



# THE COOPERATIVE MOVEMENT AND THE CHALLENGE OF DEVELOPMENT

A SEARCH FOR ALTERNATIVE WEALTH CREATION  
AND CITIZEN VITALITY APPROACHES IN UGANDA

December 2013



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# Acronyms

AAIU	: Action Aid International Uganda
ACES	: Area Cooperative Enterprises
ADB	: African Development Bank
AIDS	: Acquired Immune Deficiency Syndrome
BCU	: Bugisu Cooperative Union
BCU	: Bunyoro Cooperative Union
BRAC	: Bangladesh Rural Advancement Committee
BUKYA	: Buwunga Kyanamukaaka cooperative society
CA	: Cooperative Alliance
CBR	: Centre for Basic Research
CDO	: Cotton Development Organization
DAO	: District Administrative Officers
DCO	: District Commercial Officers
DFID	: Department for International Development
FGD	: Focus Group Discussion
FTI	: Fair Trade International
HIV	: Human Immune Virus
I.G.As	: Income Generating Activities
ICA	: International Cooperative Alliance
ICT	: Information, Communications and Technology
IMF	: International Monetary Fund
KDA	: Kisoro Development Agency
Kgs	: Kilogrammes
LC	: Local Council
MADIFA	: Masindi Farmers Association
MP	: Member of Parliament
MTIC	: Ministry of Trade, Industry and Cooperatives
NAADs	: National Agricultural Advisory Services
NCU	: Nyakatonzi Cooperative Union
NGOs	: Non-Governmental Organizations
NRM	: National Resistance Movement
PAPSCA	: Programme for Alleviation of Poverty and Social Costs of Adjustment
RDC	: Resident District Commissioner
RoU	: Republic of Uganda
SACCOs	: Savings and Credit Cooperatives
SCC	: Swedish Co-operative Centre
TCU	: Teso Cooperative Union
TUI	: The Uhuru Institute
UCA	: Uganda Cooperative Alliance
UCTU	: Uganda Cooperative Transport Union
UCSCU	: Uganda Cooperative Savings and Credit Unions
VSLs	: Village Saving and Loan Schemes
WB	: World Bank
WTO	: World Trade Organization

# Acknowledgement

This study sought to deepen knowledge about the historical contribution, present status and potential value of cooperatives as organic citizen platforms for independent efforts geared towards socioeconomic transformation in Uganda. This is against a policy context that has reduced citizens to passive actors and distant recipients of help from above. The study is also part of our commitment to take forward outcomes from the Citizens Manifesto in which ordinary Ugandans expressed interest in a revival of cooperatives.

The findings of this effort provide an interesting reading for understanding the historical role cooperatives played in strengthening solidarity and building welfare, their status today and potential role in the future. The findings challenge the common knowledge that cooperatives are a thing of the past and collapsed! The nostalgia and resilience of the cooperatives in the face of a difficult environment in which they operate in our view, presents immense opportunity for a more systematic cooperative re-building agenda.

On behalf of the Tripartite Partners, we would like to thank the Researchers and Assistants mobilized under the auspices of CBR for getting this agenda off the mark. The study has generated new knowledge towards fulfilling our initial intentions of mobilization and inspiring new programming with a specific theory of change likely to transform CSOs ways of doing business going forward.

In a special way, we thank all the participants in this study, especially past and present co-operators who spoke so fondly about the critical role cooperatives played and can still play in citizen welfare. Despite the evidently strong tide against the cooperatives, their resilience and persistence exemplified by the determined words of the central players in the game shows that while the body may have been weakened, the spirit is ever strong and can be regenerated for a new body to emerge. This is precisely the agenda AAU, TUI and CBR will strengthen going forward.

Finally, we would like to thank the ActionAid Uganda Management for accepting to finance this important study from its reserve funds. We all hope that this initial shot in the arm will lead to greater prospects in the future.



Arthur LAROK  
**COUNTRY DIRECTOR**  
**ACTIONAID Uganda**

# Executive Summary

This study was commissioned through a tripartite arrangement, between ActionAid Uganda (AAU), The Uhuru Institute for Social Development (TUI) and the Centre for Basic Research (CBR). It was inspired by a resurgent debate on the historical role, current status, value and potential contribution of the cooperatives to overcoming structural challenges citizens are enduring especially in the face of a forceful neo-liberal agenda. Using both qualitative and quantitative approaches, the study covered Kisoro, Ankole, Masaka, Busoga, Bugisu, Teso, Bunyoro and Lango sub-regions on Uganda.

The study traces a consistent struggle between cooperatives and governments to date. From the 1913 response to unfair trading terms that favoured Asians and Europeans for cotton and coffee exports; the initial refusal by the colonial government to register cooperatives, the 1946 Ordinance allowing the cooperatives to register for the first time but retaining tight control, the 1952 Ordinance unveiled by colonial Governor Andrew Cohen that gave autonomy, the 1963 Cooperative Societies Act increased government control and investment boosting cooperatives monopoly, with the cooperatives winning step by step battles. The evidence of this struggle is in the recovery of some cooperatives unions, establishment of, village savings and loan associations, community health insurance.

Following the 1966 Shafiq Arien Commission that found increasing mismanagement, the 1970 Act was introduced giving the minister of cooperatives sweeping powers over any cooperative. By 1970 the cooperatives was the largest single employer in Uganda with the majority of Uganda's population benefiting. This progress was short lived as in the 1970s and 1980s, the cooperatives lost investments and capital assets to the wars and conflict. The 1990s saw a major economic policy shift to privatisation, the divesting of the cooperative bank and the liberalisation of the cash crop market.

The study also generated a theory of change and a framework for complementary triangular integration between producer (growers and processors), suppliers (storage and transporters) and financing (SACCOs and VSLAs) for revitalising the cooperatives. The report identifies with the critical role of a supportive government policy environment in the growth of cooperatives such was the case with Sir Andrew Cohen in 1956, the immediate post-independence government investment in crop finance, the recent investments in SACCOs through UCSCU framework, and the creation of the cooperatives department in the rebranded Ministry of Tourism, Trade, Industry and Cooperatives and most importantly government's commitment to ensuring peace and security in Uganda.

The report recommends: taking stock of the war losses and compensating the cooperative unions accordingly; reviewing policy and legal regimes, and reactivating the cooperative bank urgently. The report also recommends a partnership between GoU, UCA and CSOs for intensifying mobilisation and training for cooperatives across the country. The report further makes a business case for a win-win relation between cooperatives and the private sector.



# PART ONE

## 1. Introduction

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This study on cooperatives in Uganda, was inspired by the renewed interest in cooperatives as a gateway through which, the current development trajectories responsible for escalating poverty can be overcome. There is increasing outcry for the reactivation of the cooperative movement in the hope that this would particularly re-energise the rural economy to the benefit of majority citizens.

In the case of Uganda, the neo-liberal development model has dominated the economic policy stage for the last three decades. Growth is reported to have occurred at an average rate of 6 per cent per annum over the last 20 years (Republic of Uganda, 2012a). Apparently, the outcome has been maladjusted development with most of the benefits going to a small business and political elite that are urban-based. (Mukwaya, et al, 2010). The collapse of cooperatives paralleled increasing income inequality and poverty as a predominantly rural phenomena (Halerimana et al. 2010). This in turn gave new impetus to rural urban migration, resulting in what has been observed as a decline of the rural economy (UCA 2012b). The failure to address such inequality and poverty (Ssewanyana et al, 2004), has generated debates calling for the revival of cooperatives as a significant institutional vehicle for rural development (DFID, 2008). This has equally alarmed government, prompting it to rethink its earlier policy outlook on cooperatives (RoU, 2012a). The formal assertion by citizens in favour of cooperatives began during the colonial period aiming to increase the farmers' bargaining power, through pooling their produce and voices. Over the years, cooperatives achievement went beyond the struggle for fair crop marketing to include: the enhancement of community social cohesion; direct and indirect employment creation; tax payment; produce quality control; and education to co-operators. The experience of Uganda's population with cooperatives and the desire to have the cooperative movement reinvigorated were clearly expressed by ordinary people from all around the country during the Citizens' Manifesto consultation (2011).

The search for informed policy and citizen-focused alternatives to counter this trend of increasing poverty made a compelling case for the study. The convergence of the government policy (RoU, 2012a.) and the increasing citizen voices in favour of the reviving cooperatives (Citizen Manifesto, 2011; CBR, 2012; UCA, 2012.), provide a rare historical national moment in the search for durable models for citizen centred approaches to wealth creation and human dignity. The views gathered through the study emphasised the fact that any attempts to galvanise the current cooperative revivalist movement into viable vehicles for self-transformation and collective purpose, must be cognizant of the current Ugandan context, state of the economy, the state of agriculture and demographic realities, among others. In other words revival will not merely be based on technical emphasis on the principles of cooperatives. What is at stake is the revitalisation of cooperatives as a political agenda that is modelled along the way, thoroughly taking the concrete conditions into consideration. In this way the principles will act as a broad guide for an otherwise nuanced citizen long term and sustained engagement.

### **Box 1: Principles of Cooperatives**

1. Voluntary and Open membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for the Community

## 1.1 Purpose of this study

The study seeks to make a contribution to the efforts to reinvigorate the cooperative movement in Uganda as a potential mechanism for the improvement of the welfare of majority in society, through knowledge production to inform stakeholders.

## 1.2 Study objectives

- i) To evaluate the existing potentials and possibilities for a new form of cooperative movement, within the current political economic framework in Uganda.
- ii) To take stock of factors that contributed to the collapse of the previous cooperative movement and use it as a basis for informed recommendations for the future.
- iii) To explore the current realities and recommend to cooperatives stakeholders the least costly entry mechanism for revival under the existing institutional framework accorded by government cooperatives policy.
- iv) Synthesize the positives and gap manifestations to make creative recommendations to catalyze a flexible cooperative movement to promote citizens' vitality and welfare.

## 1.3 Research Hypothesis

This study was premised on the hypothesis that cooperatives had long died hence the research team went out to confirm this unfortunate status of the cooperatives and *search for alternative wealth creation and citizen vitality approaches in Uganda*

## 1.4 Scope and Methodology

The study covered the historical contribution of the cooperative movement in Uganda. It covered the four geopolitical regions of North, Central, East and West. Seven districts were identified for field research and these were: Lira, Kumi, Mbale, Namutumba, Masindi, Masaka, and Kisoro. In each region, one district was identified to host a regional dialogue. The dialogues were held in Mbale, Lira, Mbarara and Masaka.

The study was largely qualitative in approach, though seasoned with quantitative aspects, employing a variety of methods as detailed below:

- Desk reviews of cooperatives literature and analysis of the historical phenomena of cooperatives was undertaken providing an understanding of the trajectory of the cooperatives movement in the country and how the present situation unfolded.
- In-depth interviews were held with people of rich history and knowledge of cooperatives in Uganda from policy makers to ordinary cooperatives members.
- Focus group discussions (FGDs) were undertaken to bring a variety of perspectives on board.
- A survey questionnaire was employed to capture some of the necessary quantitative aspects and triangulate the information generated from the FGDs.
- Specific case studies drawing lessons on facts, perceptions and historical knowledge from specific cooperatives and their resilience, namely, Bugisu, Banyankore Kweterana, Bugisu, Bunyoro, Lango and Masaka, cooperative unions.
- Interviews with previous and current members and officials of the unions sampled using the self-constructed (most of the time with the assistance of union officials) sampling frames generated from records of current and previous membership. The information generated in interviews with union officials helped to open up the variables that were subsequently emphasised when dealing with the local-area co-operators.
- Regional dialogues were held in Mbale, Mbarara, Lira, and Masaka municipalities, with participant's representative of the regions often with rich knowledge and experience in cooperatives accumulated

either as active co-operators, employees/officials or both. The knowledge generated provided a middle ground that helped the study make a sense from data generated at grassroots in focused group discussions and that from in-depth interviews, mainly at the national level.

The report is presented as follows:

**Part One** covers the purpose, objectives, hypothesis, rationale, conceptual framework, scope and methodology of the study.

**Part Two** deals with the historical trajectory of the cooperative movement in Uganda, centred on the major landmarks in the political history of the country.

**Part Three** covers the regulatory framework for cooperatives in Uganda.

**Part Four** explores the dynamics of SACCOs in Uganda.

**Part Five** covers the paradox of cooperatives in Uganda.

**Part Six** brings to you the citizens voices and perspectives covered by the study.

**Part Seven** explores the waste of physical assets and investments of cooperatives in Uganda.

**Part Eight** draws lessons on what to do and what not to do.

**Part Nine** presents possible programming options for revitalising cooperatives in Uganda.

**Part Ten** concludes the study with key recommendations.

## 1.5 Rationale of the study

There is a strong contextual similarity between the times when the cooperative movement was first founded in Uganda during the colonial times and the context today. The context is that government favour(ed) large commercial farmers against small holder peasants (Mamdani, 1976; Zwanerberg and King, 1975). The paucity of and need for systematic orderly knowledge about the role of the institution of cooperatives in the lives of Ugandans is itself a justification. To what extent were the principles of cooperatives observed and objectives achieved? What is the legacy of the cooperative movement in Uganda? The cooperatives positive contributions, their *limitations and circumstances that shaped them, justify documentation even for knowledge's sake.*

Ordinary people are losing their few possessions (land being the most important) to powerful economic interests, through economic and extra-economic coercion<sup>1</sup>. This prompted the enacting of the 1997 Land Act and its amendment in 2010. Against this background of land loss from the weak to the strong in society, this study has provided a possibility to evaluate the potential of primary cooperatives as a tool to protect the productive resource to alternative utilization and productive use.

More seriously, the collapse of cooperatives has tended to parallel increasing income inequality and resilience of poverty as a predominantly rural phenomenon (Halerimana, et al., 2010). In turn, this appears to have given new impetus to rural-urban migration, resulting in what has been observed to be a decline of the rural economy (UCA, 2012b). This has even alarmed government, prompting it to rethink its earlier policy outlook on cooperatives (RoU, 2012a). In light of this trajectory, the necessity to contribute to the search for an informed policy and citizen focused alternatives made another compelling case for this study.

Moreover, policy sustainability is majorly premised on beneficiary ownership, best gauged by demand driven solutions. The convergence of the government policy mood to re-establish cooperatives (RoU, 2012c.) and the significantly increasing rural voices calling for the re-establishment of cooperatives as a potential remedy to their welfare dilemma (Citizen Manifesto, 2011; CBR, 2012; UCA, 2012.), provide a rare historical national moment in search of policy, that call for intellectual summing of the experience, to draw lessons likely to have relevance among the ordinary people at local, regional and national level.

After the collapse of the ideology of neoliberal economic realism that characterised the spirit of the 1980s and 90s, the ascendancy of cooperatives, as one way of mitigating some of the market failures, has become trendy worldwide (Pinto, 2012). Rather than wait for the process to unfold and be prescribed as one more

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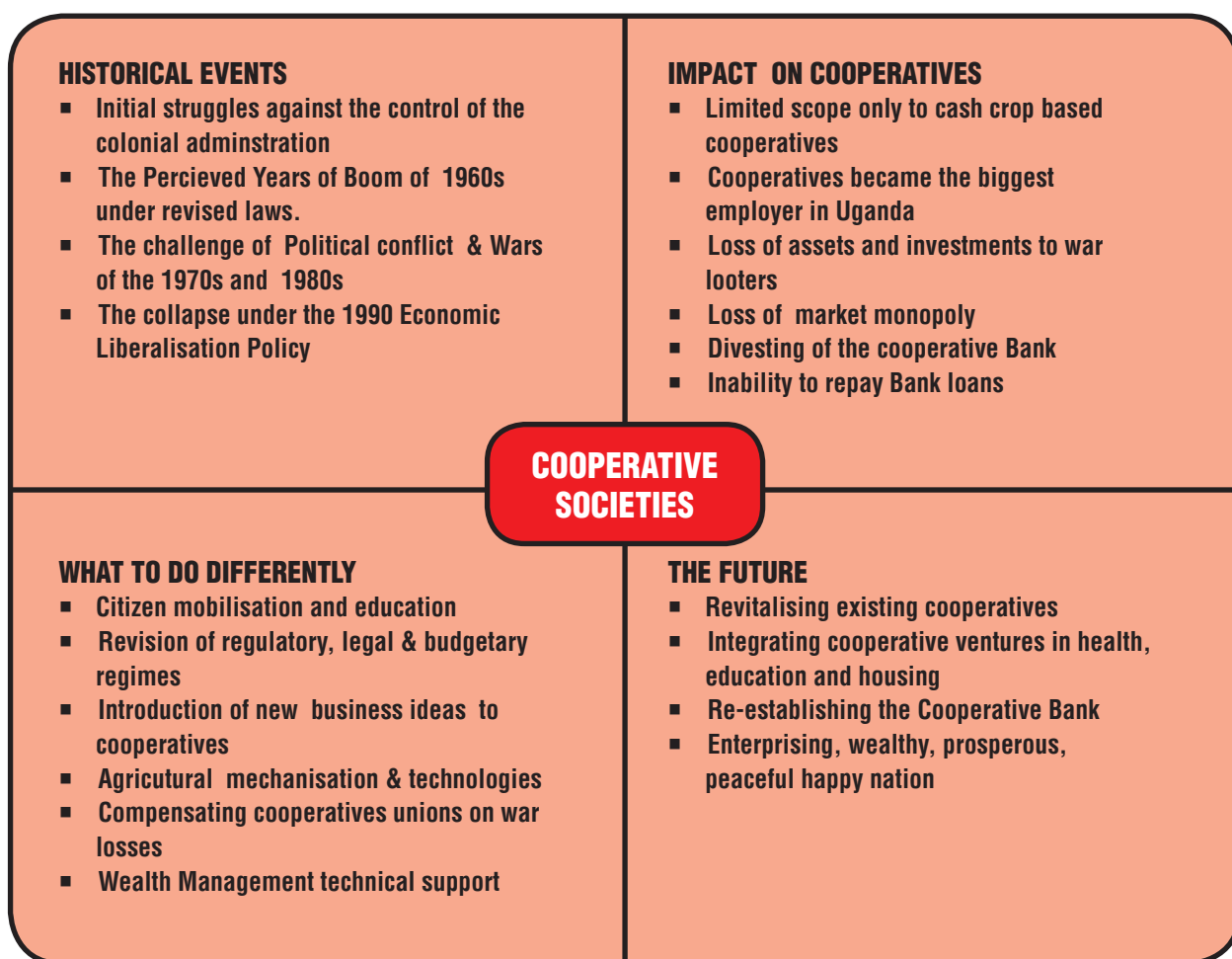
<sup>1</sup> There are numerous reported incidents of this phenomena in the Ugandan print media (especially New Vision and The Monitor New paper),

exotic (although already sprouting<sup>2</sup>) solution for Uganda’s chronic economic malaise, it was justifiable to take initiative with this study so as to input the policy process with peoples participation and hence local content

## 1.6 Conceptual Framework

The conceptual framework that guided this study was premised on the assumption that unfavourable government economic and governance policy environment, political conflict and wars impacted negatively on the scope as well as the management of cooperatives and resulted in the loss of assets and indebtedness leading to the collapse of the cooperative movement. This study was also based on the belief that collective citizen vitality and action could be the most viable means for wealth creation to address poverty in the rural areas.

**Figure 1. provides our conceptual understanding of the state of the cooperative movement in Uganda.**



<sup>2</sup> For example see, FAO and DFID, UNDP and ILO, 2012 reports on “cooperatives”, on their respective websites.



# 2. The historical trajectory of the cooperative movement in Uganda

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The cooperative movement is as old as the human endeavour. This is because human beings have the inclination to jointly overcome what cannot be solved individually (Kabuga & Batarinyebwa, 1995). Associational cooperative activity was always a normal response or practice of people in the region to minimize their individual disadvantages and maximize their collective good, without rigid rules of the structural form such would assume. The evolution of the cooperative movement in Uganda can be divided into four major phases namely: The formative years in the colonial period; The thriving in the late colonial and immediate post-independence periods; The period of decline characterized by political turmoil from the 1970s-1980s; The contemporary economic liberalization period of the 1990s to date.

## 2.1 The formative years of the cooperative movement in Uganda

Exploitative relations within the colonial cash economy had resulted in discontent of the Africans against colonial economic policy favouring European and Asian business who consequently monopolized domestic and export marketing of cotton and coffee, the two significant cash crops at the time. The expression of discontent took many forms, ranging from boycotts, to organizing formal cooperatives by the indigenous African farmers in 1913 (Kyamulesire, 1988; UNS-Sacco.org, 2013). The colonial government who viewed the emergence of formally organized cooperatives as a threat to its colonial objectives, proceeded to brand them subversive and denied them legal recognition (Mamdani, 1976). Although the cooperatives enforced produce quality standards among their members, the colonial authorities, in a move aimed at nipping them in the bud, accused them of the opposite (poor quality) and used this excuse to deny them registration. (Kyamulesire, 1988; Mamdani, 1976; UNS-Sacco.org, 2013). The refusal to register cooperatives by the colonial authorities failed to stamp out the spirit and practice of cooperatives by the indigenous farmers.

This pushed co-operatives underground to operate covertly until after World War II (Mamdani, 1976; Opio-Odongo, 1978; Kabuga & Batarinyebwa (1995). In 1946 the cooperatives Ordinance was enacted allowing them to register the first time. In turn, African farmers responded reluctantly and suspiciously to the colonial government's changed policy and attitude. Cooperatives initially refused to register, citing manoeuvres by the colonial government to control the movement's activities for its own purpose (Mamdani, 1976).

## 2.2 The cooperative movement begins to thrive

The arrival of Andrew Cohen as a colonial governor in 1952 ushered into Uganda a relatively liberal atmosphere. He instituted a number of policy changes and legal amendments. One of these was to address the concerns of the cooperative groups in Uganda, using a package of amendment incentives to the 1946 Ordinance, the most important being the one of autonomy, making registration more attractive for co-operators. The policy

resulted into positive response by cooperative groups. Registration achieved a target record of 100 per cent by the end of 1959 and a total membership of 252,378 by the end of 1961 (UCA, 2012b). This success was more about the formalisation rather than the growth of cooperative organizations or their activities as the institutions and their attendant activities were already in place. The change in policy and attitude of government only created an environment that made them thrive or do better, rather than create new the cooperatives. Significantly, these cooperatives fought for and gained their space, right of autonomous organization and operation from government rather than receiving hand-outs from the colonial government. Governor Cohen's incentive olive branch included giving permission to cooperatives to operate coffee curing works and cotton ginneries, with government financial backing (Kabuga & Batarinyebwa, 1995). To safeguard cooperatives from any risks emerging from the newly acquired freedom, the colonial government put in place a strict accountability regulatory framework as an insurance measure against such uncertainties (Mamdani, 1976).

Upon independence, the new nationalist government, through the 1963 Co-operative Societies Act, relaxed the regulatory framework but gave more space to cooperative administrative officers, and not to the co-operators contrary to the international principles of cooperatives, of voluntarism, member ownership and member management. This increased power of the administrative officers fueled their misuse of cooperative finances without checks and balances from cooperative members. Despite these political interference, cooperatives persevered up to this point in time. By 1965, co-operative unions handled 61 per cent of cotton, 40 per cent of the Robusta coffee and 90 per cent of the Arabica coffee (UCA, 2012b). The co-operative movement expanded in virtually every economic sector, including fishing, dairy, cattle marketing, hides and skins, transport, building and housing, handicrafts, savings and credit. By the end of the 1960s, cooperatives were a vital sector on which the state heavily depended for its foreign exchange and taxation needs (Brett, 1993). By 1970 the cooperative movement had become the largest employer in Uganda (UCA, 2012b). The Cooperative unions such as West Acholi, East Acholi, Wamala, West Mengo, East Mengo, Bukedi, Bugisu, Banyankore Kweterana, Lango, Masaka, Nyakatonzi, Teso, and many others, thrived on cash crops (Cotton, Coffee) promoted by the government while others ventured into animal production, savings and credit, and building. The majority of Uganda's population benefited from the cooperative movement which became an economy within an economy, whose statistics could even be independently computed to demonstrate the sector as the most important contributor to the national economy.

This relative success story of the cooperative movement was not without any weaknesses. The sector faced the elite's or leaderships' corruption and waste resources as illustrated below:

Between 1958 and 1961, when cooperatives were under the direct supervision of the cooperatives department, the union's surplus soared to Ushs. 6,568,600<sup>3</sup>. In 1961, the union reverted to control by committee. ... A trading loss of Ushs 120,000/= was incurred. By 1964, the 1961- 1964 net surplus of Ushs 1,769, 106 had turned into a deficit of Ushs 326, 380/= Members bonuses of 4 to 5 bonus shillings per 100 pounds of coffee received no bonus after 1963. In 1964, the Iteso Cooperative Union reported embezzlement of 55,920/26 and in 1967 the latter reported that some cotton growers had not been paid between 1965 and 1967 due to embezzlement of funds. In Lango, the Shafiq Arein commission of inquiry into cooperative unions uncovered similar instances of corruption and embezzlement. In Mengo, the cooperative leaders bought a Mercedes-Benz for their own use, to supplement a Land Rover the cooperative already possessed (Mamdani, 1976:234- 235).

Growing mismanagement, corruption and embezzlement of cooperative resources forced government to appoint the Shafiq Arien Commission of Inquiry in 1966, tasked to look into the working of co-operatives. The outcome was the legislation of the 1970 Co-operative Societies Act, increasing state control in the hope that it would curb the evils that had been identified (UCA, 2012b; Mamdani, 1976). Unfortunately, such government control and interference more or less turned cooperatives into a government department supervised by the Minister, eroding any internal capacity to check corrupt officials with accountability becoming more bureaucratic and less democratic under a situation of limited supervisory capacity. After all, the bureaucrats above were not very different from the elites below them as already indicated by Mamdani (1976). The emerging cooperative elite had held cooperatives hostage to their personal aggrandisement and interests. This crisis in leadership quality was the central defining factor as cooperatives entered into the challenging times of political conflict starting with the 1970s.

<sup>3</sup> The computation would put this figure to a current value of over six million (6,000,000) Pound Sterling!

## 2.3 Cooperatives in the period of political instability 1971 – 1985

The relationship fashioned in the colonial womb, where politics defined the official contours of operation for cooperatives, did not end with the departure of colonialists. The nature and operation of cooperatives continued to be influenced by the political environment even in the post-independent Uganda. Uganda's political instability did not start with Idi Amin's coup in January 1971. Yet we recognise that the profile of the political instability preceding 1970 did not significantly impact negatively on the growth of cooperatives. Likewise, this instability neither ended with the removal of Idi Amin from power in 1979, nor the 1986 coming to power of the NRM government. What is unique about 1971-1985 was its being characterized by the collapse of any pretence to the rule of law and respect of the right to life and ownership of property. Idi Amin came into power in 1971 and in 1972, he declared 'the economic war' that saw the expulsion of "non-citizen" Asians from Uganda. This was done without any recourse to the established national or international legal norms and what followed was what can be rightly termed as a troubled political situation, which also had serious negative direct and indirect consequences for cooperatives. As noted by a co-operator in Kisoro:

*The departure of Asians and other expatriates that followed coupled with the fleeing to exile of capable leaders and managers worsened the situation. Increasingly, pressures of economic and political self-interests, to which those in charge succumbed, invaded co-operatives, leading to mismanagement, corruption and embezzlement.*

The economic war also affected prices of controlled crops like cotton and coffee in which co-operatives were dominant players. As the prices dropped, cotton production fell from 466,775 bales in 1970 to 32,160 bales in 1980, because farmers substituted it with crops like maize, beans and groundnuts (UCA, 2012b). Moreover, while production was declining, government was busy securing big loans from the African Development Bank (ADB) to rehabilitate ginneries – loans that eventually forced unions into foreclosures (UCA, 2012b). The co-operatives market share dropped from close to 100 per cent in 1971 to about 37 per cent by 1979, the time President Idi Amin was deposed. The decline was cascaded by the 1981 - 85 guerrilla war, largely fought in the co-operative movement's strongholds of the Luwero Triangle, where the three giant unions of West Mengo, Wamala and East Mengo operated. Banyankole Kweterana and Masaka Co-operative unions were similarly affected during the final year of the fighting to takeover Kampala (Mutibwa, 1990; Akandwanaho, 2002). Respondents in Masaka thus recalled:

*In 1980s and 90s, cooperatives started collapsing. This collapse was largely due to the 1981-5 war. The war destroyed a lot of assets for the cooperatives, there was looting of coffee stocks and trucks. Motor spare parts were all destroyed while others were looted. Amidst all this, cooperatives had debts from banks which had to be paid back (FGD, April 2013).*

The above political instability that prevailed in Uganda between 1978 and 1985 culminated into unprecedented war losses and damage from which the Co-operative Unions have not recovered until now (Akandwanaho, 2002). The losses contributed to the decline in the operations of cooperatives, especially for those which did not have assets or other sources of income of their own. In a dialogue in Mbarara, co-operators insisted that the collapse had little to do with the union, and more to do with haemorrhage of its resources by the war, apparently in agreement with Akandwanaho (2002) who was an active participant in the war process. The assets of Banyankole Kweterana Union suffered a double hit; The first time was the 1979 war of Ugandan exiles who, with the help of the Tanzanian army, executed the war on the western axis front through Mbarara town, destroying both coffee and other asset equipment. The second was that of 1986 when its transport equipment was seized, property destroyed and farmers' coffee looted. The political turmoil could not allow unions to operate smoothly hence the gradual decline in cooperatives' operations, which caused reduction of income, subsequently loss of working capital. The government army and the different fighting groups destroyed and looted the assets of cooperatives with impunity.

## 2.4 The last straw that broke the co-operatives back, 1986 to-date

While the wars and political turmoil in the 1970s and 80s took their toll on Uganda's cooperative movement, liberalization of the economy became the last straw that broke cooperatives' back. Economic liberalization and privatization saw the closing of the Ministry of Cooperatives, the divesting of the Cooperative Bank and privatization of agricultural produce marketing (UCA, 2012b; Kafureeka, 1979). While official government sources credit liberalization for achieving an average of 6 per cent growth per annum over the last 20 years (Republic of Uganda, 2012b), this is in stark contrast to the depressed economic reality of the majority of Ugandans, about 80 per cent of whom reside in rural areas (Republic of Uganda, 2009). These are the people whose cooperative assets were appropriated without compensation, and their social system destroyed, while some of the handling infrastructure they used were left to decay, as will be discussed in the sections that follow.

Many of the respondents strongly argued that, the introduction of the liberalization policy came at a time when the cooperatives were still counting war losses. The loss of their assets, including social assets and overnight loss of their historical monopoly over marketing and exportation, without a transition period to the new competitive environment disabled them. It became nearly impossible for co-operatives to seize opportunities that the liberalization policies potentially offered, losing to skilled multinationals and shrewd private business people (UCA, 2012b; Pinto, 2012). As co-operators in Mbale observed:

*"There was no way cooperatives could have fairly competed with private buyers who were not accustomed to the rules of the industry, especially at the international level. The private business men never minded quality, they paid cash for even green beans, and farmers lost incentives for quality control under unions. They saw unions as an unnecessary bother and switched sides, stopped patronizing unions, picked junk and sold junk to speculator businessmen. Unfortunately, the unions in desperate attempt to survive followed suit and as a result it lost its export right (certification) to export markets (March 2013).*

Certainly, the bang with which liberalization was introduced in Uganda was bound to, and did, produce an export crisis. Export crop quality was compromised and Uganda's coffee was downgraded on the world market, lowering the price per kilogramme and subsequently less income to farmers. This was contrary to commonly held views by the free market economist that privatization would increase demand and supply competition resulting in a better pay for producers and encourage increased production. Mr. Rugasira, the proprietor of Good African Coffee, recounts the challenges he encountered his journey to putting 'Good African Coffee' on the world market:

*For many years, international coffee buyers of Ugandan coffee had complained that while the country's coffee had potential, the crop handling was poor and had affected the market potential. I remember writing to a Starbucks executive in 2004, through a friend in California, Kevin Reylea, to explore the potential for a coffee partnership. As premature as that might have been at the time, it exposed me to the perception problems that Ugandan coffee had in the global market and why improvements on quality was imperative if we were to build a viable business. Starbucks responded by saying that they last attempted to use Ugandan coffee in 1999 and that the coffee was neither good nor had the quality controls improved. They went on to say that they had used the coffee in a decaf blend due to high amounts of off flavors and that they thought a 'no' was prudent at this point (Rugasira, 2013: 128).*

Poor international prices, in turn, gave the 'middlemen' a leeway to scheme off farmers. The result has been farmers who are economically depressed in what is argued to be a thriving economy. To the majority of the participants in the study, the principle and intent of cooperatives could not easily be appreciated in the essence of a liberalized economy, because cooperatives were not initiated primarily as business entities. It is the view of this report that such co-operators displayed an unhelpful dogmatic attitude that lacks the dynamism required in the development processes. As one official at Bugisu Cooperative Union indicated:

*Once we realized that liberalization was here to stay, we moved and acted fast by selling our assets in New York and Mombasa to pay off debts we owed to our creditors. Then we continued to rent the rest of the assets and survived on the basis of rental incomes. In time, some of the farmers realized that the short term gains of instant cash payments could not equal what they had lost in collective benefits under cooperatives. A good number of them have since returned and started to patronize their cooperatives and Unions. Many are willing to supply coffee to us on credit and hold on for payment, for they are sure that in totality we pay them better than individual business dealers. The private buyers are no longer many anyway, once the initial enthusiasm of privatization ended, many of the private buyers closed shop which left farmers helpless and subject to manipulation and exploitation of a few monopoly buyers that remained. These days, due to need of cash some sell part of their coffee to us and some to the cash based buyers who pay less. Overall, our situation is getting better and we now pay farmers more quickly than before, hoping that we will eventually move to cash based payments...*

The liberalisation of the economy had a negative impact on the unity of the co-operators, the quality of the produce, the information and the supervisory role for quality control. Cooperators became individualistic hurting the solidarity and unity of people, including the quality of their thinking, providing a prelude to the collapse. This was plainly put by a respondent in Masaka who observed thus:

*We used to have supervisors at the village level, assistant cooperative officers at the sub county level, the district cooperative officers up to the commissioner. But today there is the commissioner and the district cooperative officer called the commercial officer, and that's it. The commercial officer is a man with a Master's degree who finds it hard to visit the village LC1 to supervise what the society is doing, he waits until you find him in the office at the district; the supervisory role has been lost.*

The foregoing assertion is a clear testimony of how the supervisory infrastructure at the base of society, the only sure foundation for quality assurance has gone missing. There is inadequate human supervisory resource to uplift the cooperative industry. Liberalisation in a sense undermined production and the productive capacity of the population. Instead of the market providing incentives as the World Bank expected through timely payment of better prices and raising farmers' income, it underpays farmers and rewards middle trading persons (UCA, 2012b). Not surprising, increased income inequality has been the result, with a few elites growing richer, while the majority (especially smallholder farmers) getting poorer. Economists term this market failure (Hill et al, 2008), but perhaps this is the very logic of the market success. The current situation is that of a country faced with a collapsed rural economy, where about 80 percent of the population languish in extreme poverty.

In an attempt to address this so-called market failure, Government of Uganda has at different times initiated different national and regional programmes aimed at eliminating mass poverty. It started with the programme for poverty alleviation and social costs of adjustment project (PAPSCA, 1990), through to the "Entandikwa" (start-up capital) programme, then the current "Prosperity for All" programme (Republic of Uganda, 2012b). These spurious development innovations have been buttressed by various specific regional programmes and creation of region-specific ministries (Luwero, Northern Uganda, Teso, Rwenzori and Karamoja), in a vain attempt to curb the errant poverty escalation. The resultant development deficit has led to mushrooming of NGOs, which unfortunately are limited by their erratic development interventions with donor-dependent project circles, heavily steered by logical frameworks as opposed to people's needs and aspirations.

# 3. The regulatory framework for cooperatives

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The regulatory framework combines the cooperative policy and legal instruments that guide the management of the sector. The evolution of cooperatives regulatory framework in Uganda originates from the colonial history shaped by the proactive efforts of the co-operators themselves when in 1913, they moved to have cooperatives recognized as business entities seeking entry into the trade and marketing of export crops.

## 3.1 Political economy of the pumps in regulating cooperatives in Uganda

The first regulatory instrument was the colonial policy in 1913 declaring cooperatives and their activities illegal in response to attempts to register African cooperatives as legal entities that could conduct business in cotton trade which forced them to operate underground. In 1935-7 a bill in the legislature to permit cooperative operation was defeated by cotton and coffee private foreign interests. It was the 1946 Cooperative Societies ordinance that permitted cooperatives, under tight control of the government through multiple powers that the ordinance gave the registrar, this was the first attempt at positive regulation. However this invoked continued resistance from cooperatives as they refused to register, citing excessive government control. Andrew Cohen, as already noted was the colonial governor who changed tact and created policies that put out steam from the cooperative resistance wings. The 1952 Cooperative Ordinance split the powers of the registrar between Administrator General and Commissioner of Cooperatives, which made co-operators buy into this and other concessions therein contained. The provision included the important demand to permit cooperatives to undertake marketing of cash crops, involvement in coffee processing and cotton ginning. Permitting of Africans meaningful participation in the economy received positive response by way of cooperative enthusiastic registration. This was the colonial strategy of creating local allies in transition to independence, by pre-empting further radicalization of cooperatives.

The 1962 independence delivered nationalist leaders who had a history with the cooperative movement making cooperatives their major rural development policy hence the enactment of the 1963 Cooperative Societies Act. The 1963 Cooperatives Societies Act restored the registrar of cooperatives monopoly powers and other technocrats, who had complained of being powerless in enforcing their directives at the expense of member co-operators authority. This amendment, though well intentioned ended up with the first step to direct state control, eventually providing a framework for abuse of office and financial impropriety by cooperative officers and other government technocrats. The nationalist's cooperative regulatory fervour was followed up by 1964 establishment of the cooperative bank and the granting of 100% monopoly to gin cotton to cooperatives. The increasing reports of corruption and embezzlement prompted the 1966 Shafiq Arien Commission of inquiry whose recommendations were incorporated in the 1970 Cooperative Societies Act. This 1970 Act effectively sealed off whatever had remained of cooperatives autonomy and resemblance of cooperatives democracy turning cooperatives societies and unions effectively into government parastatals at the will of the minister, now with the power to overturn any part of the act. Between the 1971 military coup to 1979, the country was run by presidential decrees. One such decree declared an "economic war" expelling all non-citizen Asians from Uganda within 90 days. The resultant economic crisis, generated government

response in favour of increased cooperative operations and registration of savings, credit and consumer cooperatives for distributing essential commodities.

In the period 1980 to 1985, a fully-fledged Ministry of Cooperatives and Marketing was formed, reflecting the priority government put on the importance of traditional export crops; foreign exchange in rehabilitation of the economy and the need for balancing political power bases of the then ruling Uganda Peoples Congress (UPC). This was a reflection of a political elite generation of the time that knew, empathised with and valued cooperatives, but who at the same time sought to use cooperatives as a political power base. The policy attitude and mind-set of the government of the time, favoured “marketing cooperatives” especially the goose (traditional export crops) that lay the golden eggs (foreign exchange). This approach ended with the change of regime to the National Resistance Movement (NRM) in 1986, which phased out most institutional regulations and state representation in cooperatives. The cooperatives ministry was phased out and cooperative Bank itself was divested.

Although initially, the 1991 Cooperatives Societies Act had repealed the 1970 cooperative societies act, restoring the degree of autonomy to cooperatives, the benefits were short lived. A regulatory instrument however favourable like 1992 statute, could not tame a hostile liberalised macroeconomic policy environment of Structural Adjustment Programmes (SAPs), characterized by unregulated “iron boot” capitalism, only comparable to the colonial conquest of the native economies. Cooperatives had not just lost their historical monopoly to purchase some of the products like cotton and coffee removed by the reigning government, but also their finance, investments, infrastructure and produce during the war, to the same elements.

### **3.2 Current contradictions between policy pronouncements and legal instruments**

The policy instruments recognize cooperatives principles on which they ought to be based. The policy further recognizes that cooperatives provide a relatively more permanent institutional framework through which problems of basic human needs can be met on a voluntary basis. Logically these sentiments should have been followed up with the requisite legislation to enable realisation of such noble observations, unfortunately, they were not. The cooperative policy is at the very least quite an ambitious document. It includes many well-meaning pronouncements, yet the existing laws are deficient in their enforceability to help realise and later on protect the kind of cooperative friendly environment envisaged under the policy. For example, the objectives are about everything; the entire development aspirations of the country are here indicated as if they can wholly be achieved under cooperatives. This overloading of the cooperative policy risks resulting into a paralysis of implementation.

The current Cooperative Law does not adequately address some of the emerging issues within the Cooperative Movement (The republic of Uganda, 2011:p.7). The law is inadequate on issues of governance, dispute settlement, offences and penalties. This makes it difficult to rely on cooperatives as safe vehicles for mobilizing savings and undertaking other business contracting. When dispute that require litigation arise, the cooperative interests as we note in this report, are at a loss. The existing laws do not provide adequate backing when crimes of financial nature occur in cooperatives. Instead of such crimes being referred to courts of Laws, they are not taken seriously and are treated as disagreements that require to be handled by arbitrators (The Republic of Uganda, 1992). In effect, this is what has already happened, as can be noticed from the two cases in Mbarara and Ntungamo<sup>4</sup> in relation to financial abuse within the cooperatives. The cases were dismissed on technicalities relying on Chap.73 (10&14) of wrong filing in court of first instance, which should be at level of arbitration and later on to court after an appeal to the board has not satisfied the complainant. This case points to the need for the law to be more precise and amended clearly in rhythm with the written spirit of the cooperative policy

Furthermore, the regulation has tended to favour promotion of financial services over producer cooperatives. In the same way, the National Cooperative Implementation Strategy, could have as well been safely termed “*The National SACCOs Implementation Strategy*” (The of Republic of Uganda, 2011]). More than three

<sup>4</sup> As summarised later in subsection (3.3.3) of this report

quarters of the strategy is about SACCOs and the others are more or less added as an afterthought. The language of the document itself is revealing, for every other sentence is written in the style of “the state doing it”. In that way, the policy violates the very principle to which it commits itself, to cooperatives as voluntary associations that are members initiated. The state doing it for co-operators, at best amounts to control and at worst ownership, that would make cooperatives state institutions, with the attendant problems. Therefore, legal, and regulatory framework in their current state have no solution to critical needs of the cooperative sector today (see box below).

### **Box1: Critical needs of the cooperative sector today**

- (a) Protection against criminal embezzlement of funds of the cooperatives by technocrats and any other manipulators
- (b) Cushioning of cooperatives against political interference and state “parastatalization”
- (c) Institutional incentive mechanism to attract VLSAs and other informal cooperate citizenassociations getting formalized, by addressing the risks and cost factors that keep them out of the formal sector.
- (d) Instituting significant security of savers and potential co-operators in the current environment influencing the mind-set of greedy elite in abusing collective and public resources with impunity.

The strong recommendation arising from this study is that the regulatory framework requires a thorough review with the participation of all critical actors - government, UCA, CSOs and co-operators. Indeed, almost all players- farmers, traders, government officials and CSOs alike agree that the way out of the present predicament characterized by a depressed rural economy, disenfranchised citizens and low productivity, is to start thinking about alternatives especially cooperatives being the most favoured agenda. However, under what terms and conditions of operation do cooperatives need to be revived remains a hurdle. Under what kind of citizen dispensation should the cooperative revival occur? To draw some lessons for guidance we turn to the experiences from the field interviews.



## PART FOUR

# 4. The advent of savings and credits cooperatives (SACCOs)

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The story of Savings and Credit Cooperatives Societies, popularly known as SACCOs, has recently been projected as a new innovation of the current NRM government dating from 2007. However, the savings and credit cooperatives are part of Uganda's cooperative history. Regarding the emergence of SACCOs in Uganda, one co-operator in Masaka put it this way:

*"There are three types of SACCOs – those which were initially member owned, those offering financial services only and those which came after the "Kyankwanzi Convention".*

### 4.1 The nature of savings and credit cooperatives (SACCOs)

- (a) The old credit and saving cooperatives;
- (b) The new peoples own financial cooperatives mainly the post-early 1990 full brown liberalization;
- (c) The politically-inspired financial cooperatives after the 2007 "Kyankwanzi Convention", and;
- (d) The informal financial cooperatives, referred to as Village Savings and Loan Associations (VLSAs).

#### 4.1.1 Citizens informal community saving and credit collectives

In Uganda, Savings and credit societies or associations have a long history. They may not have been set up in accordance with the known principles of cooperatives, but they existed and were serving a closely similar purpose. They had different names according to the localities, but the impetus was the same across the board. In some places they were called "Biika Oguze" literary meaning, 'save and borrow'. There is also the insurance type which pooled resources to help during sickness or bereavement. In Kigezi, there is 'Engozi' which is meant to raise money to transport patients to hospitals, while in Ankole there are the 'Twezike' groups, whose members pool resources to take care of burials and funerals. Each member of these societies raises just one thousand shillings per month; but given their numbers, with time they pool enough for their purposes. Whereas these are health insurance groups, they lend to their members at an interest when they have funds in excess. In the case of Masaka, most of them started under the Catholic Church and later grew into fully-fledged SACCOs. They include: Kyanamukaaka, Kyazanga, St. Atanazius Bazekuketa and Malongo Tweekembe. Worth noting is that one of the largest indigenous banks of the time is Centenary Bank, emerged from a trust started by members of the Catholic Church in 1983 (The Observer, Wednesday, January 2009). In Lango, they have what they call "Bol Icup" literally meaning "drop-in-depth" which is a community-based financing association usually kept in simple safe boxes. During the research in Lira, "Bol Icup" came out strongly in their submissions as helpful, though not registered. This is similar to what in Toro is called "Yehora Yeguza", meaning, 'save and borrow', and the women's Nigina groups in Buganda.

#### 4.1.2 Uganda Cooperative Alliance initiated savings and credit cooperatives

At the advent of liberalization, the Uganda Cooperative Alliance (UCA) realised that it had no choice but to reorganize itself in order to survive and remain relevant. Through its byelaws, UCA changed itself from being

an apex organization to an umbrella organisation. With this adjustment, even primary societies, including SACCOs, can become members. This distorts the pyramidal arrangement of the cooperative movement where the primary societies form cooperative unions and unions form the UCA. The primary societies, rural producer organisation (RPOs), and SACCOs in sub-county can be members of the area cooperative enterprise (ACE). The old unions also remained members of UCA and UCTU. This situation has caused some confusion between UCA and Uganda Cooperative Service Credit Union (UCSCU) which is mainly funded by the government.

In 1996 in another act of innovation, with the support of development partners UCA worked with co-operators to initiate Village Banks, which eventually became SACCOs to create an avenue of crop finance and fill the gap created by the divestiture of the Co-operative Bank. These Village Banks provided financial services to the poor in rural areas where there were no commercial banks; and where poor farmers had no collateral securities. By December 2009, there were 2,018 SACCOs in Uganda with 1,029,362 members, share capital Shs 43.51 billion, savings Ushs. 83.07 billion and a loan portfolio of Ushs 121.45 billion (Tayebwa, 2011). UCA supports rural SACCOs through its Microfinance Department that has 33 technical staff (4 at Head Office and 29 at sub-regional offices). The cooperative alliance has overtime established 9 sub-regional offices in Mbarara, Masaka, Mubende, Mukono, Jinja, Mbale, Lira, Nebbi and Arua, through which it delivers co-operative support services to SACCOs. UCA mobilises, sensitises and guides communities to form SACCOs and supports their technical skills development through training members on ownership, use, control and benefit from their investments. It also trains leaders and management staff in governance, management, operating and reporting systems. UCA provides basic start up support kits, to enable the young SACCOs start their operations smoothly, assisting them establish their operations based on the self-help model as opposed to the credit-driven approach. UCA also provides internal audit and supervision services to enable compliance with sound micro finance practices, byelaws, policies and procedures as well as the cooperative laws and regulations.

UCA links SACCO operations to other forms of cooperative business activities in their areas of operation so that their clients have access to the full range of support services. As a result, these SACCOs by and large are growing and are capable of doing well with time. For example, as at 30 June 2010, the UCA-associated SACCOs had mobilized UShs. 13.562 billion in share capital, UShs. 36,041 billion in savings deposits and UShs. 49.642 billion in outstanding loans and were serving 304,752 members. UCA advocates, lobbies and represents SACCOs at different local and international fora for a favourable policy environment.

### 4.1.3 Government of Uganda initiated savings and credit cooperatives

The Government of Uganda in an attempt to remain relevant in the rural economy context, sought to establish SACCOs similar to those supported by UCA in order to help the people save and get low-cost loans to improve their livelihoods. In a typical “presidential initiative”, the government organised a convention at Kyankwanzi National Leadership Institute attended by Local Council (LC) 3 chairpersons, District Commercial Officers, and District Administrative Officers. The convention, briefed participants on how to mobilize members to form and benefit from the SACCOs that would be given money by government as agents for development. In Kisoro, for instance, it was noted that following the Kyankwanzi Convention many SACCOs were indeed formed in 2007, the majority of which have since collapsed. This was echoed by a respondent in Kisoro as follows:

*“Most government SACCOs started around 2007 here in Kisoro have collapsed. Yet a few of those which started in the 1970s are still strong. The way the Kyankwanzi ones were born is the way they are dying ... The speed at which they came is the speed at which they are disappearing.” He further elaborated: “...this was a presidential initiative of LC3, District Commercial Officers and District Administrative Officers. The president invited them to Kyankwanzi, briefed them on the need for them to mobilize the members and then instructed them to go to their respective districts to form SACCOs.”*

The reason for this collapse was that politicians used the SACCOs as an entry point to boost their political fortunes and promised them money which they did not deliver, such as case of Taxi Drivers and Coaster Conductors Cooperatives in Masaka. In extreme cases a politician issued bouncing cheques to SACCOs in Lwengo district. Where one SACCO actually received the presidential donation of millions of shillings, other groups would quickly form in the hope of tapping into similar opportunities. The spirit of the moment is further captured in the words of the Commercial Officer, Kisoro.

*“We used to have Kisoro Bamboo Handicrafts Cluster Cooperative Society Limited, but that also collapsed recently. The crafts cooperative collapsed because it was forced on members. Members who formed it had different intentions rather than those of forming a cooperative. They were interested in handouts. They were promised money by the government and when the money did not come, they failed. If you are pushed to start a cooperative rather than start it yourself as an initiative, you cannot survive. One female respondent in Masaka who put it this way: “Ziffanananga Cooperatives naaye sii Cooperatives.” (They look like cooperatives but they are not cooperatives in the real sense). “SACCOs, zetulina Kati, zili nga siko selo.” Loosely translated to mean that these SACCOs are like children suffering from sickle cell anemia. (FGD at Kabwangu Cooperative Society, April 2013).*

Many of these SACCOs that actually received money from the presidential initiative have had serious problems namely: Increasing Loan defaulting because debtors perceived the money as a “thank you” from their NRM Party Presidential Candidate for voting him in office. Others use it to blackmail the system, as one RDC put it, by saying, “2016 is coming”. In Masindi, it was noted that there were two SACCOs in the area which had tried to bring people together with the promise of support from the government, but along the way, they faced governance challenges and the managers ran away with the SACCO money, yet the launch in the area was a grand politicized event. The ones that have prospered are those of teachers, police personnel and those set up by the working class. The people say they were forced to join SACCOs, and yet the leaders are running off with their money. The litigation of SACCO cases is poor and difficult and the sanctioning of their offences is near to impossible because a SACCO is said to be an equitable organization. Their cases have become stuck because of lack of enabling laws. It is worth noting that it is the ambivalence of law governing SACCOs which unscrupulous people are taking advantage of to cheat and misuse SACCO resources, causing them to fail to create the expected change. Summaries of the court cases below may suffice to show the effect of the limitation of the law.

**Court Case 1: Masha Abarihamwe Cooperatives Savings & Credit Society Limited Vs Mr. Godfrey Ahimbisibwe in the High Court of Uganda at Mbarara**

Masha Abarihamwe Cooperative Savings & Credit Society Limited filed an application seeking orders for unconditional leave to file their defence to the suit which Ahimbisibwe had filed for the recovery of UGX 3,500,000 he owed. The respondent Ahimbisibwe had instituted a summary suit that his case could not be taken to the high court and any other courts of law, hence even when the case was mentioned as filed by the cooperative, the resident judge advised that in the first place, the high court is not the court of first instance for such matters and that the kind of case applied to all similar cases in which disputes involving a registered society or union with their members. He relied on the definition of court as provided for in section 1(i) of the societies act Cap 112 which states that "Court in relation to a registered society means a court presided over by a chief magistrate or Grade 1; and in relation to a union of two or more registered societies means the high court"

The court also ruled that all aspects of disputes concerning a registered society and or its members can only go to the high court by way of reference by the arbitrator on any point of view. He said that at no one time can a party with a case which involves a dispute with a registered society file it directly in the high court as was done in the instant case. He also stated that under Section 73(14), the decisions of the arbitrator is final in matters or disputes connected with a registered society if no appeal is preferred against the decision to the Board as provided under section 73(9). He added that no court has the power to call to question such a decision of the arbitrator which is enforced as if it is a judgement of court. That it is the board which first listens to the appeals regarding the decisions from the arbitrators and the courts.

The judge ruled that a party who either by design or oversight files a case involving a dispute connected with a registered society in a magistrates court as a court of first instance, or connected with the business of a union of two or more registered societies in the high court as a court of first instance, such a case is incomplete and the court would not hesitate to strike it off the costs against the party who initiated the action. In the same way, where the magistrates court strikes out the proceedings above and the party purports to file an appeal against such a decision, the high court would not hesitate to have it struck off with costs to the appellant.

**Case 2: at the Grade 1 Magistrate's Court Ntungamo: Ntungamo Subcounty Cooperatives savings and credit Association Vs Mugume Edward and two others**

Edward Mugume and two others failed to clear their outstanding dues to the SACCO; The SACCO then filed a case to the police. Mugume was arrested and taken to court, and when the case came up for mention, the court made a decision that all matters concerning SACCOs should first go for arbitration before they go to court. This meant that courts of law are not supposed to be courts of first instance in such cases. The court also ordered for the release of Mugume for he was being detained illegally

The two decisions of the court alluded to above create an impression that disputes involving registered societies which are not unions of two or more registered societies should be filed in the magistrates court and not in the high court. However this assertion is contradicted with the reading from section 73 and 75 of the act which suggests otherwise. "It states that both the high court and the magistrates are not courts of first instance for the purposes of the disputes envisaged under the act". The section specifically provides for the settlement of disputes by way of arbitration and excludes the courts as first instance forums for the cases that involve the business of registered societies, such as the one in the instant case seen where the judge said that the instant application by the SACCO against a summary case filed by the respondent was not proper for the court. This was because the relevant section states that under subsection 2, claims for a debt

or demand due to or from a registered society or its members is deemed to be a dispute. Therefore between the application and the respondent in the instant case, there was a dispute within the meaning of the act and as a requirement under section 73(1) (d) it ought to have been submitted for arbitration and not filed in court. In addition to the wanting regulatory framework for cooperatives, the findings of the study reveal that SACCOs country wide are marred theft. In the New Vision newspaper of July 1, 2013, a section of the Auditor General's report exposes the mismanagement and embezzlement of funds of SACCOs as portrayed in the extract below:

*Although savings and credit co-operative organisations (SACCOs) were meant to alleviate poverty, investigations indicate that over Ushs 2.5b meant for SACCOs has been mismanaged by managers and board members. A special audit of SACCOs around the country by the Auditor General has revealed that some of the board members and managers get big loans from the SACCOs but fail to pay back. Most of them, the report says, have disappeared while others have fled the country.*

Beyond the general regulatory framework on SACCOs particular attention has to be given to the foundation of SACCOs. The method through which these SACCOs were born was arbitrary and contradictory to the known ways of cooperative development. However, we take the conventional view that in the apparent frantic but erratic search for alternative solutions to recurring economic problems inspired government to initiate Savings and Credit Cooperatives (Nume, 2012; UCA, 2012). Recently, Government has augmented its earlier 2007 efforts by creating a Department of Cooperatives under the re-branded Ministry of Trade, Industry and Cooperatives (MTIC) (Republic of Uganda, 2011). This initiative's perspective is a dominant picture of cooperatives that are largely top-down and focused on financial services. This is in sharp contrast to the bottom-up, voluntarily formed traditional producer and marketing cooperatives that were member-initiated although even then, they tended to fall short on other principles like autonomy, being democratically run and member controlled as specified in Principle number 1 of the International Cooperatives Charter.

According to respondents in one of the rural focus group discussions (FGD) in Masaka, the politically-motivated, Savings and Credit Cooperatives (SACCOs) resembled the old cooperatives in form, but were lacking in essence. These types of cooperatives mainly started by the ruling NRM party are largely described as speculative, exploitative, externally-driven and mainly formed and run by those who were positioning themselves to cash in on the expected political cash donations. At the time of research, many of them only existed on paper, either having mobilized money from unsuspecting people, embezzled it and fled or got cash from politicians or through their connections, swindled it and closed down. The paradox of it all is that, with only a few exceptions, they were all still on the books of the Registrar of Cooperatives, as the law is ambivalent on the circumstances that lead to a cooperative being deregistered.

Much as SACCOs are emerging in the rural areas, they were more of an urban 'thing' where people earn salaries and wages and, in a way, use them to save. However, because the growers' cooperatives are almost wiped out, SACCOs are on the rise as a sole representation of cooperatives. One of the incentives for their increase of course has to do with the fact that the returns on productive sectors of the economy and agriculture in particular, are very low or negative in some cases. Thus, unprofitable subsistence agriculture where majority are involved has provided the push incentives for people's entrepreneurial efforts into the speculative and service sectors. It can be observed from Table 1 that most of the respondents (36% belonged to SACCOs, complaints about them notwithstanding. The number is closely followed by what would pass for sister institutions (VSLA) 2% and community groups at 14%), with a combined total of 16%. These figures present an opportunity for policy makers to take advantage of the already existing efforts in that different things can be done to counter the existing weaknesses of the available cooperative initiatives.

**Table 1: The Cooperatives to which Respondents Belonged**

COOPERATIVE	Frequency	Percent
SACCO	43	36.4
Community groups	16	13.6
Bugisu Cooperative	11	9.3
Primary Societies	6	5.1
Bunyoro Cooperative	2	1.7
VCLA	2	1.7
Village banks	1	.8
Masaka GCU	1	.8
Total	82	69.5
TOTAL	118	100.0

One of the inherent weaknesses faced in the new SACCOs is political interference in the way they have been initiated and registered. To elaborate, SACCOs such as Burora, Nyendo, and Kisoro Development Agency were directly registered by Members of Parliament (MPs) themselves. MPs told people to mobilize themselves, raise contributions and form SACCOs promising them government support. People's own initiatives such as VSLAs are largely operating in the shadows of SACCOs. These shadows are not only limiting citizens' capacity to thrive but they also create stratification in the cooperative sector where SACCOs dominate in society. This is why respondents had a strong view that SACCOs were not meant to complement any cooperatives but rather to replace them. The SACCO, an otherwise neutral institutional tool to synergise development effort and general transformation, is registering losers and victors, the corrupt and embezzlers, because of loopholes in the relevant laws relating to cooperatives.

## PART FIVE

# 5. The paradox of cooperatives in Uganda today

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To understand the resilience of cooperatives we start by looking at the following observation:

*“You cannot kill cooperatives, you can only inconvenience them” (Kampala). “Okwiita cooperatives nikureeta omuzimu...” (If you kill cooperatives, the ghosts of cooperatives will come to haunt you, Mbarara). “Ezo SACCOs ezatandikwa gavumenti ngemazekutula ekyankwanzi, zilinga sikoseli, teziwonyabwavu” (Those SACCOs that started after the government Kyankwanzi meeting are like sickle cells, they do not help to reduce poverty) (Masaka). . . . “The approach of wanting to “shoehorn” everything like an experiment may not yield the right results” (Lira). “People who know each other can work together very well” (Namutumba).*

It must be clarified that we set off to study the revival of cooperatives, with a perception that cooperatives were ‘dead’ as it was termed. The whole impetus of the study was to find out how people, as citizens could pick up the pieces, pick co-operation as a ‘life saver under their seat’, to address their present predicament of abject poverty and social displacement. While we were not far from the truth in terms of the rationale behind cooperatives, we were far from the reality in terms of revival. The ordinary Ugandan citizen never abandoned cooperatives at all. As the elite went on with their modernization and liberalization gimmicks, the people below resiliently pushed on in small and big ways with varying successes and failures. The research team was shocked to find a whole range of cooperatives, some dormant, some struggling but also others thriving.<sup>5</sup> In the end, we are now talking about revitalization of the cooperative movement to fit the current realities as opposed to complete resuscitation.

## 5.1 Remembering the past cooperative achievements

Co-operators looked back with nostalgia at the various benefits that accrued to them as individuals, families, communities, and, arguably, the state itself. During 1960s and 70s, benefits to farmers ranged from increased agricultural production because of extension services, subsidized inputs, employment in cooperatives, functional education for co-operators and *bursary* schemes. They extended to other guaranties for the children of co-operators and employees, acquisition of building loans and to members that helped them improve their housing. *Former co-operators and onlookers in the same breath, recall how cooperatives played an effective role of ensuring that farmers got better prices for their agricultural produce. This factor substantially reduced the revenue losses they ordinarily incur when selling through middlemen. They were generally successful in enhancing member income and did improve welfare.*

Such previous benefits were narrated during the interviews. As can be observed from Table 2 below, education which currently takes the biggest chunk of people’s incomes and one of government’s big expenditure areas was considered as one important expenditure cluster where cooperatives used to be of assistance. It was rated by most of the respondents as the first important issue (16%) on which cooperatives used to help. Not

<sup>5</sup> Kisoro District was at the top in sending these shock waves. Kisoro was first of all selected on the basis of its supposed marginality in the Ugandan political and economic setup. It turned out that Kisoro had one of the thriving cooperative cultures from which critical lessons can be drawn in the whole effort to revitalize the cooperative movement.

surprising, the next best rated benefit was bonus (14%), most of which members would use to clear fees and other debts. The two may help as explanatory variables as to why the NRM that ignored facilitation of cooperatives is the first one to take the trouble of footing the education bill in a situation characterized by nationwide teachers' strikes and collapsing education standards.

In a coffee-growing area like Bugisu, the co-operators who are still struggling on with the institution narrated this "second payment", clearly expressing a sense of loss. As one respondent put it:

*"Yes, all money helps, but second payment money was more sweet. Most times, it came during the periods when people would be financially depressed, in what we could term as off peak periods. Somehow, most times it came when children would be going back to school or when a number of farmers would be having other pressing debts."*

To appreciate the value or benefits of cooperatives to members in what is considered the good old cooperative days, we turn to Table 2 below, for the diversity of the services and the ranking of those services in the perspective of the respondents.

**Table 2: Most Important Benefits from Cooperatives in the past**

Benefit/Service	Responses		
	Number	Percent	Rank
Support education	28	16.0%	1
Giving bonus/second payment to members	25	14.3%	2
Supplying agro-implements	19	10.9%	3
Stabilizing produce prices	18	10.3%	4
Provision of credit/loans	18	10.3%	4
Marketing of produces	17	9.7%	6
Building houses	15	8.6%	7
Providing employments	11	6.3%	8
Capacity to look after families	9	5.1%	9
Income generating activities	5	2.9%	10
Transportation of produce	3	1.7%	12
Members' bargaining power	3	1.7%	12
Income generating activities	5	2.9%	10
Total	175	100.0%	

People who were interviewed were nearly unanimous (94%) in their belief that cooperatives should be revived as indicated in the Table 3.

**Table 3: Support for the Revival of cooperatives in Uganda**

		Frequency	Percent
Valid	Yes	126	94.0
	No	5	3.7
Total		134	100.0

Clearly cooperatives provided a number of well-remembered benefits that spanned the entire country wherever cooperatives existed. These included, among other things:



## What were the benefits of the Cooperatives?

- As a channel of marketing- selling and buying of produce and necessities respectively.
- Negotiated good price for their members and paid bonus;
- Helped people earn income that educated their children.
- Most of the leaders previous and current were said to be beneficiaries of cooperative sponsored education.
- Acquired and provided subsidized inputs to their members.
- Enabled farmers get standardized quality agriculture inputs for farming.
- In the same way they insured quality of the product their co-operators supplied to the market. The demise of cooperatives following liberalization resulted in Uganda's cotton and coffee failing to meet the former world market standards.
- They provided training and education to the farmers as an extension service to improve their products;
- Cooperatives worked to train and foster leadership for the cooperative movement and management, with a spill-over effect to national leadership;
- They instilled a culture of saving into their members by encouraging and helping them do bulk sell and being paid at ago, unlike the current piecemeal payment at times done for unripe products in gardens;
- They were security to their members in acquiring and providing credit to them;
- They provided stores and helped to reduce post-harvesting losses
- Enabled the members to improve their welfare by building better houses using their savings or end of season payments;
- Cooperatives were a source of employment for people;
- They provided grounds and space for social cohesion, platform for exchange of ideas, counsel for communities, a stabilizing element in society and a means for building social capital. These intrinsic but invisible achievements were celebrated by merrymaking festival seasons at charismas, independence, New Year, etc.

Some of the benefits were specific to particular areas and practices of cooperatives in such area rather than being generalized:

- The cooperatives in Mbale region went an extra mile in caring for the communities. They provided money that helped in construction of schools like Nabumali High School and Masaba Secondary School, maintained roads and gave grants to institutions like Teso College, Aloet.
- In Lira and Mbale, they extended scholarships to students.

The other benefits were of a broad nature:

- Government got a reserve fund to fight fluctuation of prices from which it could borrow, and;
- Cooperatives promoted and boosted Uganda's economy.

A further glimpse into what cooperatives meant for people can be adduced from one old man's assertion in Masindi that:

*"Cooperative zikaba nizisasura kurungi. Kubansasuraga nagaruka nayehora nagura amabati nayombeka enju. Obunaherize kwombeka nagitaaha nagarama n'omukazi wange nindora ahiguru twasemererwa. Okuheza kwombeka enju y'amabati n'ekibiriti nakirazaga aheru ndole obuharabaho owajoshya." Loosely translated, "Cooperatives paid well. When they paid me, I then borrowed more money from them. I bought iron sheets and built. After completing the building I relaxed in it with my wife, enjoying the beauty of its roof scenery. After building an iron roofed house one could even afford to leave a match box outside by the door in full confidence that the house could not be burnt."*

The immediate quote above is one example of similar sentiments expressed by co-operators about benefits

of cooperatives in the past. They provided not just a means to financial security; but, for many, they were also a source of freedom from living under fear of potential arsonists that at times could burn grass-thatched houses and huts, especially in times of conflicts. The point is not arsonists taken literary, but rather, that cooperatives cushioned members against adversity

From Mbale the view was:

*“In Bugisu, cooperatives are a culture because the culture of Bagisu is based on coffee. In Bugisu when a boy grows up and marries, he expects his father to give him coffee... Then you look after your coffee and when you harvest, you take to the union, when the money comes they inform all of you and you come and get money, although these days the young boys sell their potion to go and ride boda-boda (motor cycles). In the past, there was even second payment, which was very good because it would come when children are going back to school and many times during off season. But also being in cooperative union it kept us together. During season festivals like Christmas and Easter, cooperatives would even purchase cows to slaughter and distribute meat to members. That is why we say that cooperatives are also our culture, because it brought us together.”*

While this fallback position was not without its own defects, it was completely assaulted by the government championed neoliberal policies, without providing an alternative insurance mechanism to these communities. The resulting a negative ripple effect that went far beyond the co-operators to feed into the national economic grid with elements perpetuated the vicious circle of poverty, like the downgrading of Uganda’s exports on the international markets.

## PART SIX

# 6. Citizen voices and perspectives from the in the districts covered by this study

This section draws from analysis of data collected in focused group discussions (FGDs), in-depth interviews at district level and regional consultative meetings held in Mbale, Kumi, Namutumba, Masindi, Masaka, Kisoro and Lira. At the onset of the research, the guiding hypothesis that inspired the study in simple terms could be summarized thus: “*Whereas cooperatives were a useful institution in fighting exploitation of producers by middlemen and economically empowering the population, generally they collapsed*”. Now with the benefit of field research behind us, the hypothesis is rendered null.

The situation was contradictory and differed from area to area. While some cooperatives did collapse, others survived or even prospered. In some areas, new cooperatives have been initiated by the people during this rather hostile environment. This is not to mention those that were formed at the prompting of the government in 2007, popularly known as the SACCOs. Although the SACCOs formed by government in 2007 had a very high mortality rate, the few that persisted are still operational by the time of our research. Table 4, below, provides examples of cooperatives and their activities in the areas of study.

**Table 4: Examples of cooperatives per zone as a sample site of the region and their core activities**

Region	Name of the Cooperative	What they deal in
Masindi Region	Kiryanga Growers Cooperative Society	Coffee
	Bategeka Growers Cooperative Society	Coffee
	Rwigere Growers Cooperative Society	Initially dealt in cotton and coffee currently Coffee only
	Atagirakiniga Growers Cooperative Society	Hires tractors to its members
	Kasano Growers Cooperative Society	Hires tractors to its members
	Kabalore Growers Cooperative Society in Bulisa	Cotton
	Mutajwaha Growers Cooperative Society	Cotton
	Kamarampanka Growers Cooperative Society	Cotton
Masaka Region	Luzinga Cooperative Society	Coffee
	Kabwangu Cooperative Society	Coffee
	Walyogamboty Growers Cooperative Society	Coffee
Kumi Region	Mukongoro Area Cooperative Enterprise	Produce marketing
	Onyakelo Farmers' Cooperative Society	Produce marketing
	Oleijo Farmers' cooperative society	Produce marketing
	Akadot Farmers' Cooperative Society	Produce marketing
	Atatur Farmers' Cooperative Society	Produce marketing
	Kapokin Farmers' Cooperative Society	Produce marketing
	Atarai Farmers' Cooperative Society	Produce marketing
	Mukongoro FCS	Produce marketing

<b>Lira Region</b>	Abongoryang Growers Cooperative Society	Cotton
	Abedoberi Growers Cooperative Society	Cotton
	Acankwoilwete Growers Cooperative Society	Cotton
	Alemele Cooperative Society	Cotton
	Agwiringiri Cooperative Society	Cotton
<b>Bugisu Region</b>	Lwambogo Growers Cooperative Society	Coffee
	Busano Coffee Pulper	Coffee
	Dowolo Growers Cooperative Society	Coffee
	Maduwa Cooperative Society	Coffee
	Bukhulenga Cooperative Society	Coffee
	Peace Kawomera Cooperative Society	Coffee
	Buyango Cooperative Society	Coffee
	Bumbobi Cooperative Society	Coffee
Fuuya Cooperative Society	Coffee	
<b>Kisoro Region</b>	Gitundwe Growers Cooperative Society	Vegetables
	Kabira Multipurpose	Vegetables

## 6.1 Making the case for revitalising cooperatives

Cooperatives helped farmers through technical advice, acquisition on and use of common inputs, such as the same dip-tanks, and standardised animals drugs. In the past, the milk that was taken at the collection centres used to have the same price without bargaining and negotiations, which meant people, would supply quality milk. (Dialogue in Mbarara, April 2013). Therefore, it was not surprising that most of the co-operators wished for revived and revitalised cooperatives to address the issue of inputs and extension services, including farmers' education about cooperatives as the most important need (see Table 5 indicates below).

**Table 5: Most important activity people wanted revived cooperatives to handle**

Desired Activity/Service	Responses	
	Number	Percent
Provide Agribusiness services	52	25.9%
Marketing produces	36	17.9%
Provide savings and credit	34	16.9%
Train & educate farmers in cooperation	25	12.4%
Create income-generating activities	17	8.5%
Do value addition	12	6.0%
Revive primary societies	11	5.5%
Give out seedlings	7	3.5%
Give bonuses	5	2.5%
Employment	1	.5%
Produce processing	1	.5%
TOTAL	201	100.0%

The needs expressed in the table above also reflect both the neglect and mismanagement of the agriculture sector by the authorities supposed to be responsible for it. The views represent expressed desire of what farmers would want the government to do to create a facilitating environment. One dialogue participant in Mbarara re-emphasised what had been mentioned by others thus:

*"The biggest number of highly educated senior officers of today and yesterday, studied because their parents, especially fathers would sell produce to the cooperatives and get school fees. Others would just present the receipts from the cooperative to the school even if the cooperative had not yet paid and children would be allowed to study"(April 2013).*

Cooperatives improved people's welfare and brought about decent housing, most of the people who have got good houses built them because they could sell their products through the cooperatives. During that time of vigilant cooperatives, the quality of Ugandan coffee was very good, because there were quality control

measures. The buying and selling points would accept only ready and dry coffee beans; unlike nowadays, when coffee is sold before harvest. The current system is based on survival for the fittest, which means whoever comes first, takes it in whatever condition, at the expense of Uganda's image. Ugandans are now taken as producers of poor quality.

### Experiences from next door in Kenya

The Cooperative movement in Kenya has played a big role in the development of financial literacy and enabling the pooling of resources for investments and wealth creation. The total SACCO subsector in Kenya was worth \$2.5 billion in 2010 with 5,544 registered SACCOs and controlling almost 10 percent of Kenya's GDP. And the cooperative sector employed over 300,000 Kenyans directly and many more indirectly. (Rugasira 2013, p. 180).

During the dialogue in Mbale, some union officials observed, how the cooperatives prospered when they had monopoly on purchasing coffee, because they could enforce quality control measures on their members and in return brought in a good price that benefited all. They also noted how some of the surpluses made by the union were used in cooperative social responsibility to patronise the community. It was observed that a school like Masaba Secondary and Nabumali High was constructed using Bugisu Cooperative Union Money. The cooperatives produced all-round benefits to individuals, to immediate communities and the country at large, thus even benefiting non-members. The sentiments about similar efforts by cooperatives patronizing communities, in different ways were re-echoed in Masaka, in Mbarara and in Lira during the dialogues. The truthfulness of these actions was verifiable using the data collected from focus group discussions and individual respondents. In what follows, we attempt to present the key findings on the basis of the areas visited, closely following on issues that the people's voices deemed important to them.

## 6.2 Bugisu Cooperative Union [Mbale]

Predominantly, people understood cooperatives to be synonymous with coffee, but not limited to it. It was understood that formation of cooperatives was possible on any matter of common interest. All it required was like-minded people organizing themselves around an issue and agreeing to operate in certain regular ways, guided by similar rules. In their case, the cooperatives helped them pool their products, in particular coffee, and selling together through Bugisu Cooperative Union. They, however, noted that some people did not have coffee and therefore BCU was irrelevant to them, when one discussed cooperatives. They laboured to explain that cooperatives were what linked or knitted them together as Bagisu. As one respondent put it, *"As Bagisu farmers we join and can produce and market together. It is what joins us as Bagisu, a foundation made by our ancestors."* Accordingly, coffee is important in all this, *"for a Mugisu man, even if you have one acre of land you have to plant two or three trees of coffee"* as a source of finance. *"And when a child is born he or she is given coffee to test at the naming ceremony"*. Another complimented, *"to us cooperatives are unity"*. In all the discussions what kept recurring was that cooperatives helped the members in coffee marketing, education of children, advancing of crop finance and provision of farm inputs. They added that in the past (Obote II period – 1980-85), pest control was also a priority of cooperatives. Cooperatives used to help as a source of school fees, second payment in May, which was very useful in purchase of food, provision of bicycles to farmers and was used as a basis for credit acquisition from friends before one got the actual payment. The cooperatives helped build stores as well as schools and pay bursaries for students.

Although a good number of farmers had returned to the union, many still sold their coffee to private businessmen, because of the pressing cash needs. They sell quickly to middlemen who pay them less money, taking advantage of the farmers' difficulties. The situation that compels people to sell at a loss to middlemen is the biting poverty. This situation, as one respondent put it,

*"...is made worse by the fact that the plots of land are small, no one will employ you and there are no factories where one could work. This makes coffee one of the remaining major source of income for every other expenditure". Another co-operator gave some insight into why some of them decided to stick with the union by stating that: "Companies may pay higher price, but not necessarily more than the union. The union has other benefits that are part of what goes into total payment that a company would not march. That is what is attractive in cooperative unions."*

The respondents in focus group discussions observed how cooperatives were not good at business compared to individual buyers, but that did not make cooperatives necessarily bad in their view. People argued that cooperatives were good and any problem that might be identified with them was because they were spoiled by bad people. 'Instead of destroying or abandoning cooperatives, it should have been the bad people to be ejected and imprisoned', was a strong view.

### 6.2.1 The challenge unfolds for Bugisu Cooperative Union

BCU that was born and nurtured in the protective comfort of the business shadow of a patronizing state was ill-prepared for the economic liberalization storm. It had debts and interest was accumulating, while its infrastructure outlay was not being fully utilized due to lack of sufficient amounts of coffee from its members. The overhead costs remained the same and total liquidation became a real possibility. The introduction of liberalization both in spirit and speed was not in tandem with the cooperative spirit. And it was observed:

*"At least, we had never seen such a scenario here in Mbale. These were not normal traders. They were buying everything, at such a speed, without regard for quality that farmers, especially the young, never saw any use to continue conducting business through cooperatives and Bugisu Cooperative Union. It was as if free money was raining into the area. Under such a situation it was difficult to tell farmers to sell their coffee to cooperatives. Since primary cooperative societies had no coffee, and they were the BCU members, it too run dry."*

The immediate consequence of liberalization's impact on cooperatives was a change of the mind-set on the part of authorities. In Mbale it was noted how that change "*deprived cooperatives of access to finances, making it hard for unions to do business, because they used to depend on government funding of crop finance to procure farmers' coffee, as they never had their own money*". Others argued that if government had acknowledged that some of the problems cooperatives faced were similar to those of the rest of the economy, badly damaged by war, then it should have been possible to work out an arrangement that would have allowed cooperatives to continue being economically active, protected the quality of the products and farmers from exploitation of middlemen, without stifling liberalization. This opportunity was missed, as one senior official in Bugisu Cooperative Union noted:

*"Even some of our other East African sister states have liberalized but they did not allow the private individual buyers to compromise the quality of the product. For the sake of quality control and maintenance, competition was allowed at the level of the union and not below. The private business people who want to process or export products have to purchase from the unions. The union purchased from the farmers' subject to standards being met. In that way, it became a win-win situation for all involved. The Unions kept utilizing their huge physical infrastructure outlay; the business people purchased quality products from the union, the government benefited by way of more foreign exchange and increased revenue and farmers' better payment. Also the reputation and business image of the country was protected."*

One respondent in Mbale emphasised thus:

*"They said they wanted the market to guide the competition, but the ground was not levelled. It was against cooperatives and in favour of the most crooked trading speculators who jumped in to make a quick kill, with no concern for the effect that it would have on the industry. The cooperatives assets were looted, in some areas destroyed and in others just seized (including coffee and money) by the advancing NRA. Before they paid their debts, they introduced such an absurd policy to deprive the majority of Ugandans their few resources using the market. How could cooperatives be told to compete with well-financed companies, some of which were foreign? So if they were better than cooperatives, of those companies that mushroomed following liberalization, local or foreign, go and do the counting. How many are still operational? Of the original more than 200 speculating companies, about three remain and only one is exporting. That is how great a success liberalization has been. But we are still here struggling for ourselves and our people. Our*

*spirit and unity has preserved us. Otherwise liberalization, denied the union the volumes of coffee needed to break even, and yet the overheads were still the same.”*

Another respondent in Mbale put it this way:

*“Liberalization couldn't have helped cooperatives by introducing and favouring unethical private buyers, and depriving us of business unfairly. Yet we had borrowed the funds from the African Development Bank and other institutions we had to pay back.*

## 6.2.2 Resilience of Bugisu Cooperative Union in the faceoff with liberalization

Two names are prominently resounding in the vocabulary of cooperative unions in Uganda. One is Nyakatonzi Cooperative Union (NCU) in Kasese, which deals in cotton as a major activity and the other is Bugisu Cooperative Union that deals in coffee. The two have navigated the turbulent waters of economic liberalization with respectable degree of success. However, NCU is a significant beneficiary of external funding that partly may explain its success. On the other hand, BCU has navigated itself to a safe economic harbour predominantly on the basis of its own effort. This introduces us to the next issue, of how BCU adjusted to the impact of economic liberalization. What worked and what did not work for it? To the extent that it did, why was it successful where others failed? What lessons can be drawn from its experience?

At the time of liberalization BCU had put its feet in the international market, exporting branded Arabic coffee. When liberalization was implemented in the coffee sector, its major unforeseen challenges occurred notable among them was BCU's loss of monopoly to purchase coffee delivered to it by member societies. Additionally BCU lost its competitive advantage to shrewd and skilled private businessmen in purchasing of farmers coffee; lack of money to pay on cash basis as compared to their well-funded competitors; coupled with debt overhang from previous commitments. In particular, the loans from banks like African Development Bank, among others, posed a real threat to its survival. Side-by-side were efforts to cushion itself from the psychological trauma and demonization of those who were marketing the merits of the policies of liberalization and privatization versus any collective social endeavour of cooperatives.

While government argued that it wanted the market to guide the competition, the ground was not levelled. It was against cooperatives and in favour of the most crooked trading speculators who jumped in to make a quick kill. Middlemen purchased from the farm-gate and paid desperate farmers instant cash, with little, if any, attention paid to the quality of coffee. The farmers would even be paid upfront for their green coffee beans and at times flowers. Farmers saw this as a less costly way of earning money than the long process of going through the primary producer and marketing cooperative societies, which would then deliver the coffee to BCU for exportation. Left with very limited space for manoeuvre, it took a courageous timely decision to cut its losses. It sold off some of its estates acquired during the good past times, in order to pay and free itself of the debts. It also rented whatever other assets it had, especially estates in Bugisu that could earn money.

In order to retain and attract coffee supply from members, it replicated the move of its competitors by reducing quality demands from farmers, apparently with disastrous consequences. The compromise in BCU's coffee quality standards resulted in unforeseen hazardous response from competitors. While Bugisu area was expected to supply branded Arabic coffee, the private traders, in absence of regulatory control on their activities, bought Robusta from other areas, mixed it with local Elgon Arabic and exported the stuff. When the latter factor combined with relaxation on the coffee bean management at farm level, the general outcome was the inevitable downgrading of Uganda's Arabica coffee on the international market.

### 6.2.3 What worked for BCU during the transition times

- Good quality Board Leadership and management staff was the most important. full of commitment and unusual integrity without which the other things would not have been possible.
- The institution remains an identity symbol of Bagisu pride, which helps it to be patronized in ways that would not make business sense to profit maximization models.
- In particular, the old people have a historical connection to BCU, which has helped it to remain supplied with reasonable quantities of coffee in hard liberalized times. This supply provides social subsidy to it that gives it invisible competitive advantage.
- The perennial nature of the Coffee crop, its high value on the world market and intergration in the Bagisu culture so they patronized it in ways that would not have been possible in other places.
- There is a pool of committed senior citizens, determined to voluntarily pass on the values and importance of cooperatives to a new generation of young people which has yielded a new generation of leadership.
- The investments in real assets of buildings and land, helped BCU to have a resource base that became handy to rid itself of debts and continue paying for overheads even in the worst times. BCU is one of the two biggest landlords in Mbale Town, owning premium real estate.
- Cooperatives as a source of unity, a sense of belonging, social solidarity and for BCU as a channel for enhanced sense of farmers self-organization, has enabled it remain afloat.
- Extra incentives like second and bonus payments, slaughtering cows and distributing meat to members during festive seasons like Christmas and Easter, won the loyalty of its members.
- BCU's previous cooperative social responsibility like Masaba Secondary School and Nabumali High School helped it retain goodwill when the bad times came.
- Reform in union byelaws permitting both cooperatives and farmers to directly deliver supplies to it.
- BCU showed hope and promise of getting better by paying farmers more quickly than before, giving hope to future cash-based payments.
- Ability to move and act fast by selling off assets in New York and Mombasa to pay off debts and their strategic patience to allow liberalization run its course
- Coffee farmers learning from their mistakes of favouring quick cash over other non-cash benefits and deferred second payment

### 6.2.4 What did not work for Bugisu Cooperative Union during this transition period?

- The liberalization spirit split the Bagisu cooperative culture into the middle, along generational lines. The older generation stuck with a sense of commitment to patronizing their cooperatives and BCU as they had done over many years.
- The young generation ("liberalization kids") adopted the culture of quick cash, and averse to the patience required by coffee farming and cooperative membership. Instead of coffee farming they rather sell their portion of land and go to ride *boda-boda*.
- It lost many of its membership as some cooperative societies' closed shop, due to farmers selling their crop private companies.
- It lost some of its assets as the only way to make itself debt-free.
- Loans: instead of bolstering BCU business capacity they crippled it.
- It failed to protect farmers who formed its membership through cooperative societies, from the exploitation of the middlemen. The quality compromise made BCU lose its market niche at the international level, which it has not regained to date.
- BCU itself by compromising quality in order to retain business, in the end still did not stop it from losing its premium export market. It was only able to retain some coffee supply at the cost of its niche market.



- In particular 2003- 2008 it had to suspend business, as it had nowhere to sell coffee.

### 6.2.5 Wider context lessons we can draw from BCU experience

- The quality of leadership on the board and management is the most important aspect for a Union to succeed in hard times.
- There is need for cooperatives and unions to invest in insurance for unforeseen future.
- For institutions to be sustainable, they have to invest in goodwill as an intangible asset for an organisation
- Unethical business practices are not away to compete but a sure way to self-destruction and should be discouraged, however appealing they may at times appear to be.
- Never give up when you are doing the right thing.

## 6.3 Masaka Cooperative Union [Masaka]

Masaka belongs to the regional belt with a strong tradition of coffee growing, which provides the foundation for the cooperative institution. It is part of the Central or Buganda region, where the very first cooperatives emerged in 1913 to challenge the exploitation of the farmers by middlemen (Khisa, 2013 Kyamulesire, 1988). The activities of cooperatives in Masaka were organized under the umbrella of the Masaka Cooperative Union, which started in 1951 and reached its peak in the 1970s when it had a membership of 240 societies.<sup>6</sup> These societies diversified into many production and business activities.

The fortunes of the cooperatives in this area were seriously affected by the 1981-1986 war. According to an official of the union, the war destroyed a lot of cooperative assets, including coffee stocks, transport trucks, motor spare parts among other resources. Unfortunately, the unions had contracted bank loans and interest was accumulating. The union used proceeds from coffee trade to pay off the bank loans. This financing formula collapsed when in the 1990s the government liberalised the economy, including coffee trade. Liberalisation allowed private individuals and companies to trade and purchase coffee from farmers directly. Overnight, the monopoly of Masaka Cooperative Union in coffee purchase in the area evaporated. Masaka Cooperative Union could not compete with individual buyers because of numerous reasons which included bureaucratic inertia, under-capitalization, and the individual traders' disregard for quality, which the union considered important. This resulted in the deterioration of the quality of Uganda's coffee to the point of being rejected.

As if fate conspired against cooperatives and the union, while they failed to raise the necessary volumes of coffee, interest kept accumulating, and international prices of coffee dipped. Unable to meet their loan obligations, unions dropped out of business. The level of asset destruction was enormous, including looting of all union coffee (most of which had been purchased using bank loans), destruction of machinery, stores and 50 vehicles (the value equivalent of which only 5 were repaid) forcing the union to liquidate most of its assets to pay back some of the money. The collapse was a serious loss both to farmers and the union they lost a relatively stable market and employment; Masaka Cooperative Union alone employed about 1000 people. Once cooperatives were out of the way, private individual buyers would claim high moisture content in the coffee to underpay farmers, fiddle with the moisture meters to give false readings and tamper with weighing scales. Farmers lost the education skills unions used to provide them in production techniques for both old and new products. Farmers looked to cooperatives as a source of technology in producing new products like pineapples and poultry beyond the traditional coffee crop. The farmers also lost benefits like scholarships and advance payments the cooperative institution used to provide before it collapsed. Generally, the abrupt shift of government policy was a serious challenge. As a respondent in Masaka noted:

*"It was not actually favourable to the cooperative movement, it was brought very fast yet cooperatives were not used to such competition." Another member put it that liberalization was about: "...Okutta abasubuzi*

<sup>6</sup> Interview with MCU Chairman/Secretary on 13 April 2013.

*benonyeze akatale*". Loosely translated to mean, "Freeing business people so that they look for market by themselves".

In agreement with the views expressed by other respondents from Masaka, one noted the following on the government's liberalization policy: "It was an intention to kill them" (meaning destroying cooperatives). The reasons and evidence a number of people gave to back up their claim was that:

*"At the time of abandoning cooperatives, the chairman of the cooperative Unions had won the District LC Chairmanship, in nearly every district where a union was based in Buganda. Government must have viewed cooperatives with suspicion as an alternative mechanism for mobilizing resources to advance political objectives. Co-operators were potential political leaders and this must have been viewed as a potential threat to the monolithic ambition of those in NRM to monopolize power." Government privatised cooperative Union without any consultations assets, as if they were state property,*

Many respondents from Masaka raised the issue of lack of fair rules and practices as a major shortcoming of liberalization. To some, this made liberalization, "disastrous for cooperatives and their members". To exemplify this, one further noted that:

*"Liberalization came at a wrong time, it was a policy that came in shortly after war, yet during the war, property had been looted, taken by the forces of the liberators, and then the same people liberalise all sectors, where would the cooperative movement run to, after depriving it of its property, which had not been paid back. As if the aim was to put the last nail in the coffin of the cooperative movement the Cooperative Bank was also closed down." Unfortunately, one notes: "... from the time liberalization was introduced in 1990s it has never been evaluated to establish its exact performance and benefits. We are only fed on impressions of the figures of the economy as growing, when the majority of the people are economically stunted. The question is which and whose economy is actually growing?"*

The playing field was not levelled and indeed there were no business rules to play by. The cooperatives could not march the manoeuvres and unethical practices of the shrewd private businessmen. As a respondent put it, *"Ffe twali twewezeza, nga tuwezeza ba memba baffe. Abasubuzi bali ku magoba"*- meaning - "as cooperatives we were serving ourselves, by serving our members, we had community concern. The businessmen were only interested in profits". Thus the unethical and illegal actions of businessmen, in the absence of an effective government business regulatory framework, unfairly pushed cooperatives out of business. However, it should be noted that: *"Amidst all the challenges, Masaka cooperative union never at any one time totally closed but was simply operating on a low profile and it's only of late that it is expanding its activities. It never closed because it was built on good will which has sustained it"* (Secretary, Masaka Cooperative Union).

Such is the determination and resilience of cooperatives which included keeping low profile was to avoid attracting the attention of banks that would have come to demand payment during such hard times. The expansion of the union activities was recently boosted by Fair Trade International (FTI) from Scandinavian countries and an organization called Solidaridad from Italy, both of which have provided funding to revive the cooperative societies. Fair trade is also seriously helping with market, in exchange for ethical business practices by primary cooperative society members at the local level. The number of cooperative societies being revived and brought on board by the union is currently on the increase. It was the expressed view in most of the focus group discussions (FGDs) that rejuvenated cooperatives in Masaka should focus on production of coffee, pineapples and general marketing of new products. They should also be responsible for quality control of the products and provision of inputs for farmers. New unions like Kibinge Union and Western Buganda Union, have been initiated in the region. This was one of the few cases, in the country where new cooperative unions were emerging. Otherwise, the tendency had been to rejuvenate the activities of the old unions.

## 6.4 Lango Cooperative Union [Lira]

The sentiments on the social benefits of cooperatives were reiterated in the dialogue in Lira, where participants emphasised that the greatest loss they had suffered as a result of decline of cooperative activity was not just money, but a mechanism for constant interaction and social cohesion. This was in tandem with the rest of the country as can be observed in Table below this is one of the issues respondents favourably recalled about cooperatives and rated highly at (23.7%) throughout the country.

**Table 6: Positive experiences associated with cooperatives**

Memory of Cooperatives	Responses	
	Number	Percent
Relationship & Unity of members	36	33.33
Stable produce prices	26	24.07
Members were not allowed erratic withdrawals	14	12.96
Transparency of leaders	8	7.41
Govern provided crop finance	6	5.56
I.G.As	6	5.56
Storing produce	4	3.70
Credit/saving facilities	2	1.85
Acquired education/training	2	1.85
Provision of appropriate technology	2	1.85
Provision of employments	2	1.85
Total	108	100

According to one former technical officer in Lira, there was failure to sufficiently provide knowledge and skills to all members to enable them run the cooperatives efficiently.

*“The disappointment was at annual general meetings, we had to discuss the annual statements of accounts and because the majority of the farmers had no idea what the figures represented they would rejoice even over losses. They later went on to celebrate about the profits made not taking into account the massive losses reported. They were not empowered individually and only had knowledge of basic transactions. In addition, there was a lot of interference from the government especially during the upheaval years, which ultimately led to the fall of cooperatives and finally the global economic upheaval smothered them.”*

In other words, the members lacked the requisite knowledge to appreciate that it was their sole duty to run their business and to critically analyse the audit reports. It is also for the same reason, other than the unfriendly 1970 Cooperative Act, that they could not hold management accountable to them. The understanding of cooperatives in Lira among different generations showed remarkable differences among those we sampled. Whereas they all considered the element of joint or common undertaking in realizing objectives, the older generation was more classic in its definition. They emphasised things like ‘member formed’, ‘member controlled’ and the like. The young people, on the other hand, were more flexible on the things within their environment such as cooperatives having a common store where they would put your products to sell jointly at a good price. The youth also wanted involve *Bol Icup* (savings) and *Awak* (communal cultivation) involved in cooperatives, an understanding of cooperatives based on the realities of the area that recognized the need to link production to finances.

The importance of cooperatives was understood, first and foremost, as a means to market access and social support. As expressed in some of their own terms “group good price for the crop”, “credit for fees” and “support from members in bad times”. In a problematic and contradictory conception of what cooperatives meant, a number of people, especially the young, who identified themselves as not being members of any cooperatives, would reply that they belonged only to a SACCO. In the minds of the people, the word cooperatives, referred to the old structure of growers cooperatives and SACCOs were yet to brand themselves

as cooperatives. People's understanding was also informed by their vulnerabilities and strength. As one retorted, "the reason people join hands together is to support each other". That was why cooperatives made sense in terms of people gaining the initiative to take their future in their own hands, trusting in their collective abilities.

It should, however, be noted that, even within these same communities, cooperatives dealing in similar things have different practices, responding to diversities within their community. Therefore, to get people to become wholly involved with cooperatives, will require a lot of sensitization. The communities have burnt their fingers and lost resources many times; hence the sense of betrayal. If cooperative leaders and managers cannot explain themselves to be understood by potential co-operators, they will not get people to join cooperatives. This is because people have seen it before and they know it can happen again -- where they lose their savings overnight. During the focus group discussions in Lira, a number of participants supported the view thus:

*"We mainly join Bol Icup because we understand it and trust it. We also trust Awak, because it uses local things known to us. However SACCOs have many new things, and cases of losing money, one has to be careful. They are like banks and can take your property."*

The other incentive for belonging to a cooperative was because people were aware that external help always favoured organized groups. Like one expressed, "*being in a group can be beneficial in that one can get support from NGOs and or government like fees or start up capital*". Despite the mistrusts, the people understood and valued the fact that a , cooperatives would be social collateral to bridge a serious deficit for many communities, which lacked property to mortgage.

The benefits of cooperatives are expected to include employment creation, provision of subsidized and good quality inputs, provision of functional advice and knowledge to farmers, and improving access to markets. One focus group discussion in Lira, deliberated a creative solution to their problem of storage. As one struggled to put it: "*The stores should be revived and built at the village and parish levels. We (the community) should coordinate with the old leadership of the stores who are aware of the land of the society*". From this statement, it is clear that people did not even know the exact location of some of the property that belonged to the former cooperatives, which could easily result in conflicts. People suggested the cooperatives to be managed by their own-local people and not outsiders as one put: "*They should use local people to work in the cooperatives and not to bring in foreigners from outside because people will be scared and move away.*"

In a situation where many do not trust any managers, preference is to work with those to whom they are close and trust. This means that management and co-operators might have to share certain commonalities, like ethnic identity, residential proximity, language and production activities, among others. All these might be the people's own conception of reducing impersonality and increasing the potential to hold accountable those they know or even veto them before they get close to their cooperative resources.

## **6.5 Bunyoro Cooperative Union [Masindi]**

Masindi district which was carved out of the the original Bunyoro subregion in mid-western Uganda presented an interesting case of contradictions. Bunyoro Growers Cooperative Union which once boasted of a 65 square miles Nyakyana Ranch with over 2000 heads of cattle, a flourishing Hides and Skins Business, Capentry and Metals workshops and a petrol station, is now a shell of its past glory as illustrated by onespondent this study: "*previously, every parish in the district had a primary society and a store, but only the latter now remains and most times not in a good state*".

While lamenting their situation of a lack of unity amongst farmers one respondent had this so say; "*The farmers as a whole are willing to plant the crops but what they need is a unifying factor, something that can give them a cause to work at achieving one purpose.*" This is a very interesting revelation because while this FGD felt a lack of unity, Masindi is also home of two farmers organisations namely: the Masindi Seed and Grain Growers Association and the umbrella Masindi District Farmers Association (MADIFA) which bring together all farmers in Masindi. But this has not meant that the smaller farmers feel that they are part of the big famers association.

Masindi is home to the Kinyara Sugar plantations and many commercial farmers mainly producing maize, surgham, cassava, potatoes and vegetables like cabbages for the Kampala market. The region is also home to natural resources like Budongo forest, The Murchisions National Park and the new Oil Industry. Masindi is also home to immigrants from the West Nile region of Uganda, displaced people from the war in northern Uganda, the people displaced by mudslides of the Mt. Elgon in area of Eastern Uganda, refugees from Sudan and the Democratic Republic of Congo.

Despite all these opportunities the one striking feature in Masindi was the relatively more visible poverty of the people.. as articulated by one participant in the focus group discussion: *“for us we need help as we are overwhelmed by the expenditures like school fees, medical bills and purchasing food leaving us with any money to invest”*. There was a consensus definition of cooperatives as summarised by one respondent as institutions of those with similar interest and organized to advance them in local dialect; *“abaryakamu”*, literary translated *“those who eat together or trust each other”*.

Although respondents had limited understanding of the term *“liberalization”*, there was unanimity on its impact as a government policy which was not favourable to cooperatives. One argued, *“It is the one that caused farmers to sell green coffee not ready for harvesting.”* Another one interjected, *“How could it be said that there was benefit for us when they left the buyers to run the coffee market with their false weighting scales?”* People observed that private buyers purchased coffee even when it was still in the garden and farmers obliged because the times were tough. One respondents observed the difficult situation farmers find themselves in; *“once they start criss-crossing the village looking for coffee, it’s better to sell as we have had incidences where young men lured by them will steal your coffee”*. Participants in the focus group discussions in Masindi made a case for an external catalyst role of a partnership between NGOs like Actioniad, Private businesses like FINCA and government in the revival of cooperatives. They wanted revived coopeatives to; help them acquire inputs ploughs, seeds, subsidised pesticides and access to idle land on credit. Notably all these expectations on cooperatives were related to food production, underscoring the importance of the challenge of food security in the area. The youth expressed their frustration with unemployment and spiritedly argued for their inclusion in the cooperative movement through ICT-based projects and tractors loans payable from the sale of their farms products through hire purchase.

## 6.6 Teso Cooperative Union [Kumi]

People in Kumi acknowledged the origin of registered cooperatives in the area to have been based cotton growing, which was their export crop at the time. Cooperatives used to provide services, ranging from input provision to education of farmers, storage and marketing of the produce. The issue of standards was accordingly paramount. As one woman explained:

*“Those old cooperatives if you took cotton not sorted you would either be made to sort it there or would have to take it back. Now with traders there is no need of sorting.” This implied impact of liberalization was reinforced by the chairman of Teso Cooperative Union, who observed that: “The Cotton Development Organization, left investors to sell unsorted cotton grade II, they had promised farmers 1000/= per kg based on estimates of grade I, and ended up paying 300/= because Uganda’s cotton which used to be the second best cotton at the international market lost the position. Uganda pushed itself out of the premium world market. Our product was downgraded and so was the price it would earn. If Uganda could export quality cotton it would earn a better price to pay farmers.”*

This situation, shows how the liberilistion policy achieved unintended objectives. One of those was a depressed market price both locally and internationally, forcing farmers out of cotton growing, at the expense of cooperative societies and unions whose elaborate cotton marketing infrastructure was rendered redundant, but with maitainance costs.

Although people credited the old cooperatives for providing support services to farmers in an integrated manner, they pointed mismanagement by leaders as well. One respondent in Kumi noted that: *“Chairpersons of societies would divert money for paying farmers; use it to do their own businesses before paying. They*

also used to cheat people. Here in Kumi some of them would use the excuse of quality to manipulate and cheat farmers by underpaying them, and later would sell the same cotton to the cooperative at higher prices. This manipulation and theft has also extended and is even worse in some of the new cooperatives". Another respondent in Kumi said that: "For such troublesome managers, the environment created by liberalization, was a personal opportunity to realise in a big way, what they were already doing." Even with the current efforts to establish SACCOs, lack of trust in the management worries the people of Kumi.

Such disappointment with cooperative management was also mentioned by an official of Teso Union, observing: "Management was not always up to the task nor well intentioned. Like we owed farmers money and would not pay for a long time. Such practices hurt and discouraged farmers, who shifted to alternative crops." The origin of the problem was, as most people observed, and one put it: "The members never owned the cooperatives (from the very beginning after independence), they never attended meetings and this was because government just imposed this programme on people without sensitizing them, with some people even refusing to join cooperatives."

As an antidote to similar situations arising in future, people suggested that SACCOs should employ technical officers who are not government employees. The people in Kumi argued that, the District Commercial Officer was irrelevant for cooperatives, and either did not know much about them, or was not interested recommending that the commercial officer be replaced with a Cooperatives Officer. The people of Kumi have since shifted from cotton to new cash crops like groundnuts, cassava, potatoes, sorghum, maize, soya and rice. One respondent, in making a case for revived cooperatives to organize around new products noted; "more production is what is needed, every crop produced at a large scale can be a cash crop". There was general recognition that people needed functional education, through a partnership between government and other interested parties, in order to produce a meaningful quality and scale, and that cooperatives would help as vehicles for organising members.

A senior official of Teso Union advised that cooperative unions could move into trading in grain but there were a number of hurdles to this too; the two stores per parish that the Union owned had since crumbled during the war; There is a legal prohibition of a union registered for cotton trade to change and start trading in grains directly, and not through its members; the most serious problem being a leadership deficit. Respondents constantly serious leadership problems whether in NGOs or LC 1 to LC 5, that appeared to fail every initiative in the district. People expected that for cooperatives to be effective, they also had to work as channels of knowledge and policy from government to their members and all these required serious leadership. The people of Kumi wanted the revived cooperatives to be flexible, organized around any issue of common interest that generated income, rather than a desperate effort to push everybody into the so-called traditional cash crop of cotton. In Kumi, participants welcomed the idea of taking the SACCO approach provided the loopholes such as the manipulation by politicians and other players with self-interest were plugged through a effective policy and legal regimes by the government. This was one of the few areas where SACCOs were viewed in the positive, because SACCOs was viewed as having arisen from the the need to cooperate to overcome poverty characterized by lack of money. Respondents recommended focusing the revival of cooperatives on value addition. The support for SACCOs in Kumi was partly due to the fact that their original cash crop cotton, and its entire marketing infrastructure had almost been wiped out. As a respondent narrated, "we had cooperatives, but they are no more what exists is only buildings in some places".

The above problems pointed to the need for constant vigilance by members cooperators and educating farmers on their role in cooperatives in holding their leaders accountable. There was also serious need for regular field supervision, monitoring and enforcing compliance to the laws and procedures are observed and based on the rules of ethical business. The situation in Kumi pointed to two things; the cooperative potential of village associational schemes have not yet fully harnessed; the increasing need for affordable capital not yet fully met. All these required leadership, a critical deficit according to majority people's views in Kumi.

## 6.7 Busoga Cooperative Union [Namutumba]

It was in Namutumba that we were first treated to the true spirit of cooperatives. We had a communication failure in informing the local village officials about our arrival in the area, so we directly went and introduced ourselves to the local area LC chairperson, who also doubled as the chairperson for the area primary cooperative society. Noticing the researchers apprehension, he observed, *“Engeri jemuli ku bya cooperative no-myanyi, temutya. Abantu tugenda kubafuna”* – meaning, *“Since you are here for cooperatives and coffee, we shall get the people.”* This was the chairman of Kaiti-Akuroga Cooperative Society. Indeed, in this seemingly economically depressed area, it was evident that the cooperative spirit and their creative potential was still alive. To our amazement, the chairman pulled his drum from where it hung, reached for tree branches and started drumming it as we walked towards the trading centre. Within about ten minutes only, several men, women and youth gathered around for a focus group discussion. In Busoga the main crops that the cooperative societies invested in were: cotton, coffee, maize and groundnuts.

In Kaiti the area is characterised by a typical crumbling rural economy, as we show later in this report. Busoga’s economy is visibly a ghost of its former thriving self; permanent and semi-permanent houses belonging to the old generation still exist. These houses were built using proceeds generated from cotton and coffee. Coffee still exists in the area, but as one respondent put it: *“tukyalima emwnayi kubanga nnyangu okulabirira ate oluusi nemowendo gyeyongera nezitusikiriza okusigala nga tuzirima”* -- loosely translated: *“we are still growing coffee, because it is easy to keep and at times prices rise”*.

People’s understanding of cooperatives is limited to the old generation growers unions and societies only, the current belief of the young is that cooperatives long died and they associate with SACCOs which they do not recognise as a form of cooperatives. This was affirmed by one respondent who said *“They all died and we are remaining with the stores that used to house them.”* When tasked to explain their involvement with SACCOs it was ironical that not a single SACCO was cited except the BRAC microfinance institution in the area.

To show the detachment of the current generation from the usefulness of cooperatives, it was surprising that while most of the crop yields lay to waste because of lack of storage there was redundant infrastructure of former cooperatives that could have otherwise been utilised. This affirms people’s perception of themselves as members not as owners of cooperatives and cooperative assets.

In Kaiti, people pleaded for the revival of cooperatives to realise benefits of, quality control, subsidised inputs, crop financing and better pricing for their produce. In the absence of cooperatives, people felt vulnerable to the whims of the middlemen as explained by one of the respondents below. *“After independence we thought middlemen had been eliminated but they are now back in full force.”*

One old man complained:

*“The middlemen come here, and get our sweat in form of produce almost for free. They come, hoodwink you with nice promises and words, about what to produce or the good prices they will offer us for coffee in Luganda a language we know, but once we have the produce and need the market, they return changed speaking English a language we do not understand. At times they even don’t return, they send their agents with completely new terms. They cheat us as they like, because we have no choice. They are Ugandans or blacks like us, but actually they are worse than the Indian middlemen who used to cheat us.”*

It was once again strange that in a market-led economy, producers were speaking of having no choice yet government and World Bank promised that liberalisation would widen their market. People were bitter with the way private buyers manipulated weighing scales to arrive at weights different from that of the farmers. They reported that this manipulation often led to about 30 per cent loss in the value of their produce. The farmers’ plight was exacerbated by the use of asymmetric information, which middlemen monopolised and used to exploit them.

Pointing at a former store, one respondent retorted: *“From cooperatives that were vibrant, today we remain with shell structures that you see there. Instead of teaching the youth leadership and cooperative working*

*system, we only point to those buildings to let them know that there was a time when things were different. We hear they have their cooperatives of SACCOs, but really these young men who have not been disciplined in production, how can they handle money?"*

To succeed in getting sustainable cooperatives, the one quality people in Namutumba insisted on was that cooperatives remain non-partisan. They insisted that government had many ways it could link with communities to help cooperatives. The youth badly wanted credit that could be accessed easily, but which should also be affordable. For example, asked about SACCOs, one of them retaliated: *"We want money that can help us take off and also start doing something. Not 300,000/= which is a mockery only meant to cause one problems. Like BRAC, that one is a bank of darkness. If a person could be lent two million shillings that would help us take off."* In this village, the idea of Village Saving and Loan Schemes (VLS) seemed to be absent. The only people's informal associational expression that was close to VLS was the compulsory burial association. Burial groups were formed because the levels of poverty made it difficult for people to bury the poor. Decent burial was an entitlement to all the members of the community who died, and the obligation of those alive to contribute dictated the formation of the institution. Prior to the formation of the burial group, if a rich person died or lost a loved one, people would rush there to eat rice and meat. On the other hand, if a poor person died, many tried to dodge the burial.

## **6.8 The cooperative movement in Kigezi (Kisoro)**

Kisoro is a mountainous boarder district in southwestern Uganda which has for long been isolated from the rest of Uganda by its rugged terrain and was not really part of the cash crop based growers cooperatives promoted by the colonial and early independence governments. Kisoro was included in the study districts initially as a dummy in the study of cooperatives. Precisely for this reason, it was important to know what products such areas dealt with, if cooperatives were adopted as a contemporary model for fighting rural poverty.

Far from our anticipation, we found that Kisoro had vibrant new cooperatives involved in various activities. Examples of cooperative societies in the district included the following: Kisoro Beekeepers Cooperative Society, dealing in honey and candle making, Kisoro Development Agency, Kisoro Bamboo Handicrafts Cooperative Society Limited, which deals in handicrafts and Buwunga Kyanamukaaka Cooperative Society (BUKYA) dealing in maize milling. One of the cooperative associations with the widest coverage was the "quasi-health insurance system" locally known as *Engozi*; *directly translated as local ambulance*. Using Engozi people carry patients on a stretcher down the mountains slopes on their heads or shoulders. Its amazing history started with entire villages accompanying a patient to hospital losing valuable productive gardening time. The engonzi went through a series of changes over the years to the current practice where people are only required to contribute money on a regular basis. The transformation occurred as a response to society's recognition of the changing demography, economy, infrastructure and disease regimes and the resultant consequences.

As the number of people increased especially due to sicknesses like HIV/Aids, the amount of time required to be in hospitals with patients became too much for communities to afford. The process also threatened food security. The demands for cash was increasing amidst a crumbling rural economy, a fact that increased the number of men emigrating to far off urban areas and hence reducing manpower sick. Passable rural feeder roads were increasing and so was the possibility of hiring a vehicle or *boda-boda* to carry patients. The migrant labour was also in better position to afford regular engonzi monthly contributions. The combination of these factors signalled communities to the need to change to monetary contributions and hiring transport for the patient and nursing family member. This institution has developed so much that in some areas it owns urban real estates and even vehicles to transport sick members. This institution started as a burial insurance society, evolved to a health insurance one, currently combining both services. Its experience is pregnant with lessons to inform appropriate practice of setting up the country's national health insurance system.

It did not matter what activity the current cooperatives in Kisoro were involved in. Ultimately, they all had



poverty reduction as their target, either explicitly or implicitly. Respondents hoped that a rejuvenated cooperative movement could help reduce interest rates, avail credit with repayment periods tagged or pegged to harvesting season, provide farm inputs, and help with marketing of produce through bargaining for better prices, and transportation of produce. Appropriate ambulance services was the one thing, people for the sick, especially in hard-to-reach areas.

It was an agreed position that cooperatives had to be started on the basis of people's needs, which varied from area to area. Therefore, the people had to consider their specific needs before they could form a cooperative. In an effort to help, the government was to provide the monitoring and a cooperative-friendly regulatory framework. Government was also required to provide security, sensitise farmers and educate citizens about the usefulness of cooperatives and the associated rights and obligations. Cooperatives like Chanika farmers and Kibaya cooperative societies have helped lend money to members; focused people's energy in particular activities; and have provided a platform for exchange of ideas. Cooperatives further enabled members acquire domestic animals, start up capital, seedlings, land and construct buildings for rent.

According to the commercial officer, Kisoro has a total of 40 cooperatives, 30 of which are operational and 7 of which are very active, with capital of approximately 200 million shillings each. The fact was that the cooperatives that collapsed in Kisoro were those which were forced onto people by political strategists.

The study revealed that the cooperatives like Umoja SACCO, Mulora SACCO and Kisoro Development Agency that were formed out of silent coercion (political incentive) are struggling while others are dead because people lacked ownership. To explain this a government official said. *"They were promised money by government and when the money didn't materialize, they failed."* Even in the best case scenario of politically initiated cooperatives like Kisoro Women United for Development, with women from a catchment area of 14 sub-counties having a membership of 75, there are still difficulties. The cooperative was formed at the prompting of the Woman District MP in 1996, who donated a milling machine to the group, that was being rented at 20,000/= at the time of research.

The group also owned a building that it rented at 300,000/= per month, but according to the members they still faced challenges. The fact was that, apart from being women, they had no unifying factor to give them identity and no common interest in the activities they are undertaking beyond sharing the rental revenues. The fact that they were collected from different sub-counties for political expediency of the Woman MP at the time subsequently imposed a considerable distance cost in terms of travel, which made it difficult for them to keep in touch and to have regular meetings.

On the other hand, cooperatives like Lubuguri Development SACCO and Mubuga Majambe SACCO were formed by members out of passion and common interests are they ones that survived and sustained themselves during challenging times. Faced with the high attrition rate of politically induced cooperatives, government has since changed tact by supporting the cooperatives that were well functioning, with proper saving records, book-keeping, loan recovery and established offices. Interestingly, cooperatives like Kabara refused government money, arguing that it would derail their members from saving. The idea was initiated by an old co-operator with experience from the times he was engaged in saving and credit association at Kilembe Mines. He observed that

*"When SACCO go for government support, there will be pressure to pay interest per month, some members will even borrow money and fail to pay back when they learn that the money is from the government and all these challenges would hinder the progress of the cooperative." The population has developed opportunistic culture where government financial help is never paid back, but instead the people try to manipulate the political vulnerabilities of the government."*

This sentiment was also echoed by all RDCs we interviewed in all the districts we visited.

Amidst the vibrance of cooperatives in Kisoro, natural disasters like flooding and mudslides have brought many setbacks to some of them. A classic case was that of Gitungwe Vegetable Growers Cooperative Society

whose functions have been halted for about five years now. This cooperative society had a membership of around 200 families that grew potatoes, cabbage, *dodo* (wild Spinach) and other stuff with good yields and available market.

According to the respondents, part of the problem, was caused by the construction work on the Kisoro-Kabale road, which increased the water flow into Lake Mutanda through rechannelling some of the streams that used to drain elsewhere. Such situations call for better insurance planning to cushion the co-operators during adverse times. It also warns us about the unexpected impact of infrastructural projects on communities and the need for government to ensure that comprehensive feasibility studies are undertaken before development projects are implemented. In kisoro, citizens were further concerned that banks and other alternative financial institutions were exploitative, as their terms are unfriendly to the majority of farmers. These experiences justify the need for the rejuvenation of cooperatives which are seen as the best insurance for citizens

# 7. The waste of physical assets and investments of cooperatives

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While the spirit of cooperatives is very much alive, there is a need to turn the torch to the assets and the infrastructure necessary to facilitate vibrant cooperatives. The government neglect and wastage of national social and physical capital assets owned under the institution of the cooperatives, while attempting to fight poverty, are akin to one who hopes to fetch water using a pot with holes at its base. After the research around the country, the visible picture of cooperatives is that of poverty amidst wealth. Possibly, it should be noted that cooperative institutions might be broke, but not poor. Lack of finance capital, and a functional national policy framework makes it impossible for the national umbrella organization like UCA to provide the coordination and leadership for putting into place ways utilising existing physical and social assets. This has left the cooperative's building and machinery infrastructure put up using previous hard-saved co-operator's money in a sorry state. In all the areas visited, cooperative buildings were cracked and decomposing. The machines had stopped working or worked intermittently due to lack of spare parts and sufficient inputs.

Bunyoro Cooperative Union which is now barely function used to fabricate spare parts for its primary cooperative members and unions in other parts of the country. According to management, the technology was old and they did not have sufficient money to replace it. Previously, they fabricated spare parts for coffee factories and even tractors. Just like the buildings, the technical skills of the cooperators must have steadily decomposing due to underemployment. Even in the best-case scenario, like that of Bugisu Cooperative Union, which owned a lot of relatively well managed real estate in Mbale Town, the offices and facilities at the factory left much to be desired as captured in Figure 2 below. If the Bugisu Cooperative Union is not attended to in time, it risks becoming another debris like the Teso Cooperative Union as reported in the New Vision Newspaper (see Figure 3).

**Figure 2: Bugisu Cooperative Union, Mbale**



Source: Field photo 2013

### Figure 3: Teso Cooperative Union



Source: *The New Vision*, 20<sup>th</sup> March 2013.

Certainly, the above is a combined outcome of the war in the area and government's liberalization policies. Putting up this infrastructure took a lot of effort and savings, but all that, together with the aspirations and hope of the people that collectively depended on it, is slowly but surely going down the drain. The hope that remains in such a situation as we saw in Kumi District, which was one area Teso Cooperative Union covered, is the people's spirit and enthusiasm for cooperatives. As the economic crisis in the western capitalist countries and neoliberal market ideology continues to retreat at the global level, cooperative initiatives are likely to receive the necessary assistance to regain the initiative.

The trend already has helped to start off the rehabilitation of the once collapsed cooperatives like Teso Cooperative Union. This is supported by statements on the part of the co-operators that show determination such as, "We cannot wait for anymore, its incumbent upon us to revamp this asset." The Swedish Co-operative Centre (SCC) has offered to support the effort by rendering technical expertise and some financial assistance to revamp the union headquarters and affiliated ginneries numbering over 200 across the region.<sup>7</sup> However, the question that will remain is how to organize the cooperatives to sustain themselves in the long term.

In an Interview with the Chairman, Teso Cooperative Union, he pointed out that assets like ginneries were sold by government mainly to Indians and one European who are considered investors. The proceeds were taken by Bank of Uganda to service the rehabilitation loan. Yet the co-operators argued that it was the fault of government. They noted how "the rehabilitation loans did not help unions, it was the policy of government to improve the ginneries to automation status, and when the machines were bought, they were never used because war vandalized them". This makes one wonder whether government expected business to succeed in a war environment.

The chairman further pointed out the following facts:

- That they still had at Bugondo Sub-county 1409 acres of unutilised land because the cows in this former ranch were taken during the war;
- Two ginneries remained but needed an overhaul;
- The Union still had a Bar and Lodge in Soroti;
- 3 acres of land in Katakwi District, 5 acres in Amuria and 5 acres near at Mukura in Ngora District
- Apart from the guest house and bar, all the other assets are not being utilised are the moment.

The depressing state of the cooperator's assets is most pronounced at primary society level, where buildings cannot easily be rented out, given that most times they are located in rural environments. Some of the buildings had almost collapsed.

As can be seen in Figure 4 one can only talk about the remains of Kaiti Growers Cooperative Society in Namutumba District.

#### Figure 4: Kaiti Cooperative Society structures



Source: field photo-Namutumba District, 2013

On the left and right are the old and new cooperative structures. The one on the right was completed but never put to use because the economy became fully liberalized. Liberalization made it impossible for cooperatives to continue operating and making use of their capital outlay. This was a big investment for such a small area like Kaiti. It is a big loss and such a wasted opportunity. At the time of research, most members of this community were living in abject poverty. Yet their collective savings, which was invested in such infrastructure was rotting away without giving them any monetary returns. From their collective income, savings and investment, they reaped collective loss, diminishing their hopes and aspiration for improved income and quality of life.

Amidst the gloomy picture of most of the cooperative assets and infrastructure some few are being revamped. The Banyankore Kweterana, Lango and Masaka cooperative unions which previously had lots of unused infrastructure have lately put theirs into use through contract arrangements with International Fair Trade, for direct export of branded coffee. (Otushabire Tibyangye, 'Daily Monitor', Wednesday, June 5, 2013, p. 8). Some of the abandoned infrastructure is being used informally by small business owners as shops and offices. For example, during the focus group discussion in Lira, a young man stated: "All I know about cooperatives is that I see a lot of their buildings in the villages. Myself I am using one part of such a building as a video library to show videos, and the other part is empty, cracked and almost crumbling."

While this young man from another industry is able to use the cooperative houses, it was satirical that other agriculturalists with potential greater need for storage could not see the benefit of using these existing structures. Most people have a bias that the cooperative stores were only constructed for the storage of cotton and not other crops like maize, millet, simsim, beans and other indigenous crops grown in this area. The fact the members of the new cooperatives are different from those of the old ones makes it difficult for the stores to be used as utility is restricted to the original owners. However smart business acumen would require the new co-operators to engage the old ones in negotiations geared towards union and expansion but this is something far from being realised. This problem further requires a systematic policy of trade-off between the old and new interests.

There other eminent issue is the need to compensate cooperatives that lost their assets and infrastructure in the wars that took place in Teso, Ankole, Buganda and the entire northern Uganda. For this to be successfully expedited, government would need to take stock of the value of the loss and draw a plan on how to gradually compensate and restore these cooperative to their previous glories. The realization of this initiative will be secured if existing cooperative structures like UCA are used because people see them as neutral organisation that have their interest at heart.

# 8. Lessons learnt on what to do and what not to do

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Cooperatives are seen as one of a critical path for the majority of Ugandan citizens to create wealth and reclaim their human dignity. However there is need to recognise that cooperatives should not be cast as the panacea for turning the citizens' fortunes around akin to magic bullet. The approaches adopted to revitalise and create new cooperatives should be aligned to the realities on ground. They should not be lumped and must not be based on abstracts ideals but on concrete historical material conditions of the cooperative experience in Uganda's situation. It should be based on immediate or potentially available means to the co-operators otherwise these ideas will be seen as being speculative and ambitious.

Cooperation is about taming the environment that is collectively considered hostile, with the aim turning it to a favourable one. The environment might be natural, social, political, economic, cultural and even spiritual. Any successful model begins from an existing framework, and in Uganda's case, that existing situation is the experience of the cooperatives and co-operators. Some of the critical lessons derived from this study include:

### **8.1 The power of social capital in building cooperatives from below**

Cooperatives are voluntary and are created as a response to certain situations. The membership therefore is derived from the localities where the members originate, have a sense of belonging, the imperatives of trust based on social capital built over time. It is the trust that forms a centre of unity, a oneness of purpose that becomes a prerequisite for the members to change the conditions in which they live and operate. This relates to a Runyakitara adage, "*Agetereine nigo gaata eigufa*". Loosely translated, "*It is the united teeth that crack a bone*". It is this strength in unity which is the hidden community resource, with no other known mining technology able to extract and avail to the service of solving human problems, other than cooperating. But, as was noted all around the country and acknowledged in cooperative literature, based on principles of cooperative formation, this requires another qualifier. Birds of the same feathers flock together. Therefore, people of similar characteristics (which tend to have a bearing to activities of people's social and productive life within proximity), need to start within their own location and take initiative to form a cooperative. The life blood that sustains the cooperatives, is not money, but as the people expressed constantly hinges on the cooperative spirit. Within this model, it is only possible if the collective endeavour is infused with trust. As was plainly put by co-operators in Masaka, "*you first form trust before forming a cooperative*". Trust as a foundation does not take money but will.

### **8.2 Self-interest in the cooperative movement and guarding against abuse**

The literature suggests that cooperatives arose within the womb of capitalism. This makes it clear that cooperatives can only succeed if they understand that, this remains the world-given environment in which

they are still operating. They have to know, or train themselves in understanding the operation mechanisms of capitalism, especially as an enterprise that derives its energy from individual greed and creative destruction. Secondly, and against that background, it is equally important for co-operators to understand that cooperation is an inherent human reactive response to enhance the individual's means when faced with what is beyond the immediate means of the individual. The individual's interest, which brings her/him into co-operation is never extinguished by cooperation and so cooperatives are not an end in themselves, but a means to reduce individual costs and maximize gain.

### **8.3 The need for members to keep their eye on surplus acquisition**

As a corollary to the above, it should be understood by co-operators that cooperatives, are capitalist institutions with an attempt to infuse it with morals of the common good (the human side of capitalism). Therefore, they must operate within its framework by understanding the capitalist principles and logic. Cooperatives are here understood as a social technology that maximises the social good, which empowers the majority, moral capitalism so to say. This in essence seeks to build a capitalism that expands by including the majority into the train of wealth creation and sharing, rather than excluding them. In other words, cooperatives are a means to wealth creation for the majority as opposed to capitalism for the minority, capitalism that builds community resources as opposed to one that plunders them, capitalism that maximises welfare of people and communities by making profits and not one that maximises profits of individuals who in turn tend to patronise society, through Rotary donations and routinized Corporate Social Responsibility (CSR). Therefore, co-operators in their collective effort must keep eyes on surplus generation and asset acquisition, profits and capital accumulation, to use conventional language in Economics. This is what underlines the strength of cooperatives that will wither the hard times.

### **8.4 From dogmatic to pragmatic principles**

Not surprisingly the older co-operators tend to affirm the Rochdale cooperative principles as the only viable benchmark for performance. There is a tendency to measure every success and failure, against consistency or deviation from the principles written down by the International Cooperative Alliance (ICA). The fact that even ICA had to recognize the changing reality and add an extra principle, means that the principles are not written in stone, and any cooperative model around the world they inspire should not be written in stone. Alternatively, a meaningful cooperative model with a likelihood to appropriately respond to and serve needs of co-operators should not be written on shifting sand (to be blown by every wind of every other new idea) either, but rather be written in "clay-like" understanding and consensus, (stable enough to be predictable and guide co-operators) flexible to take in shapes dictated by the changing local environment without breaking. This kind of "clay-like institutional mind" requires constant involvement of the individual co-operators to constantly input the institution (cooperatives-societies or unions) with the local situation as the elite (elected or appointed officials) antenna, monitor, analyse and educate them about the global changes of the capitalist environment. Rather than stick to principles that may not apply to the different environments, cooperative societies and unions should begin to question what works for them and apply it accordingly. They should be pragmatic in principle and in action so that they are relevant to themselves and the environment in which they operate. While it is understandable given the economic material condition of the people and the country for most of the people to have kept clamouring for government help and need for more and better financial support to cooperatives, the people and co-operators need to be clear about one important fact if they are to succeed this time round. The nature of the business they are in should focus on internal and not external help; it needs to focus on members and not money or capital. The important capital they have as cooperatives is socio-pooling of resources, to acquire the critical minimum to break even into self-sustenance, which would not be possible for an individual. While the monetary requirement for such breakeven could be delivered in a package of donation from government, donors or any other external agent to the group, it would be devoid of the learning experience that is acquired along the way, when co-operators raise such resources themselves through resource pooling, or at worst through borrowing. This fact was already grasped by one group in



Kisoro that had resolved to reject any donation from politicians. It is an important lesson, which potential and actual co-operators should seek to emulate.

## **8.5 Emphasis on internal strength as opposed to external support**

In a situation where there is paucity of knowledge about cooperatives, especially given the urgent need for their revitalization, the African wisdom will have to be put to use. World over, successful societies and nations are those which use their stock of intellectual capital to the maximum and effectively. While Uganda's greatest strength is its youth, its greatest wisdom, especially about growing and utilizing cooperatives to solve problems that have flatly failed government (like poverty reduction, moral decadence and poverty), is in the senior citizens. These men and women exist all over the country, and are willing to pass on their knowledge to a new generation of co-operators. The task of cooperation knowledge transmission can be given to elders who should train the young generation on cooperatives and how to maximise them. After graduating from these informal cooperative "schools", run by senior co-operators, the NGOs (especially NGOs that specialize in training) would continue with the extension work to train as many co-operators as possible as part of their routine development work.

## **8.6 The need for continuous education and knowledge upgrading**

Experience is a great teacher, and this applies to Uganda's cooperative movement. The closeness to government as a patronizing benefactor in the end affected cooperatives, in ways that continue to hurt it, irrespective of the good intentions government might have had. In war times, the property of cooperatives was never respected like that of other private business entities. The war protagonists saw cooperatives, considering historical relationships, as part of the state structures just like a government parastatals. Even later in peaceful times, their property and interests were privatized under the liberalization scheme without any consultation with co-operators as if they wholly belonged to government. Seeking compensation from government itself might not be easy, as the dividing line between cooperative, parastatal and government was often blurred.

This teaches cooperatives that their new way of building their institutions should seek, to be as autonomous of the state, especially its governing arm. The fortunes and misfortunes, of cooperatives must not be tied to the fortunes of any governing authority. The same strictness must be applied to NGOs to avoid their burdens spilling over into the cooperative movement. Cooperatives need to assert the truth with the utmost clarity to whoever is concerned, that their assets are a product of hard work, and self-denial of individual members and is sacred private property like any other, which neither government nor individuals like managers can tamper with and not face the law. All the stakeholders concerned, need to work together for an enforceable law to protect the private property interests in cooperatives from potential abuse of managers, government and any other interests, including unscrupulous individual co-operators. To all these elements (preceding interests), co-operators in Uganda have already lost more than was ever warranted, partly due to weakness in law and lack of vigilance. Education for militant vigilance on the part of all co-operators in defending their value interests in cooperatives is what stakeholders should immediately focus on as a prerequisite for reinvigorating the cooperative movement in Uganda.

## **8.7 The need for collective storage**

The current losses faced after bumper harvests, either to ridiculously low prices offered by middlemen, theft, manipulative sales by family members for non-productive luxury consumption, pests and destruction due to inappropriate storage facilities, will require varied answers depending on specific localised circumstances, the kind of "clay-like mind modelling" already referred to. In a FGD in Lira men and women accused each

other of “stealing” surplus grain and selling it off (the men to faraway traders, for money that is rarely returned home; while the women trifle granaries for grains to dispose of in weekly markets). Joint pooling of portions of the surplus grains to put up a common store would be the appropriate response in this case.

Beyond the community self mobilised resources, cooperatives can benefit from funds borrowed from government. They would use their produce as collateral for the borrowed funds used for the construction of joint stores. The fund could be paid back over years from contributions of portions of the produce stored and later rotated to enable other areas with such or related needs build similar community capacity without cultivating a dependency syndrome. Different but similar needs existed in all areas the research covered throughout the country. In Bunyoro, uncultivated union land (a former ranch) had been offered at Shs. 50,000/= per acre for 2 years, to farmer co-operators, who as we found out in the focus groups lacked land to grow crops. However, the people could neither afford the down payment nor the costs for the first land cultivation, since the land in question was colonized by trees and shrubs. While FINCA Uganda was willing to loan the seeds that would be paid back (if need be in kind) with a profit, there was lack of bridge finance to start off the exercise of cultivation.

The people needed an incentive in form of how to overcome the hurdle of the initial money to pay (entry fees and first cultivation) and they could have mobilized their labour to undertake cultivation of the scale that would make it possible to be in a cooperative marketing their product at profits. Education and knowledge (and means to provide them) were lacking. Our survey did reveal that such cooperative knowledge was available in the community but in disarray. To our surprise, during the focus group we established that only a few people had heard about the offer by the union from the local radio. This opportunity remains untapped as co-operators and potential co-operators languish in poverty, due to leadership failure, which cooperatives used to mentor by themselves.

Also, the need for external input in terms of transformative ideas was clearly expressed by a peasant woman in Masaka during another focus group discussion. When asked why they had never thought of using “*muno mukabi*” (mainly “cooperative burial contributions”) to provide first aid treatment instead of waiting for hospitals, an elderly women in Masaka remarked, “*Ffe obwongo bwafe buli nga obwa zero gulazingi bubela awo awantu wamu*” – meaning: “For us our ideas and world outlook is localized to our own environment.” She then argued they need a different perspective in order to rise above their situation and do better. Such perspectives should build the existing good practices and form a basis for partnership between co-operators and other stakeholders such as government and NGOs. Short of this, any other utopia from outside the communities, by intelligent development workers (local or international, NGO or government), is likely to meet with failure. The evidence is in the last 50 years of independence with failed top-down elite approaches in Uganda.

Thus, assistance to cooperative efforts should be founded what people identify with. In what would further underline the importance of a model that starts from within communities, the same woman (*mentioned in the foregoing paragraph*) later remark about SACCOs: “*Ezo SACCO ezatandikwa gavumenti ngemaze kutula ekyankwanzi, zilinga siko seli, teziwonya bwavu*” – meaning: “Those SACCOs that started after the meeting with government in Kyankwanzi are like sickle cells, they do not help to reduce poverty”. This is a call to government policy implementers and NGOs, to proceed cautiously, to start by investigating and establishing the reality within communities, which can be used as a foundation for undertaking further initiatives. Short of this, policy solutions to the targeted problems turn “sickle cell” (like SACCOs) thereby chocking the citizens as opposed to providing them with the required supportive environment for wealth creation and vitality.

The above reinforces the argument from Masindi and Masaka that government just wasted resources by ignoring the already existing institutional resources that could have helped it implement its anti-poverty policies and development programmes it channelled through NAADS and even SACCOs. The government and any interested development stakeholder in community development should start from the understanding that, wherever people live they have community-owned institutions,, which normally help them manage adversity and if used creatively are good building blocks for vitality. In this respect, it was recommended, that government should move the money it was channelling through NAADS and “SACCOs” to cooperatives.

## 8.8 On the question of autonomy

The already autonomous actions unions are undertaking with International Fair Trade to reach the final consumer in the export market for a fair price is laudable. However, to further reduce costs and harvest even more value, there is need to coordinate effort to increase the volume of production, share value chain addition platforms, increase purchasing market share and invest in incentives for producers diversify their business lines. They also need to jointly invest in business services for the member's benefits, ranging from finance to processing industries and jointly search for export market diversification.

The dialogue on the possibility of revival of the defunct Cooperative Bank in this respect is in order, but also in the medium term devising other cooperative lending vehicles is necessary. Part of it is systematic establishment of systems to link and integrate financial cooperatives to the producer ones, and offering capital at relatively much better terms than what other finance institutions currently offer. As focus groups discussions in Kumi revealed, the Village Savings and Loan Schemes (VSALS) hold much more money than the SACCOs which they described as "dry", because the latter could not respond to all credit requests and in a timely way to the needs of members.. This calls for an in-depth study on what is in VSALS that is not found in SACCOs, to guide the designing of rural financial cooperative models that work for the target market.

## 8.9 Put money where people are

Mwalimu Julius Nyerere, the intelligent, ruthlessly honest and candid African leader in 1984 admitted that it was a major mistake for Tanzania to dissolve cooperative institutions in 1976 (Banturaki, 2000). In a different way, this is precisely either by commission or omission, what Uganda government did in the 1990s under the neo-liberal ideology of individualism. As remarked elsewhere, indeed, the spirit of cooperatives has lived to haunt Uganda, as we have witnessed failures of every state anti-poverty initiative. Such erratic policies could not compensate for the social incomes lost in form of increased health and education costs as reflected in people's expectations in the Table 7 below.

**Table 7: Expenditure Needs of People**

ITEM	Responses	
	Number	Percent
Fees	104	28.3%
Food	67	18.2%
Medical care	60	16.3%
Family upkeep	35	9.5%
Labour wages	28	7.6%
Essential goods	23	6.3%
Clothing	19	5.2%
Rent	19	5.2%
Recreation	8	2.2%
Farming	3	.8%
Paying loans	2	.5%
TOTAL	368	100.0%

## 8.10 Investing in value addition

The current capitalist development models that promote unfair competition through protectionism have continued to lag Uganda's development effort. WTO, IMF and World Bank have promoted investment in value addition to the benefit of the industrialised nations which are ahead of the developing nations like Uganda which is still trade raw products. cooperatives may be the formidable solution to fair trade practices.

Cooperatives could undertake value addition and still access international markets without being subject to the kind of scrutiny private profit oriented businesses are subject to.

### **8.11 Inclusion of women and youth in the cooperative agenda**

It will be vital for cooperative efforts to incorporate women and youth in their activities and management. This will effectively bring on board the majority of the population and enhance the realisation of a bigger multiplier effect.

The question of inclusive cooperation should be central to the revitalisation agenda. In an in-depth interview, one respondent stated how it is a historical fact that when Ignatius Musazi, the champion of cooperatives in Uganda, was struggling with the colonial authorities, women were more forceful in demanding his release when he was detained for organizing business riots in Buganda. However, there has generally been little involvement of women beyond the production and marketing of the crops that cooperatives traded in. Women also tend to participate in invisible roles such as weeding of crops and sorting of harvests. This is the time to reduce structural gender barriers that inhibit women's wealth creation and utilisation potential.

It is also clear that resources vary and thus cooperatives will be varied in form and activities. But most urgently required is the need for cooperatives to answer to the poor of the poor, such as the landless who lost all their productive resources. A nuanced approach should help us to consider people, as resources, whose awesome power-potential would be in pooling themselves into cooperative labour force. Such voluntary associations have been observed to exist among migrant workers who contract in hard-to-do-alone jobs, like dam construction. An incentive of loaning them money to purchase implements of labour like hoes, wheelbarrows and shovels would go a long way in turning their fortunes around.

### **8.12 The growing potential of burial and health insurance**

A number of burial and health insurance cooperatives have been set up in Uganda. In Kisoro, this burial insurance society has advanced, almost transforming itself into an informal health insurance. Given the popularity of the practice, stakeholders should study and transform this innovation into more sustainable and affordable health insurance schemes nationwide. In Kisoro health and burial insurance have been integrated into what is commonly known as "Engozi."

### **8.13 Alertness to non-monetary gains as well as dangers**

Not all that glitters is gold, in the case of Kisoro, the district leadership touted the formation of Irish potatoes production and marketing cooperative in response to increasing market prices. While the leaders were excited about the expected transformation of the local economy from a largely subsistence traditional sorghum crop to the potato "cash crop," the potential loss of the highly nutritious sorghum in favour of the less nutritious potato was undermined. It therefore came as no surprise to our research team, that a Makerere University nutrition study found Kisoro to have the most stunted children in Uganda (Otage, *Daily Monitor*, June, 19, 2013). This should act as a warning to all stakeholder in the cooperative movement of the flipside of every success. This makes the case for constantly undertaking research to improve the cooperatives that we may treasure so much. The most successful model could also be the one producing the most unexpected and dangerous side effects.

### **8.14 Dealing with the corruption and embezzlement monster within**

The study identified corruption as a major drawback on the success of cooperatives throughout its history in

Uganda. Dealing with corruption in cooperatives will require; selfless, ethical and accountable leadership; compliance to functional management systems; effective legal and regulatory regimes, regular supervision and audit; and responsible vigilant co-operators who are constantly educated on their role and best cooperative practices for the contemporary times.

### **8.15 The critical role of Government**

Achieving prosperity requires effective states and active citizenship. at the same time (Green, 2008), Government has a pivotal role to play in to revitalising cooperatives. Citizens must demand that government becomes more accountable to them by establishing the necessary infrastructure for efficient and effective cooperatives through laws, policies, human capital, financial resources, and the removal of bureaucratic ambiguities. There is need for a comprehensive review of the legal and policy framework so as to provide a favourable environment for the cooperative movement to thrive

# 9. Programming for the revitalisation of cooperatives in Uganda

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This section uses the key findings of this study to analyse and translate them into a programme strategy necessary for the revitalisation of the cooperative movement in Uganda.

## 9.1 The national context

A consistent key demand from nearly all respondents in this study was that the revitalisation of cooperatives is high on the agenda of the average Ugandan citizen. From this study the cooperative movement faced challenges of unfriendly policies, corruption, mismanagement, loss of assets and investments causing many to collapse but not disappear completely. The study demonstrates that one of the stimulus for the growth of cooperatives in Uganda's history has actually been driven by the power tension between the state and the ordinary citizens. This was the case at the time of Ignatius Musaazi in 1913 and still the case today.

Similarly, the negative impact of economic liberalisation policy on the majority of Ugandans provides a great opportunity for a ready population wanting to do something about getting out of the abject poverty. The evidence from the *Engozi* community health insurance in Kisoro, Bol Icup in Lira, Nigina in Kampala all attest to this fact. An increasing desperate population craving to get out of poverty is a good business opportunity for anyone who cares to see them as potential customers for serious business and not mere speculators. These tensions between the co-operators and the state should be viewed as a sign of progress in the life of the cooperative movement, the pain that came with them notwithstanding.

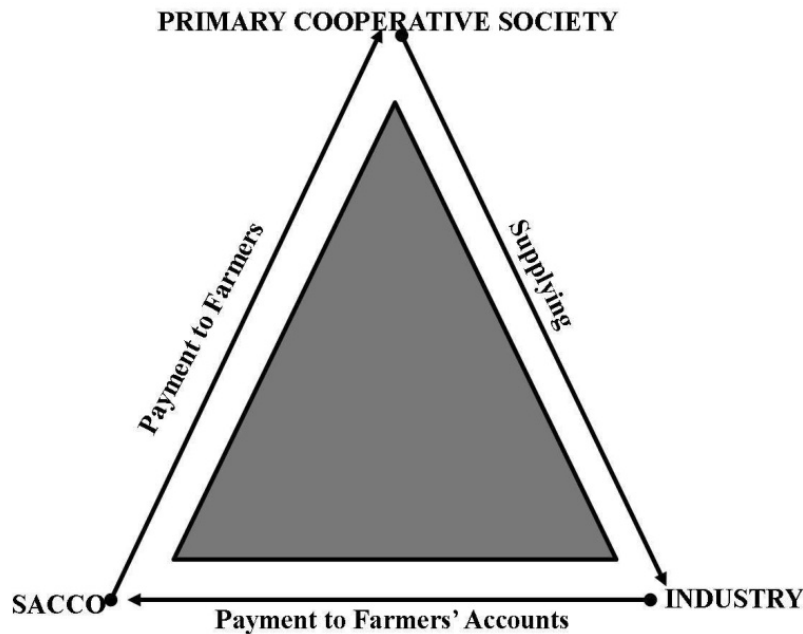
With a largely underemployed and unemployed youthful population, investing in mobilising their potential vitality and innovativeness in cooperatives is a key to successful economic development stimulus in Uganda. With an increasing agenda for regional integration, Uganda stands, a strong chance of benefiting from the expanded market but only if her citizens are better organised for wealth creation through functional cooperatives.

## 9.2 The integrated triangular programming framework for revitalising cooperatives

As discussed earlier, Kisoro had some of the most amazing cooperative endeavours that could pass for best practices, which could be creatively applied elsewhere in Uganda. A good example was the RUDAFSCA, the Birunga dairy industry where payment to dairy farmers was done through the Rubuguli SACCO. The leadership of RUDAFSCA encouraged members to open accounts with Rubuguli SACCO. This acted as collateral security for members to access loans from the SACCO and enabled the co-operators to enter into a memorandum of understanding with the dairy industry. Herein lay the ideal tripartite relationship between production, marketing and financial services as illustrated below.

Figure 5 The figure illustrates the relationship between the cooperative society, the industry and the SACCO. The cooperative society supplies its produce to the industry and the industry pays the farmers through the SACCO. The SACCO monitors farmers' incomes profile and uses it as collateral for the loans.

**Figure 5: The integrated triangular framework for cooperatives**



The model above illustrates how the relationship between SACCOs, the primary cooperative society and the processing industry boosting the rural economy. By SACCOs supporting primary producer cooperative societies through financing, their money is used to reproduce itself and give the owners capacity to repay. The above model needs to be studied well, and if found to be appropriate, it could be creatively replicated and rolled out across the country.

### 9.3 Our theory of change

Our theory of change is guided by the evidence from this study showing that Ugandan citizens are organising themselves in collectives to deal with the socio-economic challenges affecting them on a daily basis. Throughout Uganda, ordinary citizens are converging through working groups, village savings and credit associations, community health insurance associations, cultural and religious formations and many more grounded on social capital and trust. A statement like *"you cannot kill cooperatives, but only inconvenience them"* from a respondent to our research team tells it all. In effect, cooperatives remain the only form of citizen organisation for wealth creation that they turn to at time of political, economic and social crisis.

The study shows a population with a mind-set of co-operators who initially hopelessly resigned to the power of liberalisation but are starting to pick the pieces. The study also shows a youthful population who have no idea what cooperatives achieved in this country in the past so would benefit from factual information to tap their potential for generating wealth.

One key management challenge identified in the study is corrupt, and wasteful management systems that undermine progress and force government to keep control on the operations of cooperatives. The study also identifies the importance of strategic, decisive and accountable leadership as was the case for BCU and most important for the resilience of cooperatives that survived. Moreover, such leadership would benefit from an active membership who attend all meetings and keep up to date with all investment and liabilities of the cooperative. The study also identifies the losses of leaders, assets and investments of cooperatives, caused

by Uganda’s political conflict and wars that requires a deliberate an evaluation with the view compensating to them recover and start on the course of revitalisation.

The variables above will have to be integrated into any CSO or government programming based on the following strategies:

- citizen based mobilisation and education which opens their minds to the amazing potential in them and creates a new impetus for harnessing their vitality for collective citizen wealth creation.
- systematic advocacy for reviewing government policies in favour of stimulating revitalisation of cooperatives
- training, educating and continuous technical support for leaders and members alike to improve their effectiveness
- introducing agribusiness cooperatives to mechanisation through the entire value chain and new market access technologies
- introducing cooperatives into new investment areas like Health, Education and housing
- supporting cooperatives to develop an integrated triangular approach as is growing in Kisoro.

Such programmes would need to benefit from adopting cooperative principles like: member owned, member controlled, member used and member benefiting to best operate in local context of Uganda. By their very nature and when managed well, cooperatives are the most clear citizen spaces for democratic practice and good governance. Organised citizens that are creating wealth will pay tax and therefore have a stake in the national democratic and development agenda. Such would create a healthy, productive, enterprising and wealthy population which is a necessary prerequisite for a united, peaceful and happy nation.

**Figure 6: The theory of change for citizens welfare, vitality and wealth creation**





# 10. Key recommendations from this study

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## 10.1 Recommendation for a Citizens cooperative revitalisation agenda

- a. Mobilise, organise and take action for wealth creation, because the cooperative revitalisation agenda will not take technical skills only. It will require a clear citizens political agenda against abject poverty translated into real mobilisation and action to enhance solidarity, restore their dignity and utilise available opportunity.
- b. Citizens should seek to have knowledge of protecting the value they have in their cooperatives, vigilant in attendance and demand accountability from management at these meetings
- c. Citizens should follow the surplus made by their cooperatives and make sure they are part of and convinced about how it should be used.
- d. Members should elect strong and ethical leadership who have a clear mission for the future of the particular cooperatives.

Cooperatives should invest in assets like real estates as the foundation for cooperative resilience during tough times. This also means investing in insuring assets and businesses of cooperatives to protect against unforeseen losses.

## 10.2 Recommendations to the Government of Uganda

- a. The need to recognise that cooperatives are one of the most viable and sustainable anti-poverty strategies and invest in enabling them flourish.
- b. Urgently consider revising policy framework with a view of making it less of a populist document, which is technically and operationally feasible. In this case, government should harmonize the cooperative policy with the cooperative law
- c. Consider revising the current legal regime to address existing inadequacies and ambiguities to enable the cooperatives become viable citizens' vehicles for wealth creation and vitality.
- d. Exercise responsibility through effective incentives that stimulates an integrated complementary triangular linkage between Savings and Credit; Producer; and Marketing Cooperatives.
- e. The Government of Uganda owes her citizens a more formidable explanation on what led to the rather controversial divesture of the Cooperative Bank because all kinds of interpretations exist out and urgently consider reactivating the Cooperative Bank.

- f. Because of the over whelming popular demand, the potential importance of the cooperative and allied sectors in the economy, government should urgently consider staffing districts with trained cooperative staffs as a part of the requisite infrastructure for re-invigorating the cooperative movement.
- g. Urgently consider a national stocktaking of cooperative unions assets lost in various parts of the country during the period of war, insurgency and other forms of instability and seek to deliver a just and fair compensation as a right, while desisting the temptation of arbitrary hand outs of what would amount to charity money to them.

### **10.3 Recommendations to the Uganda Cooperative Alliance (UCA)**

- a. UCA needs to upgrade its capacity to coordinate the efforts to revitalise cooperatives, especially in the field of cooperative education in partnership with government and various CSOs currently working to transform community groups in active cooperatives.
- b. UCA, government and CSOs should work together to institute routine evaluative research assessment, cooperative education training and initiating projects that spur the people into social enterprises that transit into a viable cooperative movement .

### **10.4 Civil Society Organisations**

- a. CSOs need to have a clear citizen centred agenda that debunks distancing categories such as hard to reach, vulnerable and the like. A citizen centred agenda should take citizens as actors and seek to utilise their agency.
- b. CSOs are citizens' spaces that have strength of reach and proximity within which they can play an important role in mobilisation, education and mentoring ordinary citizens for a vibrant cooperative movement in Uganda.
- c. Work with District Local Governments to assess the available resources of relative cost-benefit advantage and encourage the people in cooperating around their utilization.

### **10.5 Recommendations to the Private Sector**

- a. The private sector should support market studies to establish "business case" the power of citizen vitality and collective formations in increased productivity, value addition and profitability of increased rural household income. This should make the case for demand creation for industrial products by the productive cooperative movement, which could lead to a win –win relations between co-operators and the private sector. This also includes reaching out to the marginal sections of society such as women and minorities groups.

### **10.6 Areas for further investigation towards a cooperatives revitalisation agenda**

- 1- We need to know the ways through which to aggregate and innovatively use the wealth of experience and appropriate knowledge that exist in communities, for positive improvement.
- 2- Collective initiatives are going on everywhere, which reflect the desire for, and interest in cooperation to enhance community or people with similar interest capabilities in order to find solutions where problems exist. The paradox however is that, these efforts which still retain the biggest potential pool

for cooperative development, defies formalization. The incentives and motivations for their continued formalization and how they could be productively brought into the formal cooperative sector require further understanding.

- 3- The VSLAs are widely spread out in the country. What is their impact and how can they be usefully integrated into the cooperative agenda?
- 4- How should external agents, including government, Development partners, NGOs and others assist cooperative development in a poor-resource environment without compromising the principles and values of cooperatives?
- 5- The ways of involvement of historically marginalized categories in cooperatives need further reflection. How do we turn social categories of the aged, women, youth and disabled in cooperatives in ways that the rewards and reflect their contribution?
- 6- What can be done to protect cooperatives from corruption practices and embezzlement that characterized cooperatives from the time Uganda attained its independence, in the present national environment where the two evils have almost become normalised as a way of life?

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