

PERSPECTIVES FOR COOPERATIVES IN EASTERN AFRICA: THE CASE OF UGANDA¹

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HISTORICAL OVERVIEW

Cooperatives were established in 1913 by farmers in order to pressurize the Government of the time to allow them to add value to their produce and market it directly. At that time it was the policy of the colonial government to leave it as a monopoly for Indians and Europeans excluding Africans. At first the colonial government did not want the cooperatives but the pressure became so much that it eventually gave in. Subsequently, a department of cooperatives was created in 1945 to register and provide technical services.

Until the early 70s cooperatives in Uganda seemed to have performed well but it became clear later that without the government support they could not survive on their own. Government had done a good job but it did not think about enabling the cooperatives to run their own show. There must be many reasons why this was the case but one of them seems to be that government had vested interest since cooperatives were handling coffee and cotton which were vital sources of foreign exchange. The government had to be certain that the foreign exchange flow would not be interrupted by anyone otherwise it would not have money to run the state. That also seems to be the reason the cooperatives were given the monopoly for handling coffee and cotton domestically. Government wanted a single channel which could be controlled and monitored through the marketing boards. It seems that the economic empowerment and bringing the local population into the economy which the government of the time was talking about was secondary to its interest in its ability to ensure the foreign exchange flow.

This also seems to explain why government came in with measures like the introduction of crop finance which was intended to speed up the flow of coffee by giving cash payment as an incentive to farmers. Unfortunately such measures did a lot of harm to the cooperatives as we later came to learn. It became a source of conflict between the members on one hand and the managers on the other. The managers wanted to borrow money, buy from the members and make profits much of which they wanted to retain instead of passing it to the members in the form of second payment as the practice had been before. It also led to heavy borrowing by the cooperatives in the name of crop finance which led to heavy indebtedness that eventually contributed to their demise. It also created a strong sense of perpetual dependence on external financing instead of mobilizing own institutional savings.

When the marketing boards were de-linked from the cooperatives in the 1990s and wound up, the cooperatives could not survive because they were depending on the coffee and cotton marketing boards for financing the marketing activities for inputs and produce. It is the marketing boards that were linked to the markets which were also outside the country and it is the boards which used to source for marketing finance popularly known as crop finance. When the boards disappeared, the cooperatives were a total loss technically and financially.

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UCA was formed by co-operative unions in 1961 as the apex body of the Ugandan co-operatives in Uganda. As the apex, it had three main mandates:-

- a) To carry out advocacy and representation of the Ugandan co-operatives
- b) To provide education and training and
- c) To mobilize resources for the development of the co-operative movement.

But with the introduction of structural adjustments towards the end of the 80s, the UCA had to change because it dawned on it that it had to take on new and challenging responsibilities by filling the void which had been left by the government in supporting cooperatives which no one else could do. Structural adjustments forced Government to pull out as far as promotion and providing funding to co-operative activities is concerned. This left our cooperatives hanging on nothing since they had been used to depending on state support for over 40 years. After state withdraw all cooperatives collapsed and disappeared except UCA which had taken steps to restructure itself as change was coming. UCA had to first transform itself from being an apex of co-operative unions to an umbrella that embraces and serves all co-operatives in Uganda. Initially affiliation was opened to all levels of co-operatives but with time it was found that affiliation was only suitable for secondary and tertiary levels.

The decision by the UCA to step in came after about 5 years and by that time cooperatives in Uganda had been completely forgotten as it was the policy of government and its advisers. By that time, it was evident that the situation of small-scale farmers, who form over 80 percent, had not improved by the liberalization policies as had been promised but rather got worse. Because of the collapse of cooperatives, the small scale farmers were left as individuals without a voice and no access to information or bargaining power. The middlemen took advantage to exploit them. For UCA which was interested in reversing the situation, the first priority was to introduce cooperative finance and after that agriculture cooperatives. The two had to come in that order because one of the lessons we had learnt from the previous experience was that cooperatives could not survive without own money. There were 3 development partners who were willing to give us a helping hand in our task. They are; the Swedish Co-operative Centre (SCC), the Canadian Co-operative Association (CCA) and the Royal Norwegian Society for Development (NORGESVEL), have supported UCA in these endeavors.

THE CURRENT STATUS OF COOPERATIVES (STRUCTURE OF COOPERATIVES)

The number of cooperatives to-date is increasing almost every passing day. I do not think there is any other sector in the Ugandan economy that is growing at the same rate as the cooperative movement. At times it has exceeded 40 percent per year. Re-building started at the grass root and has culminated in creation of 8 national unions to mobilize resources and effort at the national level.

As UCA we took steps to re-organize, re-build and start afresh with new approaches including doing business differently, getting them involved in all value chains both for domestic and export markets. It was a good strategy to first get the cooperatives involved into domestic trade because that did not require as much managerial and financial capacity as was the case when the marketing boards were exporting coffee and cotton. We therefore started with commodities

like maize, beans, bananas, fruits, farmed fish, dairy among others. It was after acquiring some reasonable experience that our cooperatives are now venturing into the export market starting with regional. But there are a few which, under Fair Trade, have started export to countries outside the region which brings a lot of benefits to the coffee growers.

Some new approaches in transacting business by the cooperatives had to be introduced and do away with some of the old practices. For example, our cooperatives do bulking instead of borrowing which leaves the members in perpetual and unnecessary debt. The cooperatives charge a fee which is agreed upon in advance with the members instead of making profit much of which was not declared. With this, business has become more transparent and puts the owners in priority position instead of servicing organizations at the expense of the owners. Cooperatives must pursue a careful diversification in order to manage some of the risks in agriculture production and marketing. Most of the cooperatives have 2 to 3 commodities so that if something goes wrong with one the cooperative business can still continue. It also reduces the seasonality of the business which was very typical with traditional cooperatives. Diversification also creates opportunities for people especially the new members. Above all, we have put emphasis on self-financing by reviving and strengthening the SACCOs that had themselves disappeared and focusing on savings mobilization instead of waiting for grants from the government or donors. We believe we have strengthened transparency in conducting cooperative business. We have assisted the cooperative movement to create Uganda Central Cooperative Central Finance which is the financial apex of all the cooperatives but which started with SACCOs.

We have also tried to create more market outlets so that the members through their cooperatives have choice. For example, we have direct sale to buyers, contract farming arrangements, warehouse receipt system, Uganda Commodity exchange, regional and international export. These were initiatives of UCA.

The structure of cooperatives has been re-stored with grass root organizations called primary societies (RPOs and SACCOs) which have formed secondary structures either known as Area Cooperative Enterprises (ACEs) or formed unions. Some unions operate at regional level, some operate at the national level.

The department of Cooperative development which had been seriously weakened by retrenchments started to recruit staff since about 5 years ago. There is a new Ministry called Trade, Industry and Cooperatives. The later had been dropped since 1991.

FINANCING SECTORS IN WHICH THEY ARE MOST ACTIVE, WHERE IS THE BIGGEST NEED FOR COOPERATIVES AND REVITALISATION EFFORTS.

Financing has been and is still the biggest problem. However, currently the financing environment and options are getting better and better. Some commercial banks such as the Centenary bank are increasingly coming in with well-structured products for small-scale farmers through the cooperatives. The problem has been the lack of suitable financial products for the farmers and the cooperative organizations. A good number of other banks provide financing through the warehouse receipt system where commodities are used as collateral for loans to farmers through the SACCOs, ACEs and Unions. From the lessons we have learnt, one of the reasons why the old cooperative movement did not survive was because they did not have a strong financial arm owned and controlled by themselves. That is why UCA decided to start with that sector even before embarking on the revival of agriculture cooperatives.

The government of Uganda is beginning to come in with some new schemes such as the Agriculture Credit Fund jointly with the commercial banks. Although it was initially not targeted at cooperatives, no one stops the cooperatives from accessing the agriculture fund if they fulfill the requirements. Some cooperatives are directly finance by agencies such as Agribusiness Trust and other donor schemes. We are also trying to pursue financing by companies with which cooperatives are entering contracts to supply a given volume. One of them is Nile Breweries which if financing extension to the farmers using cooperatives as well as giving seed on credit which farmers pay back when they deliver their produce. This is a significant contribution to financing and which will become more and more important.

Most importantly, the cooperatives are enhancing their self-financing capacity by strengthening the SACCOs and UCCFS that was mentioned above. Once this has been well-developed, the cooperative movement will be in position to have a comprehensive source of internal financing than we currently have. One of the ways we are strengthening the capacity is through introduction of a Financial Management course so that no one assumes the leadership or management of a SACCO without sufficient knowledge and skills. The trainees pay for this course and therefore it can be sustained. Additionally, we are partnering with an ICT service provider to improve the service delivery capacity of SACCOs and improve the safety of members' savings.

That is why the most active cooperatives are in those two sectors namely; savings and credit (SACCOs) and agriculture with SACCOs being in the majority.

However, as we move forward, the type of cooperatives that will help the country to solve some of the current challenges such as the high unemployment rate especially among the rural youth and women as well as the absolute poverty level which has remained high. Worker cooperatives need to emerge to help in fighting some of these problems. We also need to have cooperatives emerging in the social sectors including housing to increase access to affordable but decent housing, energy which is one of the drivers of development and without which existing cooperatives can only do so little. We have some examples in these areas but still very few.

LEGISLATIVE /REGULATORY FRAMEWORK IN WHICH COOPERATIVES OPERATE

Since 2009 government has put in place a good policy framework for the cooperatives. The cooperatives however are still operating under the 1991 statute which is very weak especially when comes to the regulation of SACOs. The biggest need is for a SACCO regulatory framework which can protect the depositors. Unfortunately it is not yet agreed as to who should be responsible. The Ministry of Finance feels it is its responsibility since SACCOs are handling money. Others disagree and think it should be the Ministry of Trade & Industry which is responsible for all the other cooperatives, not Finance. This disagreement is delaying decisions that are critical. But even the capacity of our staff in both Ministries to even enforce the out-dated is inadequate. Many of the commercial officers in the districts who are supposed to supervise the cooperatives actually do not know much about genuine cooperatives and need training and re-training.

THE ROLE OF GOVERNMENT IN COOPERATIVE DEVELOPMENT (WHAT IT IS, WHAT IT SHOULD IT BE.

It has already come out with a very good policy. The law is supposed to be reviewed but this is taking so long, it has promised to provide storage including putting up silos, which cannot be

afforded by individual cooperative organizations, but seems to be having difficulties with funding difficulties.

Government should be to ensure that the legal environment is conducive and that the authorities have the capacity to supervise the cooperatives and enforce the law, assist cooperatives in securing financing for large projects, provide training support because it is very costly and up to now it has been subsidized by the few partners of the UCA. It should also provide soft loans for mechanizations and value addition equipment and finance the proposed cooperative forum. It is its responsibility to set up a data base which will serve the cooperatives and other stakeholders.

Whatever role and support government gives, it should be given in a way that it does not amount to interference because interference by government into cooperatives will actually destroy them. There fear that this could open up for government interference.

CHALLENGES AND PROSPECTS FOR FUTURE COOPERATIIVES

Some of the challenges include; lack of cheap sources of capital for investment in infrastructure projects such as value addition equipment which would lead to higher returns for farmers and bring more strength to the cooperative movement. The capital is also required to invest in storage capabilities especially given that our cooperatives are now engaged in many value chains. There is also lack of funds for investment in new technologies and the limited energy supply which limits the scope of business and development opportunities. Since majority of cooperatives are agriculture based, climate change has had and continues to have serious consequences including reduced agricultural productivity.

Prospects.

Cooperatives in Uganda have very good prospects because; agriculture in which most of our cooperatives is much more on the agenda than it has ever been before. This is due to the fact that the whole world is experiencing food shortages. Food shortage is no longer a monopoly of the developing countries. This is a good opportunity for agriculture cooperatives which can be instrumental in increasing food production and distribution.

Globally, the trend is promising too. That is why the UN declared a year of cooperatives was testimony of this trend. This trend has developed due the failure of globalization to cater for the small time players and has instead increasingly pushed them on the margin in contrast to cooperatives which are all inclusive. There has however, been very strong lobby efforts especially from ICA and other strong cooperative associations especially from the developed World. The prospects of the cooperatives are also quite good because there is high expectation many of the challenges that the country is facing can be addressed using the cooperative business approach as it has been the case in many other countries. For example, Kenya had done very well in using the cooperatives to address the housing problems.

CONTRIBUTION OF COOPEATIVES TO SOCIAL AND ECONOMIC DEVELOPMENT

One of the major contributions of cooperatives in Uganda has been the empowering of members through access to economic and social services. Economic services include; financial services through SACCOs, delivery of inputs to farmers, access to markets, enhancing the bargaining power of small scale producers, imparting skills for better production and marketing services. Some of those cooperatives in Fair Trade are able to give social services such as

building bridges, building schools, and community centres. There are other cooperatives that are linked to socially conscious companies such as Nile Breweries that have become channels for similar community projects namely; supply of clean water. There are others which facilitate health service providers by providing them with facilities for clinics. UCA is also running a pilot in cooperative housing to demonstrate how cooperatives can offer solution to the acute problem of inadequate housing in the peri-urban areas. Cooperatives are also beginning to actively participate in connecting people to all forms of energy (hydro and bio energy.) Currently, we have at least 5 electricity cooperatives around the country.

Our cooperatives have also created jobs for all those people employed by them at different levels including managers, finance staff, extension service providers (where I see continued growth in future). Additionally, Worker cooperatives are beginning to emerge in Uganda and thereby creating jobs especially for the youth and women. Some include handicrafts making, which UCA believes could create huge employment opportunities if the cooperators focused on not only handicrafts but also high quality furniture making. We also have a very good example where a group of youths in South Western Uganda has created a group that digs ponds for the fish farmers and being paid for the service.

Hence, cooperatives are not only being used as a vehicle for the members themselves but also a vehicle that is being used by other development oriented organizations including business, government and development partners. Without the cooperative infrastructure these players would not be able to reach the masses.

IS THERE POLITICAL ADVOCACY BY COOPERATIVES OUTSIDE THEIR CORE AREAS OF ENGAGEMENT AND INTEREST? WHAT IS THEIR RELATION WITH TO TRADE UNIONS AND OTHER ACTORS OF CIVIL SOCIETY?

Having now appreciated the importance of cooperatives, the government has come out to support the UCA proposal of establishing a forum for all cooperatives and all the stakeholders. During the Coop. Day celebrations last September, the president himself gave it a go-ahead and promised to attend the forum. It is expected that the government will fund it and it should bring together the cooperatives, the government and other stakeholders to generate ideas on how government can support cooperatives.

Generally, it is my opinion that cooperatives to-day do not have problems as far as advocacy to improve on its image is concerned. Those who had been against cooperatives have themselves changed and many have become strong advocates. This is because it has been proved on the ground that they were mistaken because we have cooperatives that are delivering. In the Ugandan situation to-day, anyone who wants to attract attention will talk favourably about cooperatives. This is the reason why during the previous presidential campaigns every candidate was trying to outdo the other in their plans for cooperatives. It has hence become a campaign issue at all levels. Besides, since the cooperatives were left to collapse by the government, there has been no credible alternatives to replace them as effective substitute. The gap has always remained until they re-awakened themselves. Hence, because they are increasingly getting stronger, the cooperatives are being taken more seriously by other players in the country.

The cooperative movement is currently connected to the private sector through membership to the Private Sector Foundation which has boosted our lobby and advocacy efforts. We also have connection with the NGO Forum which voluntarily has been doing a lot of lobby for our

cooperatives. All of them are happy to associate and defend cooperatives which was the opposite before.

EXAMPLE OF BEST PRACTICE CASES AND INNOVATIVE MODELS

Business Partnership Model: The Case of Nile Breweries Ltd and the Grains Union

For over 3 years, the UCA has been trying to facilitate creation of partnerships between the cooperatives and actors from the private sector as a strategy of creating a business model which the members will use to maximize benefits and ensure sustainability. One of the partnerships that has been created is between Nile Breweries and the ACEs through the Grains Union. This is a good model because every-one seems to be reaping benefits from what started as a public/private partnership between the government of Uganda and Nile breweries which later translated into partnership between Nile Breweries and the cooperatives.

Sometime in early 2000, the Government of Uganda and Nile Breweries Co. Ltd agreed to enter into a public/private partnership through a project called Eagle Project. The objective of that project was to establish whether the company could use local raw materials to make beer instead of importing barley. Research was subsequently carried out in Serere leading to the development of a new sorghum variety known as Epuripur which was tested and found to be good for making beer. Later however, a more superior variety of sorghum called SESO 1 was developed to manufacture a high quality beer. The whole R&D process was very successful and this made the company encourage farmers to produce sorghum in large quantities. However, because of the large quantities involved, Nile Breweries Company Ltd found it necessary to contract cooperatives which have very many farmers. Currently Nile Breweries Co. Ltd. buys 10,000 Mt of sorghum and the public-private partnership has created new opportunities for farmers particularly those who are organized.

Kisiita Area Cooperative enterprise was one of the first farmers' organizations to take advantage and partner with Nile Breweries Co. Ltd and because of its organization, in the first round, Kisiita ACE was able to supply 2,500 tons of sorghum to the company. Realizing that a single ACE such as Kisiita could not meet its demand, UCA decided to approach Nile Breweries and discuss how the cooperatives could fulfill that contract. UCA thought it offered a good opportunity to bring on board other ACEs across the country to share the contact since sorghum can grow in any part of the country.

This partnership has been a win-win for everyone in the following ways;

- a. The government now collects Shs. 34 billion in taxes from Nile Breweries up from Shs. 10 billion before the project started.
- b. Nile Breweries has succeeded in launching a new beer brand called "Eagle" which is very successful on the market. The company is now building a new factory in Western Uganda.
- c. The farmers get a guaranteed market and a competitive price, they also get production support in terms of seed on credit and extension services.
- d. Because of the good performance of Kisiita ACE, Nile Breweries was encouraged to give clean water by financing a borehole for the whole of Kisiita community. This donation was highly appreciated since Kisiita is located in one of the water

stressed areas of Kibale District. At the handover ceremony (by the top cream of Nile breweries), we were told that women and youth travel 4Km or more looking for water.

- e. But if we did not have organized co-operatives, it would have been very difficult for the project to take off because the company would not have been able to secure the required quantities of sorghum.
- f. The researchers at Serere have been very successful too in coming up with a good technology which has been widely adopted by farmers across the country and has become a big commercial crop and is bound to have a very big impact on the lives of the farmers, their families, communities and the country as a whole.

Imagine what would happen if we had 10 companies doing what Nile Breweries is doing with the citizens and 100 cooperatives replicating what this partnership is doing.