land, trades in farm produce, and conducts general business.

Malaysia, especially under the administration of Dr Mahathir Muhammad, adopted a more pro-market approach to economic governance, with the government responsible for coordinating the process of creating wealth. For example, the NFOs, which are appointed by government as the main supplier of subsidized fertilizers, supply agricultural inputs to lower-level FOs.

In its quest to transform the economy, the Malaysian government routinely serves as a market for domestic firms. For example, the government gives NAFAS contracts for land development, supplies agricultural equipment, handles export and import businesses, or supplying processed chicken and beef. Since 1979, the AFOs have been involved in supplying subsidized fertilizers to paddy farmers on behalf of the government. In short, the AFOs, like the NAFAS, have been agents of development.

The cooperatives in general and the FOs in particular, provide multiple services to their members. These include extension services, training members in improved farming technologies, promoting agricultural diversification and commercialization, and promoting linkages between agriculture and high value-added manufacturing.

In addition, the FOs provide farm supplies and machines, credit and saving facilities, transportation and marketing, storage and warehousing, and processing facilities. Moreover, the FOs promote capital formation through equity participation in commercial ventures. Furthermore, they offer educational, recreational and other social services to promote the social wellbeing of farm families.

## 3.2 The Changing Role of Cooperatives

By the 1990s, the Malaysian model of cooperatives was widely seen as successful. While the economy was rapidly transforming into a high-tech industrial and knowledge economy, the cooperatives evolved into new institutions with support from the government. For instance, where some farmers were no longer interested in farming, the FOs assume the status of leaseholders. By leasing former farmers' land, the new landlords earn rental income, while the FOs promote agricultural productivity by managing, farming and developing a collection of individual land as one large mechanisable unit. Where some members still have keen interest in farming, the cooperative principles of farming are upheld. The FOs carry out major activities such as ploughing, harvesting, storage and marketing while the farmers continue to manage their own farms with professional advice from the FOs.

Where the FOA identifies new ventures, capable farmers who meet the minimum criteria, are competitively selected, offered concessionary loans (e.g. from the Agriculture Bank), and encouraged to practice commercial farming. Hence, the post-1990s era of economic liberalism in Malaysia is the changing, but not ending nature of government coordinated cooperatives.

## 3.3 Agricultural Cooperatives in Indonesia

The history of cooperatives in Indonesia is associated with the government's quick-march approach to agricultural development and national transformation, particularly in the 1970s and 1980s when the Village Unit Cooperative or *Koperasi Unit Desa (KUD),* was introduced as part of Indonesia's food self-sufficiency program (Suradisatra, 2006). The government granted substantial responsibilities to the Village Unit Cooperative to implement government's agricultural policy. The priorities of Indonesia's agricultural policy included the farm credit scheme, agricultural input distribution, marketing of farm commodities, and other economic activities.

Under the quick-march approach, the formation of both the Village Unit Cooperative *(KUD)* and Village Business Board *(BUUD)* were based on strong government leadership and coordination. Farmers, particularly the paddy farmers were encouraged to join the *KUD* and *BUUD*. Membership to these institutions was a prerequisite for accessing government incentives distributed through these institutions. For paddy farmers, membership to these institutions meant compulsory acceptance of new technology, farm inputs, and professional advice of extension workers. The cooperatives where paddy farmers belonged exponentially increased farm output.

As a result, the nation's rice production increased considerably, particularly in the 1970s and 1980s. These improvements were attributed to the centralization of inter-institution and inter-sector coordination among cooperatives.

Additionally, the government enacted enabling legislation, which included the Law of Cooperative of 1992 that emphasized the dual role of cooperatives as tools of economic transformation and social harmony. Indonesia's government also guaranteed both a marketing infrastructure and market price to encourage the growth of agricultural cooperatives.

The government-guided Board of Logistics *(Badan Urusan Logistik, BULOG)* stabilized the price of the nation's staple foods, particularly rice, corn, soybean, poultry, and meat needed by citizens. The role of BULOG was significant during harvesting, when the Board purchased and stored agricultural produce from across the country through the Village Unit Cooperatives.

However, agricultural cooperatives in Indonesia are faced with a host of challenges associated with the rapid pace of free-market economy. These challenges include severe competition leading to the collapse of some cooperatives, inspite of government's support. Malaysia and Indonesia have historically not intervened in the national economy than Singapore, South Korea, Taiwan, or China.

However, neither Indonesia nor Malaysia took economic liberalism to signify government withdrawal from its responsibility of coordinating capitalist development.

## 3.4 Agricultural Cooperatives in Vietnam

The formal agricultural cooperatives in Vietnam started in 1958, and have since evolved through two phases. The first phase is from 1958 to 1986, and the second phase is from 1986 to date. These phases are associated with different levels of the agriculture sector performance (Nguyen Van Nghien, 2006).

In the first phase, Vietnam's agricultural cooperatives operated in a command-and-control economy, with strong government influence. The government regulated agricultural cooperatives and other businesses in the economy with strict guidelines. There were 13,782 agricultural cooperative in Vietnam in 1986. However, the cooperatives were not efficient because of the strict guidelines.

In the second phase, pro-market economic and institutional reforms of the IMF and World Bank were adopted by Vietnam. This forced the cooperatives to operate in an environment of economic liberalism. Vietnam implemented land reforms and provided land to the farmers.

In 1997 the country enacted the Cooperative Law that provided for the existence of agricultural cooperatives as farmer-owned organizations, providing services to their members. The formal recognition of the agricultural cooperatives as farmer-owned organizations, together with the empowering land-to-farmer reforms, led to significant growth of the county's agricultural sector.

However, the government of Vietnam still retains considerable regulatory powers even in the current era of economic liberalization.

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# Chapter Four

## The Trend of Cooperatives in Uganda

# 4. The Trend of Cooperatives in Uganda

## 4.1 The 'Early' History of Cooperatives (1913-1946)

The formative era of cooperatives in Uganda is associated with the politics and economics of colonial rule (1890–1962). By 1910, the British colonial government had overcome local resistance to foreign rule, and set an objective of producing industrial raw materials, with an emphasis of cotton and coffee for export to Britain. Prior to the 1920s, 'development' in the colonial language meant exploitation of raw materials to enrich the imperial economy (Leftish, 2000; Lugard, 1926; Elkam, 1961).

To serve the interests of British capitalism, the colonial government adopted two major strategies. The first was the attempt to transform Africans into wage labourers in the mines and plantations. In 1908, Government passed a law that required anyone not employed to work for the Government for a month (Elkan, 1961). This system of compulsory labour (referred to as *Akasanju* in Bunyoro and *kasanvu* in Buganda) enabled farmers to obtain cheap local labour. Eventually, this policy was abolished in favour of 'voluntary' local labour on small holdings that cultivated cotton and coffee for export to Europe.

In the 1910s, the colonial government enforced a policy that required local smallholder farmers to cultivate cash-crops, and European and Asian business people to process and export cotton and coffee. This race-based distribution of economic roles was a time bomb. Indigenous famers expressed dissatisfaction by organizing boycotts and advocating for the formation of formal African farmers' cooperatives (Kyamulesire, 1988).

Thus, in 1913 four farmers in Mubende District formed the Kinakulya Growers Cooperative to market their produce collectively'[2]. The aim was to resist exploitation by Asian traders and to earn higher returns from their produce as a result of the cooperative. In 1920, five groups of Mengo farmers formed the Buganda Growers Association with a goal of controlling the domestic and export marketing of members' produce (MoTIC Interviews, Jan 2015).

The colonial state labeled these organized cooperatives as subversive, and declined to legally acknowledge them (Mamdani, 1976). This caused the cooperatives to operate covertly until after World War II (Opio-Odongo, 1978). Fortunately, colonial policy was, by the early 1920s beginning to change. Two things happened. First, the League of Nations was born.

Article 22 of the League of Nations Covenant enunciates the doctrine of

2. MoTIC Interviews, January 2015

trusteeship under which the colonizers were required to hold colonized territories in *trust.*

Second, the publication by Lord Lugard – *The Dual Mandate.* – in 1921, shifted the colonial development policy from despotism to authoritarianism.[3] According to Lugard, the mandate of colonizers in Africa was not only to act as trustees for the development of Africa's material resources for the benefit of mankind, but also as trustees for the advancement of the subject races (Lugard, 1926).

In 1929, the Colonial Development Act was passed, giving hope to the new-found meaning of 'development'. The Act established a fund of one million pound sterling a year with a view to *aiding and developing agriculture and industry in their colonial territories, and the promotion of commerce with and industry in the United Kingdom.*[4] The problem was that the 1929 law remained stuck in the old colonial legacy which marginalized Africans and their institutional innovations, such as cooperative enterprises. This only changed during the development phase of cooperatives.

3.The basic education and health needs of the natives assumed new significance. For example, Makerere College (the precursor to Makerere University) was established in 1922 as a vocational institution. By the end of the 1930s, 'some 100,000 pounds was being spent annually on education and some 200,000 pounds on the provision of medical services. The total revenue of the Protectorate amounted only to under 2,000,000 pounds in 1937' (U.P, 1937 in Elkam, 1961: 33).

4.See, Governor to Secretary of State, No. 99 of March 6, 1930, Co 536/161 in Mamdani, 1976, p. 250

## 4.2 The Development Phase (1946-1960s)

The development phase began with the enactment of the Cooperatives Ordinance of 1946 under which cooperatives were permitted to register. However, there was fear among the cooperatives that the colonial government would use the cooperative law to constrain their movement. The advent of Andrew Cohen as a governor in 1952 enabled the development phase to gain traction.

Governor Cohen listened to the concerns of members, and appointed a commission headed by R. Dreschfield to assess the status of cooperatives. The Commission recommended that the cooperative movement be granted substantial autonomy to strengthen them[5]. In addition, the Commission found that the aspiration of members to be free of government control were legitimate and reasonable.

On the basis of the Commission's recommendations, the administration made amendments to the 1946 Cooperatives Ordinance, which led to the Cooperative Societies Act of 1952.

The new legislation granted greater freedom and autonomy to the cooperatives, which enabled cooperatives to operate coffee curing factories and cotton ginneries with funding from government (Kabuga and Batarinyebwa, 1995).

However, to prevent abuse of the

5. MoTIC Interviews, January 2015

cooperative finances and new-found freedoms, the colonial government instituted strict accountability rules. This led to expansive freedoms and regulations demanding for greater accountability.

The cooperatives responded to the new policy and regulations by registering in significant numbers. By 1959, 100 per cent of the cooperative groups had registered, reaching a total membership of 252,378 by the end of 1961 (UCA, 2012b). Between 1952 and 1962, cooperative membership increased eightfold and the yield of crops increased six-fold. By 1962, there were 14 ginneries and 7 curing factories controlled by cooperative unions[6]. This 'success' did not signify growth of membership, but the formalization and revitalization of cooperatives that had been secretive under the then hostile pre-Cohen administration.

The end of colonial rule in 1962 did not end the development phase. The new administration of Milton Obote upheld the efforts of Governor Cohen, with some major modifications. These included increasing the powers of administrative officers of the cooperatives under the 1963 Co-operative Societies Act, which reinstated the power of the government to control cooperatives. This reform weakened the cooperatives' ability to hold administrative officers to account, thereby fueling misuse of cooperative finances.

Notwithstanding state intrusion, the cooperatives persevered and flourished. By 1965, co-operative unions handled 61 per cent of cotton, 40 per cent of Robusta coffee, and 90 per cent of Arabica coffee (UCA, 2012b). Cooperatives spread in almost every economic sector, including fishing, dairy, livestock, hides and skins, transport, construction and housing, handicrafts, and savings and credit'. By the end of the 1960s, cooperatives were important providers of jobs, business training, and citizen power for the members.

They were also key sources of foreign exchange and taxation revenue, upon which state heavily depended. By 1970 the movement had become the largest employer in Uganda (UCA, 2012b). Certain cooperative unions, such as West Acholi, East Acholi, Wamala, West Mengo, East Mengo, Bukedi, Bugisu, Banyankore Kweterana, Lango, Masaka, Nyakatonzi, and Teso, thrived on cash crops (cotton, coffee) promoted by the government while others ventured into animal production, savings and credit, and construction (The Uhuru Institute et al, 2013).

***By 1970 the cooperative movement had become the largest employer in Uganda***

Thus, the agricultural cooperative movement managed the entire agriculture value chains, from production to marketing. One major aspect of the value chain was ensuring high standards of Uganda's agricultural products, particularly of those commodities that Uganda sells on the international market such as coffee and cotton.

6. Ibid

At every level of the agricultural cooperative movement, the movement put in place measures that ensured high quality of agricultural products. For instance, at the level of primary cooperative societies, agricultural commodities would be sorted, particularly cotton and coffee. At all levels handling of agricultural commodities would ensure maintenance of high quality, which enabled Uganda's agriculture export commodities to fetch premium prices on the international market.

Second, corruption and embezzlement of resources were serious problems. In 1964, for instance, the Teso Cooperative Union reported embezzlement of Shillings 50,000. According to reports, cotton farmers were also not paid between 1965 and 1967 (Mamdani, 1976). Comparable concerns over corruption were raised in Lango as well as in Mengo. (Mamdani, 1976).

Third, there was political instability during the Idi Amin administration (1971-1979) and the administrations that followed, up until the rise of the NRM government (1986 – to-date). Political instability and economic mismanagement coupled with inflation reduced the regulated prices of cotton and coffee. Crop farmers substituted cotton and coffee with maize, beans, groundnuts and other crops that had a ready local market.

***At all levels handling of agricultural commodities would ensure maintenance of high quality, which enabled Uganda's agriculture export commodities to fetch premium prices on the international market.***

Four major problems hindered the operations of cooperatives. First, they were socially embedded. The majority of Ugandans depended on them for their livelihoods. Organized socio-economic activities such as procurement of farm inputs; tractor hire services; storage, transport and marketing networks nationally and internationally took place through cooperatives. The cooperative system used to have supervisors who were quality controllers at the village level.

There were also sub-county level assistant cooperative officers, cooperative officers at the district, and a commissioner and minister for cooperatives at the national level. This significance of cooperatives as sources of livelihoods, productive activities, and employment made them prone to political intervention.

As a result, cotton production fell from 466,775 bales in 1970 to 32,160 bales in 1980 (UCA, 2012b). Similarly, the market share of cooperatives dropped from nearly 100 percent in 1971 to approximately 37 percent in 1979.

Following the devastating wars of the late 1970s and early 1980s, the economy faced many challenges, such as lack of foreign exchange, lack of consumer commodities in retail shops, dysfunction in the agricultural marketing system, poor economy, and weak incentives to producers. At that time, Uganda was in urgent need of foreign exchange to address the immediate economic recovery needs, particularly by making consumer goods available to the public. Faced with a difficult economic situation, Uganda welcomed assistance and policy advice from donors, especially the International Monetary Fund and the World Bank. The Breton Woods Institutions prescribed a Structural Adjustment Programme (SAP) as the necessary, but not sufficient solution that would enable the country recover economically.

Liberalization was a key element of the SAP that Uganda began implementing with total commitment in 1990. Liberalization was expected to lead to efficiency across all sectors, particularly the productive sectors, and trigger higher economic growth, faster poverty reduction, and economic transformation. It was argued that the cooperative movement through its price fixing measures was providing a proportion of World Market prices to farmers, which was adversely affecting farmer incentive to concentrate on agricultural production.

Following liberalization, farmers were expected to fetch a higher share of the world market price, which resulted in an increase in farm-gate prices of agricultural commodities.

However, the incentive system did not favour rural farming households following the increase in farm-gate prices. Studies have shown that from the onset of liberalization, performance of agriculture in Uganda has been dismal. The sector recorded very low growth rates averaging 2% per annum, decreasing yields, and decreased credit for agricultural production. The challenges that faced agricultural growth, development, and transformation from the time of liberalization continued unabated despite the government's efforts to address them through interventions such as the Plan for Modernization of Agriculture (PMA) and the Agricultural Development Strategy and Investment Plan (DSIP). Several challenges seem to explain the poor performance of agriculture from the early 1990s. Liberalization alone cannot explain its prolonged weak performance.

The International Labour Organization (ILO 2009) concluded that although the initial impact of liberalization on performance of agricultural cooperatives in African countries was initially negative, it eventually paid off.

Although agricultural cooperatives did not collapse completely in Uganda, they experienced many difficulties in their operations; they continued to face stiff competition from private businesses.

The collapse of agricultural cooperatives adversely affected farming because it left a vacuum; challenges faced by farmers could not be addressed. One major challenge was the end of credit facilities for production and marketing. With reference to production, agricultural credit, which was mainly in kind and embedded with the cooperative movement ceased.

The credit provided through SACCOs is inadequate for financing agricultural production. Regarding marketing, crop financing from cooperatives supported marketing of agricultural products. When agricultural cooperatives were still active, farmers had access to agricultural inputs such as farm implements, planting and stocking materials, and pesticides on credit.

Furthermore, farmers had access to agricultural extension services at no cost. Thus, the collapse of the agricultural cooperatives led to significant loss of services that farmers used to have access to, either freely or on credit. Today, smallholder farmers are required to purchase agricultural inputs in cash, and agricultural extension services on a demand basis, which most smallholder farmers cannot afford. This largely explains the weak supply response to increased farm-gate prices attributed to liberalization.

It is now evident that although liberalization led to significant increases in farm-gate prices, agricultural production incentives remained unfavourable to smallholder farmers. Middlemen produce buyers captured the price incentive that was expected to enlist a positive supply response. The Government chose to address this problem by encouraging development of private agricultural commodity warehouses where farmers were expected to sell their commodities and obtain a receipt to be cashed at financial institutions.

This warehouse receipt system is regulated by MoTIC. While this system is important, more effort is required to attract private sector businesses to invest in it by diversifying enterprises. Nationally there are only 10 warehouses that are spread in the four regions. Furthermore, all of them deal in maize. Moreover, the warehouse system does not address all the problems farmers face, especially at the production stage.

***although liberalization led to significant increases in farm-gate prices, agricultural production incentives remained unfavourable to smallholder farmers.***

The cooperatives movement must transition from cosmetic transformation. Cosmetic transformation is associated with laissez-faire economics. This type of transformation assumes that the market will decide investment decisions as well as the pattern and pace of growth.

The general notion is that Uganda's elite believe that rural transformation requires smallholder farmers to produce more food for the market. However, this goal is not deliverable unless challenges associated with agricultural transformation are addressed.

Alternatives to cosmetic transformation are shown in Table 2

## Table 4.1: Types of Agricultural Transformation

| Type | Key Elements/Strengths | Limitations/Constraints |
|---|---|---|
| Cosmetic transformation | • Maintains the status-quo<br>• Smallholder farmers to produce more food for sale<br>• Performs cosmetic changes<br>• Consistent with laissez-faire economics<br>• No land reform; the concept of "willing seller, willing buyer" applies<br>• Seeks an agri-business model<br>• Demand-driven extension services applies | • Conservative approach<br>• Pressure on smallholder farmers to produce more food without addressing obstacles to agriculture<br>• Associated with low productivity, no food or nutrition security, high rates of poverty |
| Structural-change transformation | • Seeks big-steps improvements<br>• Seeks to increase productivity through increased agricultural input use, etc.<br>• Agriculture seen as means to rural and national development | • Constrained by framework of economic liberalism<br>• No land reforms<br>• Talks 'structural change, delivers no fundamental change |
| Transformative | • Sees agriculture as a basis, NOT a means to development<br>• Far-reaching institutional agrarian reforms<br>• Land to the user<br>• Link land activities to high-value-added manufacturing, such as shear butter = pharmaceuticals; cotton = textiles + soap + fertilizer; sugarcane = biofuels | • Most promising type.<br>• The Problem: It requires a development-oriented government, enabling legislation, strong and assertive society, strong cooperatives, change in attitude, and 'smart' agriculture |

Cooperatives in Uganda can become successful again if a *transformative* approach to agricultural transformation is adopted. The economic context of liberalism, coupled with the hands-off approach, offers a conservative role for cooperatives. In this setting, cooperatives become coping mechanisms, not business enterprises. In popular discourse macro-economic liberalization is a conducive framework for *business* enterprises.

***Cooperatives in Uganda can become successful again if a transformative approach to agricultural transformation is adopted.***

# Chapter Five

## Institutional, Policy, and Regulatory Framework of Cooperatives in Uganda

# 5.0 Institutional, Policy, and Regulatory Framework of Cooperatives in Uganda

## 5.1 Institutional and Policy Context of Cooperatives

In terms of institutional mandates, all cooperatives in Uganda are regulated by the MoTIC. This implies that while institutions matter, assertive office-holders determine whether, or to what degree, cooperatives succeed. Fortunately, the Minister of Trade, Industry and Cooperatives as at end of 2005 exhibited strong interest in in the revival of cooperatives. For example, on 18 September 2014 when Ugandans joined the rest of the world in celebrating the 92nd International Cooperative Day and the 20$^{th}$ UN Day of Cooperatives, the Minister delivered a powerful policy statement, asserting three fundamental policy positions.

First, that the cooperative business model is a time-tested model. Second, the Uganda cooperative movement like the global cooperatives believes in the seven principles of cooperation. Third, the government's policy is to revive, revitalize and institutionalize cooperatives as instruments of rural development and national socio-economic transformation. This implies that the government clearly supports the revival of cooperatives. However, the government's current position is that marketing will drive production.

The perception is that once farmers sell their produce, they will produce more. There is widespread global evidence that for agricultural growth and transformation to take place, there must be a holistic strategy that addresses the entire agriculture value chain. This requires the establishment of agricultural cooperatives as social enterprises, not conventional private-sector companies albeit with a lot of government support. While many of the cooperatives are categorized as multipurpose, no registered cooperatives exist in the high value-added industrial manufacturing sector. In addition

***for agricultural growth and transformation to take place, there must be a holistic strategy that addresses the entire agriculture value chain.***

few registered agricultural *producer* cooperatives that exist in the country are mostly concentrated in south western Uganda,

Agricultural cooperatives in Uganda have historically had a three-tier institutional structure. Primary societies are historically created at the community level. Two or more of these may be coordinated under a higher level institutional arrangement – the cooperative union. The unions in turn constitute the national-level Uganda Cooperative Alliance, which represents the business of members nationally, regionally and globally.

In a recent ministerial policy statement, the Minister states that cooperatives in Uganda now have a four-tier vertical structure consisting of the following:

- **Primary Cooperative Society:** A primary society is formed by at least 30 persons. This is similar to the provision under Cooperative Societies Act, Cap 112. As highlighted under Section 4 of the Act, no society shall be registered unless it consists of at least 30 persons aged 18 years and above. This contradicts the International Cooperative Alliance (ICA) policy statement that any two or more people can form a cooperative.

- **Secondary Cooperative Society:** Also known as a Union or Area Cooperative Enterprise (ACE), the secondary cooperative is formed by at least two primary cooperative societies. Examples include, Masaka Cooperative Union and Bugisu Cooperative Union.

- **Tertiary Cooperative Society:** A tertiary cooperative is a society formed by unions or ACEs. The aim of tertiary cooperatives is to offer specialized services.

- **The Apex Cooperative Society:** An apex cooperative is a society whose membership is restricted to cooperative unions. It also includes a society established to serve the cooperative movement by providing facilities for the supply of goods and services, banking, insurance, and partnerships between Uganda's cooperatives and global partners. A typical example is the Uganda Cooperative Alliance Ltd (or UCA).

Within this institutional arrangement, cooperators are served by the Community Development Officer (CDO) at the sub-county level, the District Commercial Officer (DCO) at the district level, the Registrar of Cooperatives at the national level, and the Minister at the apex.

While this arrangement appears to suffice, there is a perception that the DCO may become unconcerned about the business of cooperatives, to the extent that supervision by the Chief Administrative Officer (CAO) has been ineffective in certain districts. Second, the title District Commercial Officer (DCO) places emphasis on trade/commerce, yet the emphasis is on agricultural production and productivity enhancement before any commercial considerations can make sense.

In the Local Government structure there is a District Production Officer

(DPO) who is responsible for overseeing production and productivity. However, in reality, these two officials are disjointed in terms of implementation and could do better to actively promote agricultural cooperatives as integrated enterprises controlling the full spectrum of the agricultural value-chains.

## 5.2 Legal/Regulatory Framework of Cooperatives

Cooperatives are regulated by three major frameworks. These are the East African Community (EAC) Cooperative Societies Act (2014), the Cooperative Societies Act Cap 112 of Uganda, and the Cooperative Societies Regulations (1992) of Uganda.

The Bill for EAC Cooperative Societies Act was passed by the East African Legislative Assembly (EALA) in January 2015, and will become law when assented to by the East African Heads of State. The purpose of the law is to harmonize the regulatory framework of cooperatives in East Africa.

The Act defines a cooperative as 'a society established by individuals on a voluntary basis, to collectively solve their economic and social problems.'

### Box 5.1 Objectives of a Cooperative Society under the EAC Cooperative Societies Act

a. Solve problems collectively which members cannot solve individually

b. Coordinate knowledge, skills development, wealth, and labour of the members for better results

c. Promote self-reliance among members

d. Protect, withstand, and solve economic problems

e. Improve the living standards of members by reducing production and service costs through provision of inputs or service at minimum cost or by finding a better price for their products or services

f. Expand the mechanism by which technical knowledge could be used

g. Develop and promote saving and credit services

h. Minimize and reduce the impact of risks and uncertainties

i. Develop the social and economic culture of the members through education and training

j. Empower the members for ownership along commodity value-chains by facilitating business development for members

Source: Section 3 of the EAC Cooperative Societies Act, 2014

The objectives of cooperation should be a guide for reforming the Cooperative Societies Act (Cap 112) of Uganda, which does not define the objectives of cooperative societies. For instance, cooperative societies are to protect its members against exploitation by middlemen. Unfortunately, policy documents are silent on this objective. Therefore, there is need to customize the above objective in the Ugandan context through discussion and consultation if reforms are to gain broad ownership among members of cooperatives.

Section 4 (1) of the EAC Cooperative Societies Act provides that all cooperative societies registered under this Act *shall* abide by the guiding principles of cooperatives, which *shall* be written in their respective bye-laws.

**Box 5.2: Principles of Cooperation under the EAC Cooperative Societies Act**

1. Cooperative societies are voluntary organizations open to all persons able to utilize their services and willing to accept their responsibilities without gender, social, racial, political, or religious discrimination
2. Cooperative societies are democratic organizations controlled by their members who actively participate in setting policies, making decisions, with equal voting rights
3. Members shall receive dividends from profit according to their shares and contribution after deducting and setting aside an amount necessary for reserve and social services
4. Cooperative societies are autonomous self-help organizations controlled by their members, and agreements with other organizations including governments, shall be on terms that ensure democratic control by their members to maintain their autonomy
5. Cooperative societies provide education and training for their members, elected representatives, managers, and employees so as to enable them contribute effectively to the development of their societies
6. Cooperative societies serve their members most effectively and strengthen the societies' movement by working together through local, national, regional, and international structures
7. Cooperative societies work for the sustainable development of their communities through policies approved by their members
8. Cooperative societies and their businesses are owned by the members. Businesses are operated for members, not with members. This implies that cooperatives do not conduct business with members, but for members, and do not buy from members, but facilitate members to sell their goods without the cooperatives taking ownership of the goods
9. Employees, management, and staff the cooperative societies facilitate the cooperative societies' businesses without taking ownership from the members

Source: EAC Cooperative Societies Bill, 2014 Section 4 (2)-(10)

The principles of cooperation are not stated in Uganda's Cooperative Societies Act (Cap 112). This omission could be addressed by customizing the principles outlined in the EAC Cooperative Societies Act to fit the Ugandan context. Uganda can also learn from the global principles of cooperatives outlined in the Rochdale Pioneers Cooperative, International Cooperative Alliance, and Cooperative Societies Act (CAP 378A) of Barbados (outlined in Box 5.4).

**Box 5.3: Principles of the Cooperative Societies Act (CAP 378A) of Barbados**

A society conforms to cooperative principles if:

a. No member or delegate has more than one vote
b. No member or delegate is entitled to vote by proxy
c. Its business is carried out primarily for the benefit of its members
d. Its membership is voluntary and available without any artificial restriction or any unlawful basis of discrimination, to any person who can use its services and is willing to accept the responsibilities of membership
e. The rate of dividends on share capital that it pays does not exceed the rate prescribed in the regulations made under this Act
f. Any surplus or savings arising from its operation is (i) used to develop its business, (ii) used to provide or improve common services to members, (iii) used for the payment of dividends on share capital, and (iv) distributed proportionately among members according to their patronage with the society. (v) Used to educate its members, officers or employees or the general public in the principles and techniques of economic and democratic cooperation, (VI) distributed to non-profit charitable or benevolent organizations
g. Cooperation with other societies is pursued.
h. It provides for continuing education

## *Minimum Number of Members*

Section 7(1) of the law of Barbados is very clear: No society may be registered or having been registered, may continue to be so registered unless:

a. It conforms to the cooperative principles set out in section 4
b. Its membership consists of at least 10 persons, other than corporate bodies, who have attained the age of 16
c. The word "cooperative" or "credit union" forms part of the name of the society.

Regarding membership, Section 5(4) of the EAC Cooperative Societies Act (2014) provides that the number of members in a primary society shall not be less than ten. With reference to Uganda's law, which provides for a minimum of 30 members, it will need to be revised.

It is further stipulated that the words "Cooperative Society" and "Limited Liability" shall appear in the name of every society (Section 6(2) of the EAC Cooperative Societies Act).

The mandatory use of the term 'cooperative society' will create problems for secondary, tertiary and apex cooperative institutional arrangements that carry different names, such as Bugisu Cooperative *Union*, and Uganda Cooperative *Alliance.* Enforcing the term 'cooperative society' will also require deregistration of certain varieties of cooperation that have neither 'cooperative society' nor 'limited liability' in their names.

Moreover, the notion of 'limited liability' is a contradiction. While the Act provides for the formation and operation of cooperatives as voluntary, self-help institutions, the use of the term limited liability suggests that cooperatives are legally being turned into private companies. Recognizing only the limited liability institutions relegates informal forms of cooperation, most of which are unregistered cooperatives with unlimited liability.

### Allowable Minimum Age of Members

The EAC Cooperative Societies Act in Section 11(1a) stipulates that an individual may become a member of a (primary) cooperative society if he or she has attained the age of 18. Similarly, the Cooperative Societies Act (Cap 112) of Uganda provides that a person admitted to membership of a registered society shall have attained the age of 18 (Section 13(1a). However, the Ugandan law creates flexibility for a person above the age of 12 to become a member of a society, but he or she may not become a committee member till they become 18 years old.

The EAC Cooperative Societies Act and the Ugandan law need to revise this restriction. They should learn from the Cooperative Societies Act of Barbados, which creates flexibility for Junior Cooperative Societies. Such societies for adolescents and youths should be supported to ensure that the cooperative culture gets socially embedded at an early age.

***Societies for adolescents and youths should be supported to ensure that the cooperative culture gets socially embedded at an early age.***

### Issue of Bye-laws

Section 9(1) of the EAC Cooperative Societies Act provides that every society shall have its own bye-laws. Section 9(1b) proceeds to specify the contents of the bye-laws – the name and address, objectives and activities, area of operation, membership requirements, the rights and duties of the members, etc.

The Cooperative Societies Act (Cap 112) of Uganda does not regulate the content of the cooperative societies' bye-laws. Fortunately, this problem is resolved in Regulation 7(1) of the Cooperative Societies Regulations (1992) of Uganda.

However, as efforts to create harmonization across the EAC proceed, the content of cooperative societies' bye-laws should appear in the primary legislation (the Cooperative Societies Acts) of all EAC member-states.

## *Strengths and Weaknesses of Uganda's Cooperative Societies Act (Cap 112)*

Within Uganda, cooperatives are regulated by the Cooperative Societies Act (Cap 112), which came into effect on 15 November 1991. One critical point of Cap 112 is the principle of one member, one vote (Section 18(1).

This is consistent with Section 16(1) of the EAC Cooperative Societies Act (2014), which stipulates that every member shall, regardless of the number of shares he or she has, have only one vote at the meeting of the society.

This provision is important for the advancement of the democratic principle of cooperative societies. The Cooperative Societies' Act of Uganda has three areas that require improvement:

## *Massive Powers of the Registrar of Cooperatives*

Uganda's cooperative law grants massive powers to the Registrar of Cooperatives. For instance, Section 58 provides that where the Registrar, after an inquiry has been held under section 52, is of the opinion that the society ought to be wound up, he or she may make an order directing it to be wound up and may appoint a liquidator for the purpose and fix his or her remuneration which shall be paid out of the funds of the society. Section 62 further provides that where the registration of a society is cancelled under section 56 or 57, the Registrar may appoint one or more persons to be a liquidator or liquidators of the society, and all the property of the society shall vest in the liquidator or liquidators with effect from the date of liquidation.

The Registrar's excessive powers are also evident in the Cooperative Societies Regulations (1992) of Uganda. Regulation 23(9) stipulates that the Registrar or his representative may attend any meeting of the committee of a registered society. In the event that the Registrar is unprincipled, corrupt, or politically biased, he or she may become too intrusive, or serve as a vehicle for vested political interests.

It is recommended that Regulation 23(9) should be deleted from the Regulations to preserve the autonomy of cooperatives. The recommendation aims to provide the following solutions:

Liberate the office from political pressure, by elevating it to the status of an autonomous *apolitical* office comparable to the Inspectorate General of Government or Accountant General

- 'Check power, with power' with a view to preventing abuse of office
- Advocate for the use of performance contracts to guarantee deliverables for the members and for national development. Performance contracts must have clearly defined performance targets and deliverables
- Create effective reporting mechanisms, such as using text messaging, emails, and e-governance technologies such as video-conferencing.

### *Membership is 30 Persons and Above*

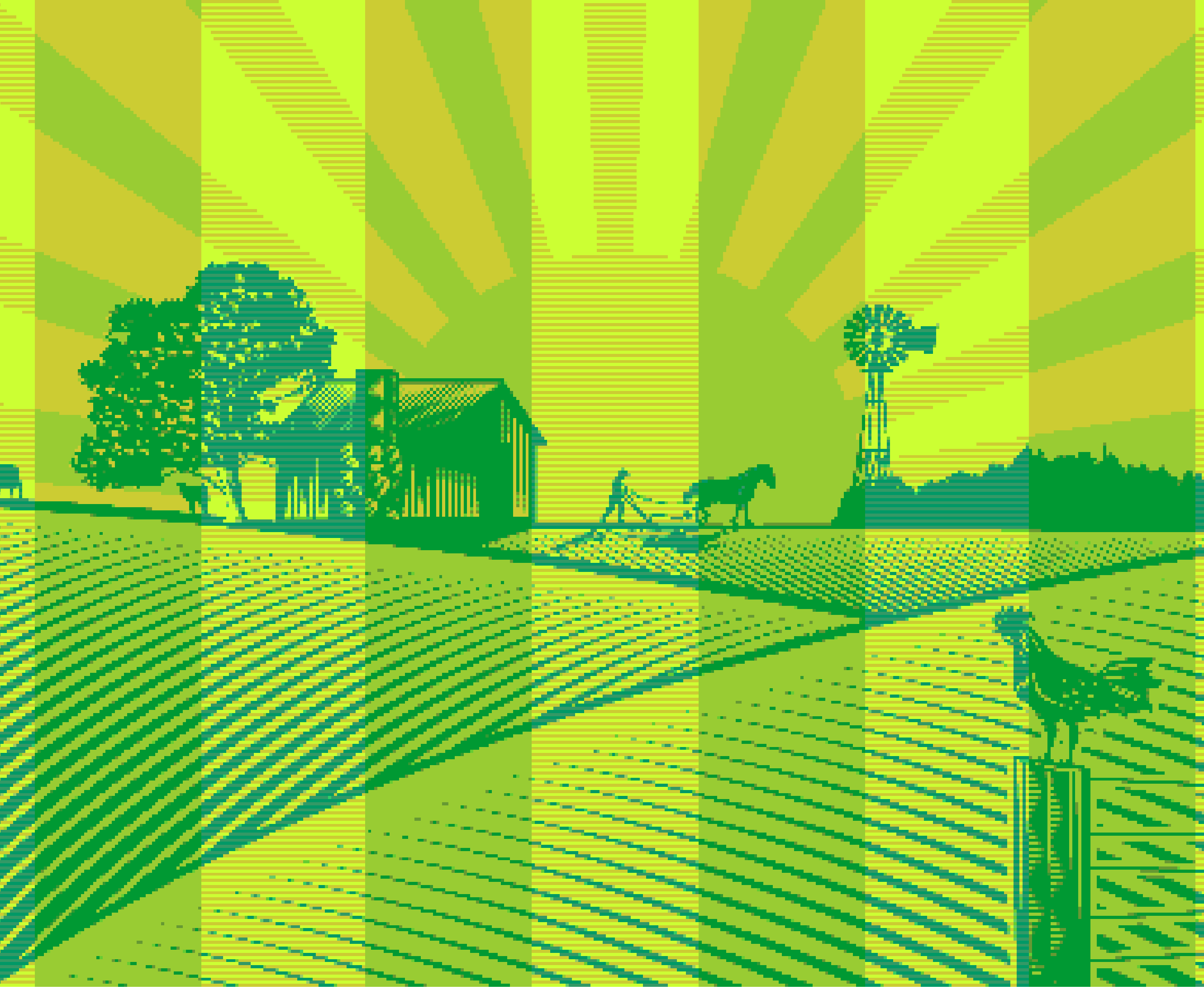
The cooperative law provides for 30 as the minimum number of cooperators. This number is too high. The recommended solution is to reduce the minimum to 3 persons similar to that of the International Cooperative Alliance (ICA) guidelines.

Alternatively, larger cooperative societies should be formed to accommodate the minimum membership. Already, the law provides for the voluntary amalgamation of societies into larger cooperatives (Section 25 of the Cooperative Societies Act, Cap 112).

### *No Cooperatives for Under-18 Year Olds*

One cannot form or join a cooperative unless they are 18 years and above: This is restrictive and unrealistic given Uganda's young population. Moreover, a significant number of unemployed Ugandans are adolescents and youths aged 12-17 years. It is recommended that the Cooperative Societies' Act of Barbados that allows for the formation of Junior Cooperative Societies, be adopted to enable membership from students and the youth.

This will enable training of the youth in cooperative principles and practices while they are still young. The aim is to ensure that cooperative philosophy and practice become ingrained in the youth to ensure that they become responsible adulthoods, and utilize cooperative enterprises as instruments of job creation, rural development, and national socio-economic transformation.



# Chapter Six

## Functionality of Agricultural Cooperatives in a Liberalized Environment

# 6.0 Functionality of Agricultural Cooperatives in a Liberalized Environment

It must be emphasized that Uganda's agricultural cooperatives thrived mainly during the era of state support shortly before and after independence. The performance of agricultural cooperatives during the liberalization era has declined tremendously (The Uhuru Institute, et al, 2013). Economic liberalization and privatization resulted in the closure of the Ministry of Cooperatives, the divestiture of the Cooperative Bank, and privatization of agricultural produce marketing (UCA, 2012b), which were meant to support the development of the agriculture sector.

Studies have shown that although liberalization may initially weaken the performance of agricultural cooperatives, liberalization has a positive impact on the performance of agricultural cooperatives (Wanyama et al, 2009). This is the perspective of the leaders of the Uganda Cooperative Alliance (Interviews, March 2015). However, this view, while consistent with the political economy norms of the government and non-government elite, is not consistent with country-specific evidence. Evidence suggests that the performance of Uganda's agriculture sector during the period of liberalization has been dismal, mainly on account of inadequate government support.

It is important to differentiate between government support, which is desirable, from government patronage and control, which restricts agricultural cooperatives flexibility to operate as private enterprises.

There seems to be consensus that effective agricultural cooperatives support the growth and transformation of the agriculture sector. However, there is a perception that agricultural cooperatives cannot survive in a liberalized environment. Furthermore, experiences of agricultural cooperatives in many Western countries, as well as in Vietnam, Indonesia, and Malaysia, suggest that market economics does not explain the weak performance of agricultural cooperatives.

This further suggests that the revival of agricultural cooperatives does not necessarily require policy reversals. However, revival of agricultural cooperatives requires strategic government action as is the case in Malaysia. Critics of this view contend that the existing policy environment is sufficient for the revival of agricultural cooperatives arguing that only capacity building and strengthening of management of agricultural cooperatives is required. The fact that this has not happened requires policy makers to think outside the box and develop deliberate measures to get agricultural cooperatives revived.

The role of government in the revival of agricultural cooperatives needs to be reviewed. The current position of government is that agricultural cooperatives are private enterprises and the government's role must be limited to regulation. For instance, the legal framework governing cooperatives has attempted to ensure separation of cooperatives from politics through legislation. The legal framework has also limited the role of the government in cooperatives to regulation through setting policies, registering and deregistering cooperatives, and provision of incentives. The government should have a wider role designing a rural development strategy in which agricultural cooperatives have significant roles, and ensuring implementation of rural development strategies.

The argument that government funding to agricultural cooperatives should be very limited is not supported by the experience of successful countries such as Malaysia. A holistic rural development strategy for agricultural cooperatives requires substantial government funding. Such a strategy must not only rely on marketing as a catalyst for agricultural growth and transformation, rather government support to rural development must strategically strengthen forward and backward linkages. For instance, the rubber industry in Malaysia was strongly linked to the country's motor vehicle industry.

There are some difficult aspects of rural transformation such as providing farming households land to cultivate. Solutions must be found to ensure that Uganda's farm land is profitably utilized. Therefore, there is need for total commitment to rural transformation by the political leadership through deliberate government actions that will make agriculture growth and transformation possible. In such a scenario, it is imperative that agricultural cooperatives take the lead.

***government support to rural development must strategically strengthen forward and backward linkages.***

# Chapter Seven

## Recommendations:
## Lessons of Good Practice

# 7.0 Recommendations: Lessons of Good Practice

Several lessons of good practices have been summarized in this report. On the basis of these lessons that recommendations are outlined to guide the Government of Uganda in reengineering, revitalizing, and utilizing cooperatives for agricultural transformation and wealth creation.

### *Lesson 1: Cooperatives are Social Enterprises, not Conventional Businesses*

There is need to understand the true identity of cooperatives. Cooperatives are often viewed as *private* sector businesses. However, this is not the case. Cooperatives are social enterprises that pursue profits with social justice; the interests of their members are paramount.

Thus, unlike conventional enterprises, which celebrated the advent of economic liberalization in the 1980s and 1990s, cooperatives and their social enterprises weakened when they lost government-coordinated control over agricultural businesses. With the rise of liberalization and collapse of cooperatives, smallholder farmers became prone to exploitation by middlemen, and subsequently led to a reduction in farmers' production incentives. This partly explains the slow growth and transformation of the agriculture sector in the era of economic liberalization.

Agricultural production is likely to continue declining unless measures are introduced to address exploitation of smallholder farmers.

### *Recommendations:*

Reverse the production incentives to favour cooperative farmers, who will then become models for rural agricultural transformation.

Restore the cooperatives that enabled smallholder farmers to get access to credit for production; agricultural inputs, storage facilities and transportation, and marketing networks locally, nationally and internationally.

Build capacity of agricultural cooperatives and support institutions such as the Cooperative Bank. Create an office of the Cooperative Development Officer in the structure of local governments. Alternatively, the office of the DPO and that of the DCO, which already exist, should be restructured to handle the responsibility of promoting cooperatives for agricultural transformation.

### *Lesson 2: Cooperatives are Holistic Institutions*

Cross-national experiences show that cooperatives are best organized as holistic institutions, not disjointed institutions. A cooperative community ought to have the character of a nation. It should grow its own crops, feed its members and the wider community on its own produce, and create jobs for its members along the broad agricultural value-chain. A cooperative should also practice smart agriculture, which should be linked to manufacturing industries. The aim is to ensure that members of cooperatives get the best possible value for their produce after value-addition.

### *Recommendations:*

Members of cooperatives should be integrated into agricultural value-chains by linking farming activities to value-added industrial manufacturing. This recommendation aligns with the new theory of change which requires a shift from pedestrian small-steps improvements (as has been the practice) to transformative big-steps improvements.

Agricultural cooperatives should be made aware that they are part of a broader value-chain, and that their success in quality control, contract farming, and increased productivity is necessary if they are to supply manufacturing industries. Industries that provide forward linkages with agricultural cooperatives, such as textile, bio-fuels, and pharmaceutical industries, should be established. These interventions are possible since industries and cooperatives are under the Ministry of Trade, Industries and Commerce.

Agricultural research stations, district farm institutes, and agricultural extension services should be strengthened to provide support to farmers.

### *Lesson 3: The International Cooperative Alliance's Principles of Cooperation as a Guide*

The International Cooperative Alliance's principles of cooperation as amended in 1995 are universally regarded as the major guide for differentiating cooperatives from corporate companies. However, some cooperatives diverge from the principles in significant ways.

This needs to be checked by UCA in partnership with MoTIC and other relevant stakeholders (such as local governments). Cooperatives work for the sustainable development of their communities through policies approved by their members.

### *Recommendation:*

Government should support the growth and development of agricultural cooperatives, which would in turn support its members with education, training, and information.

### *Lesson 4: Motivation for Formation of Cooperatives*

There are three major motivations for establishment of cooperatives. The first is to increase bargaining power. The second is the advantages offered by governments to cooperatives, including certain tax exemptions. Profits are not required to be taxed before they are distributed to members, which allows them to reduce their overall tax burden if the tax rate paid by these enterprises is lower than the corporate tax rate. However, the same laws that allow this concession also require that cooperatives conduct most of their businesses with their members. This requirement limits the range of businesses which a cooperative can operate.

The third motivation is the opportunity to pursue a particular business venture through common cooperation. They may see an opportunity to develop a business with lower costs or one producing innovative, value added products. Cooperatives of this type are "entrepreneurial" in nature and generally carry higher risks.

### *Recommendation:*

Smallholder farmers in Uganda should form cooperatives to increase their bargaining power for acquisition of inputs and sale of their produce. However, if left on their own, smallholder farmers are unlikely to get organized and the problem of their exploitation by middlemen is likely to continue unabated. The warehouse receipt system that Government has introduced addresses some of the constraints farmers face, which is not adequate for agricultural growth and transformation.

### *Lesson 5: Agricultural Cooperatives Have Worked in Most Countries*

Cooperatives have played a major role in the agricultural industries of almost all developed countries and several developing countries for over a century. They have been important in farm supply and product marketing. However, in several countries cooperatives have been forced into liquidation or merger as a result of changing conditions in their business environments, poor business models, bad management, or failure of their members to support them. In other cases, such as cooperatives in Japan, they have become institutionalized by government, hence becoming part of the system by which farm prices are regulated. In such circumstances they become inefficient, uncompetitive, and a burden on both farmers and the economy.

### *Recommendation:*

Policies that promote rural development and agricultural cooperatives should be developed and implemented. Experience from other successful countries suggests that agricultural cooperatives are a necessary condition.

However, management capacity of cooperatives will need to be strengthened.

### *Lesson 6: Agricultural Cooperatives Need Government Support Under Liberalization*

The revival of agricultural cooperatives requires government support. Such support should focus on a holistic rural development strategy that promotes agricultural cooperatives without compromising their status as private enterprises.

### *Recommendation:*

Policy reversals are not necessary because liberalization is not the problem to agriculture growth and transformation. The economy of Uganda is a dual economy that comprises the urban economy and the rural economy. The rural economy is characterized by market failure, which limits the functioning of the market mechanism.

It is prudent therefore that Government addresses the problem of market failure in the rural economy through deliberate actions, including giving substantial support to growth and development of agricultural cooperatives for agricultural production and marketing efficiency.

Successful cases like the emergence of dairy agricultural cooperatives in Lyantonde district under the CAIIP provide useful lessons on how government can help smallholder farmers to address constraints in agricultural production, productivity, and marketing.

### *Lesson 7: Nature of Cooperatives Being Revived*

Government policy firmly supports the revival of cooperatives. However, of the total of 14,507 registered cooperatives, 5,228 (36%) are SACCOs with a significant proportion of government-initiated institutions. A significant proportion is agricultural marketing cooperatives. While several 'producer' cooperatives exist (coffee, honey, and maize), the official statistics show that only a few registered agricultural *producer* cooperatives exist, such as the diary cooperatives (243 or 1.68% of the total), mainly in South-western Uganda. Historically, effective cooperatives were everywhere in Uganda.

### *Recommendations:*

The MoTIC should carry out a detailed study to establish (a) why very few producer cooperatives exist in a predominantly agricultural economy, (b) why the relatively effective agricultural cooperatives exist mainly in South-western Uganda, and (c) why they are predominantly in the dairy sector.

Revive the Cooperative Bank with products that are customized to the agricultural sector, and link agriculture to high value-adding industrial manufacturing.

### *Lesson 8: Cooperatives for Unemployed Women and Youth*

Uganda still faces significant challenges in creating decent and rewarding jobs for citizens. The greatest victims of unemployment and under-employment are women and the youth. Women predominantly supply unpaid or underpaid family labour (as housewives, babysitters, etc.). Cooperatives are important avenues for overcoming this problem. Cooperatives provide more secure, better-paid, and more meaningful jobs that are not readily available from conventional employers.

### *Recommendations:*

The MoTIC should actively promote cooperatives as instruments of job-creation. Section 41 of the Cooperatives Societies Act (Cap 112) gives powers to the Minster responsible for finance to exempt registered cooperatives from duty or tax for a specified period. The MoTIC should use this legal provision to lobby for tax exemption for cooperatives that could be effective in creating jobs for the youth and women.

Government's initiative to give certain cooperatives (e.g. the teachers cooperatives) credit at a reasonable rate of 8% per annum should be deepened, institutionalized, and spread to all registered cooperatives in strategic sectors.

## *Lesson 9: Objectives of Cooperation*

Unlike the EAC Cooperative Societies Act, the Cooperative Societies Act (Cap 112) of Uganda does not define the objectives of cooperative societies. This is a serious omission.

### *Recommendation:*

The EAC Cooperative Societies' objectives should be customized to fit the Ugandan context. If the reforms are to gain broad ownership among members of cooperatives, open discussion and a consultative review process should be adopted.

## *Lesson 10: Guiding Principles of Cooperatives*

Section 4 (1) of the EAC Cooperative Societies Act provides that all cooperative societies registered under this Act shall abide by the guiding principles of cooperatives, which shall be written in their respective bye-laws. The principles of cooperation are NOT stated in Cooperative Societies Act (Cap 112) of Uganda.

### *Recommendation:*

The principles outlined in the EAC Cooperative Societies Act should be customized to fit the Ugandan context. Uganda can also learn from the global principles of cooperatives outlined in the Rochdale Pioneers Cooperative, International Cooperative Alliance, and Co-operative Societies Act (CAP 378A) of Barbados *(See Chapter 5 of this report).*

## *Lesson 11: Minimum Number of Members*

Section 5(4) of the EAC Cooperative Societies Act (2014) provides that the number of members in a primary society shall not be less than ten. Uganda's law which provides for a minimum of

30 members, should be revised and harmonized with the EAC Cooperative Societies Act (2014). It is further stipulated that the words "Cooperative Society" and "Limited Liability" shall appear in the name of every society (Section 6(2) of the EAC Cooperative Societies Act).

However, the mandatory use of the term 'cooperative society' will create problems for secondary, tertiary and apex cooperative institutional arrangements that carry different names, such as Bunyoro Cooperative Union, Bugisu Cooperative Union, and Uganda Cooperative Alliance.

Enforcing the term 'cooperative society' will also require deregistration of certain cooperatives that do not have 'cooperative society' in their names, such as the Twimukyangane Women's Group in Kitoba Sub-country, Hoima district, or the Bunyoro Cooperative Union. Moreover, the notion of 'limited liability' is a contradiction in terms. While the Act provides for the formation of cooperatives as voluntary, self-help institutional arrangements, recognizing only the limited liability institutions relegates informal forms of cooperation, most of which are unregistered cooperatives with unlimited liability, into oblivion.

### *Recommendation:*

Uganda should advocate for addressing these anomalies before the EAC Cooperative Societies Act (2014) is assented to.

### *Lesson 12: Allowable Minimum Age of Members*

The EAC Cooperative Societies Act (2014) in Section 11(1a) stipulates that an individual may become a member of a cooperative society if he or she has attained the age of 18. Similarly, the Cooperative Societies Act (Cap 112) of Uganda provides that for a person to become a member of a registered society he or she shall have attained the age of 18 (Section 13(1a).

However, the Ugandan law allows for flexibility by providing an opportunity for a person above the age of 12 to become a member of a society although he or she may not become a committee member they are 18 years old.

### *Recommendation:*

The EAC Cooperative Societies Act (2014) and the Ugandan law should be revised to remove the age restriction. Uganda should learn from the Cooperative Societies Act of Barbados, which promotes the formation of Junior Cooperative Societies. These should be promoted in Uganda's families, as well as the primary and post primary schools, churches, and communities to encourage cooperation at the level of primary socialization.

Local governments should establish Junior Cooperative Societies in neighbourhoods of, say 10 families, and in all primary and post-primary schools. A cross-ministerial committee consisting of MoTIC, MoES, MoFPED, and MoLG could be established for this purpose. Such societies for adolescents and the youth should be supported by government with venture capital to ensure that the cooperative culture gets socially embedded at an early age.

### *Lesson 13: Excessive Powers of the Registrar of Cooperatives*

Uganda's cooperative law grants massive powers to the Registrar of Cooperatives. The Registrar has the power to register and de-register cooperatives. However, the Registrar also has powers to close a registered society. Section 58 provides that where the registrar is of the opinion that the society ought to be closed, he or she may make an order directing it to be closed and may appoint a liquidator for the purpose and fix his or her remuneration which shall be paid out of the funds of the society. Section 62 gives powers to the Registrar to appoint a liquidator for a society that has been de-registered.

### *Recommendations:*

Liberate the office of the Registrar from excessive political pressure by elevating it to the status of a powerful, autonomous apolitical institution comparable to the Inspectorate General of Government or Accountant General. The Registrar should be subjected to checks and balances by the people's UCA and an inter-ministerial committee established to advance cooperative affairs. The goal is to prevent abuse of office. Study participants from UCA and MoTIC gave conflicting reactions to this recommendation. The UCA interviewees agreed that UCA as the apex organization of cooperatives can effectively be utilized to check the excessive powers of the Registrar. The MoTIC interviewee argued that the role of UCA in 'regulating the regulator is usually challenged' (Interviews, August 2015).

Use performance contracts to guarantee deliverables for cooperatives and for national development. The Registrar (and other officials of cooperatives) must have clearly defined performance targets and deliverables (Kiiza, 2015). Delete Regulation 23(9) from the Regulations of Cooperative Societies with a view to preserving the autonomy of cooperatives.

The MOTIC should create effective reporting mechanisms, such as using sms messaging, emails, and e-governance technologies such as video-conferencing.

### *Lesson 14: Politics Matters; the Government Is Crucial*

Cooperatives are too important to be de-politicized. The government matters in the success (or failure) of cooperatives. In Uganda, the most successful phase of the cooperative movement was the phase of strategic government involvement in the cooperative sector under Governor Cohen and the first post-independence administration of Milton Obote (1962-1971).

While the cooperatives were faced with problems of corruption, government control, or embezzlement, the institutions flourished.

### *Recommendation:*

A pro-cooperatives lobby committee should be created by UCA and MoTIC. The committee should continuously review the regulatory environment, document good practices of cooperative enterprises, outline the obstacles constraining producer cooperatives, and use evidence to lobby for a more conducive regulatory and policy environment

Uganda should adopt Malaysia-like land reforms backed by agrarian reforms to give land to the users. An inter-ministerial committee coordinated by MoTIC, MAAIF, OPM and/or the powerful MoFPED should be established to transcend land reform and link agriculture and other land-based activities to high value-added manufacturing. For example, shear-butter can be domesticated, grown and commercialized by cooperatives to serve as an industrial input in the high value-added pharmaceutical industry. Cross-national evidence from Spain, Ireland and USA shows that there is absolutely no reason why cooperatives cannot control the full value-chains of agricultural produce.

### *Lesson 15: Training is Essential*

Knowledge on the transformative role of cooperatives is very important for the growth of cooperatives. Knowledge can be imparted to members of cooperatives through education and training.

### *Recommendations:*

Section 49 of Uganda's Cooperative Societies Act (Cap 112) creates a National Cooperative Fund to which every registered cooperative society shall contribute 1 percent per year of its returns.

The MoTIC, in partnership with UCA and the revived Uganda Cooperative Bank, should activate this Fund by implementing the provisions of Section 49. The money should be used to promote skills development of members and managers of cooperatives.

A curriculum in cooperative entrepreneurship should be developed at the primary, post-primary and tertiary levels to train members of cooperatives in basic knowledge on the philosophy and rationale, and politics of cooperatives. Members also need professional knowledge on bookkeeping, business management, and social capital development.

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