



# **WHY AND HOW THE CURRENT COOPERATIVE UNIONS HAVE MANAGED TO SURVIVE THE CHANGING SOCIAL-ECONOMIC CONTEXT SINCE INDEPENDENCE**

**A think piece written for the national debate on the revitalisation of the cooperative movement  
in Uganda**

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## **Introduction**

A cooperative Union is the organization formed by primary cooperative societies. The Uganda Cooperative Societies Act Cap 112 provides that a Cooperative Union is a secondary society, whose membership is exclusively primary societies. The Cooperative Act provides for a minimum of two primary societies to form a Union. Cooperative Unions are formed to provide the primary societies with services that individual primary societies cannot afford in economic terms. This approach is aligned to the concept of economies of scale and is also a form of economic synergy, where "two or more units working together to produce a result not obtainable by any of the units independently. Just as individual primary societies strive to provide their members with quality services, the Unions must provide value to their members in accordance with the cooperative values and principles.

Some of the famous Cooperative Unions include Banyankole Kweterana Cooperative Union, Busoga Growers Cooperative Union, Bugisu Cooperative Union, South Bukedi Cooperative Union, Masaka Growers Cooperative Union, West Mengo Growers Cooperative Union, and East Mengo Growers Cooperative Union and so on. At independence, Uganda had vibrant cooperative Unions dealing dominantly in cotton and coffee, countrywide. However, following the military coup d'état in 1972, and the economic war, declared by General Idi Amin, in 1972 expelling all non-citizen Asians and Europeans from the country, the Uganda economy collapsed. Inflation was at three digits and smuggling of coffee was rampant from Uganda to Kenya. The situation did not improve even when the Military Government was overthrown in 1979 through an armed struggle, because subsequent Governments remained unstable and the country was plunged in a guerilla war from 1981 through to 1986. During those periods, Unions lost a lot of property and business as the wars were in the prime areas of the Unions' business operations. After the guerrilla war, Government embarked on rebuilding the shattered economy and introduced tough recovery measures. Government adopted the Structural Adjustment Programme (SAP), which entailed implementation of far reaching market reforms. SAP implementation had serious consequences such as: scrapping of Government subsidies and monopolies to cooperatives, closure of marketing Boards, civil service reduction, and privatization of power generation, transmission and distribution, thus scrapping of the electricity board – the Uganda Electricity Board (UEB). Many Unions that had business which had suffered during the wars and economic turmoil did not recover, as SAP affected them greatly. During the era of socio-political stability the Unions used to provide various products and services to their members.

## **Typical Services Provided by Cooperative Unions**

The typical services provided by Cooperative Unions are based on the typical demands of the primary societies as institutions and needs of their grass root members. The products and services are as follows:

**Marketing:** A primary cooperative society does not always have the means of transportation necessary for delivering its produce to the market, or else the small volume of its production may put it in an unfavorable negotiating position with respect to intermediaries and wholesalers. Thus a cooperative Union collects the output from members, sometimes undertaking some primary processing and delivering it in large aggregated quantities downstream through the marketing channels.

**Farm Supply Shops:** The union aggregate purchases, storage, and distribution of farm inputs for their members. By taking advantage of volume discounts and utilizing other economies of scale, the Unions bring down the cost of the inputs that the members purchase from the cooperative compared with direct purchases from commercial suppliers. The Unions provide inputs required for agricultural production such as seeds, fertilizers, chemicals, fuel, and farm machinery. Some Unions operate machinery pools that provide mechanical field services (e.g., ploughing, harvesting) to their members.

**Tractor Hire Services:** A single primary cooperative society may be too small to justify the purchase of expensive farm machinery, which may be only used irregularly, for example only during ploughing. Instead local primary cooperatives assign this service to their cooperative Union that purchases the necessary equipment for all the members to use at a fee. Such expensive equipment includes tractors.

**Extension, Education and Training:** Cooperative Unions provide their member primary societies with field support technical services also called extension services. These are through provision of expert advice from Agricultural Officers. The Officers support the farmers in technical areas such as better farming methods. The education and training is for members, board members and employees of the primary societies. Areas of training are geared toward improving member control.

**Saving Scheme:** In order to encourage the appropriate use of money, and promote the savings culture, Cooperative Unions would retain part of the funds of primary society's members as savings. The primary societies would then withdraw the saved monies later when needed by their members.

**Credit Scheme:** The Cooperative Unions may provide credit to their members. Such credit may not necessarily be in cash, but in kind, Such credit include opening of farm land by Union tractors, provision of pesticides and herbicides, seeds, and so on.

**Implications of the Union Products and Services:** The above array of products and services create a strong business relationship between the Unions and the primary societies. Secondly, they assure an enlightened membership thus enhancing member use and control over their cooperative system. Thirdly they promote leadership quality which would be at primary society level, and the Unions. The Union leaders are elected from the primary society leadership. Fourthly, they assure vibrant business activities within the cooperative system, thus retaining wealth within the cooperators and their communities. While those services could be still demanded by the primary societies, some Unions found themselves out of business, while others survived. Competitors had come in providing similar services to the primary cooperatives creating a competitive environment of survival of only the organized. The following is a review of some of the outstanding Unions that have survived the times, how and why they have been able to survive.

**A review of selected successful cooperative unions:** The review is important to understand why and how some Unions survived the post-independence era. Selected Unions that have survived are discussed here.

### **Nyakatonzi Growers Cooperative Union Limited (NGCU)**

NGCU was formed in 1957, five years before Uganda attained independence. At that time, its core business was processing and marketing services for the farmers in Kasese region. Over the years, the Union has innovated its products and services and handles non-traditional crops such as soya flower, beans and rice. Currently the Union boasts of over 15,000 farmers, distributed in about 60 primary cooperative societies. The Union operates in the regions of Kasese, Bushenyi, Kanungu, Kabarole and Kamwenge. To survive the times and be competitive, NGCU has revised its Vision as “To be: a Leading Producer and Exporter of High Agricultural Produce for the Benefit of her Members” and the Mission is: “Improve the Livelihood of the members”. In pursuit of the Vision and Mission, the Union’s core values are self Help, self responsibility, equity, justice and solidarity.

#### **Products and services provided by NGCU to members:**

**Processing and Marketing Services:** NGCU processes members’ crops such as cotton, soya bean, beans, maize and rice. The lint cotton is exported while the seed cake is processed into cooking oil.

**Processing Cooking Oil:** This is made from cotton and sun flower. A separate subsidiary Kasese Oil Mill Limited was formed to handle this business line, while the Union remains focused on its core business.

**Provision of Agricultural Inputs:** The Union provides agricultural inputs to farmers. Such inputs include pesticides and fertilizers.

**Seed Multiplication:** NGCU formed a subsidiary called Kazinga Channel Seed Company Limited which is responsible for improving and distributing the seeds to farmers on behalf of the Union. The seeds are improved to ensure high quality yields. Such seeds are for rice, beans and maize.

**Field Extension Services:** NGCU introduced field workers who assist farmers on site. They assist farmers in key areas such as good farm practices, proper harvesting and post harvesting methods and good use of herbicides.

**Member Education:** Over the years, the Union has had fairly active member education programmes designed and implemented with technical support of development partners. Such partners include Uganda Cooperative Alliance (UCA), Swedish Cooperative Centre (SCC), Uganda Commodity Exchange (UCE), and Agricultural Productivity Enhancement Programme (APEP). The various partners have not trained farmers on cooperatives alone, but also on various ways of improving rural livelihood.

**Tractor Hire Services:** The Union maintains a fleet of tractors which plough farmers' gardens at a fee. The farmers are allowed to pay when they sell their crops.

**Production Credit Facility:** NGCU offers its members through their primary societies, production credit. Such credit carries fair terms and condition for example paying when they harvest and sell their crops.

**Warehouse System:** The Union started and operates warehouse receipt system with its member farmers for cotton, maize, rice and beans. This enables the farmers overcome the problems of poor prices that may arise from selling small quantities and at the wrong timing. The other advantage is that the receipt holder can use the document as a form of a negotiable instrument.

The Warehouse is linked to the E-Warehouse Receipt System to facilitate stocks access by larger grain buyers such as World Food Programme. The Warehouse has a drying shed and equipment for seed processing including drying, winnowing and bagging.

**Support to Coffee Farming:** The Union is supporting the re-birth of coffee in its area of operation. These include providing technical support services and seedlings to farmers.

**Sale of Byproducts:** The Union sells and earns some revenue from byproducts realized in the course of its operations. The byproducts are: maize cobs, cotton cake, sunflower cake, cotton shell, and soap stock. These are used in further production of items such as animal feeds and household items such as soap.

**Factors responsible for the Survival of Nyakatonzi Union:** An innovative Board and management teams that have run the union over the years. The ability to redefine the organizational vision and mission and focus in new direction has been strategic for the Union's survival. The Union now offers its members diverse quality products and services. Continued contact with and empowerment of its members has been important. The Union runs an active extension programme. Experience has shown that one of the key success factors for a cooperative is regular contact with its members. This coupled with empowerment through education and reports go a long way to keep members' confidence in their organization. These give a sense of member ownership and control

and therefore a strong bond of cooperative-member business relationship. Access to local as well as international markets has assured the Union's continued good business. The strategy of forming subsidiary companies such as the Kazinga Channel and Kasese Oil Mill Limited has been helpful, since it allows the union to operate each line of business independently and also remain focused on the core business, of buying and selling members' produce. The Union has a large catchment area covering various Districts. This vast area has vibrant agricultural activities which the Union taps into through the primary cooperative societies. Over the years NGCU has established partnership and maintained reputable working relationship with development/business partners who have supported its work. NGCU networks with the Government of Uganda (GOU) through Cotton Development Organization (CDO), which is the regulatory body of the cotton industry and the Ministry of Agriculture under various agricultural programmes that are implemented. NGCU holds regular Annual General Meetings and presents audited reports, plans and budgets for the approval by its members.

### **Bugisu Cooperative Union Limited (BCU)**

BCU was formed in 1954 as a result of dissolution of various small unions dealing in cotton and coffee that had opened in the areas. The small Unions opted to dissolve to give way to a larger and more viable organization. The assets of the dissolved small unions were aggregated and handed over to the newly formed BCU. The new union swung in business regulated by the Bugisu Coffee Ordinance. The unique point to note is the Ordinance allowed the Union to export the Arabica coffee. The Union's operations however deteriorated few years later, due to wrangles between the Union and the colonial leadership. The Union wanted the colonial leaders to be replaced with an African as ex officio on the Board of the Union. Also other Africans were challenging the Union's monopoly position, demanding that the monopoly be scrapped. Also the Union had misappropriations, quality issues and general challenges of governing a new and large business entity. In 1962, the Union split into two, BCU to remain as a coffee Union and the newly formed entity called Masaba Growers Cooperative Union (MGCU) to deal in cotton. With political infiltration, a second Union also formed again as a breakaway from BCU and was named Sebei Elgon Cooperative Union. It was however weak, even when it later received donor support for example under the IDA programmes for construction of a coffee factory.

BCU incurred a lot of debts for trading and expansion undertakings. Also mismanagement affected it significantly, for example during 2007, the Registrar of Cooperatives set up an investigation, which revealed that assets were being leased out for 20 year period, to settle a loan of over USD 1.6 Million. Accumulated trade losses were found to be over Ushs 3.1 billion by the year 2000, worsened by the fact that the Union had traded with borrowed financing. However, by 2010 the Union claimed it had a working capital of over Ush 2.5 billion. It had also renovated premises, settled overdue utility costs and tax arrears, and reclaimed hundreds of acres of land that had been taken over by encroachers. The Union also runs a children education sponsorship programme.

Full revival of the Union still remains elusive, as the organization has political issues it is grappling with. Therefore, success and difficulties of BCU therefore are not new and date way back during the colonial days. The Union is always in at the cross roads of success and controversy. The survival of the Union therefore may be attributed to the importance of the crop it deals in – the treasured Arabica coffee coupled with monopoly nature of the crop, that in Uganda it is only actively produced in that region. Another success factor is attributed to the strong successive leadership the Union has had over the years, since colonial days. The Union has acquired a lot of experience in negotiation, and conflict management. The successive Boards and management weaknesses notwithstanding have been able to steer the organization through challenging moments such as surviving the break way of two Unions – Masaba and Sebei Elgon. The strategic location of the coffee factories and the absence of any in Sebei region meant that even the new Sebei Elgon Union members continued to use the same factories of BCU. The monopoly powers to sell coffee which had been taken away were restored after independence. However, the monopoly was again lost in 1967 and the responsibility assigned to the Uganda Coffee Marketing Board until the 1990s. Investing substantially in assets that over the years have been appreciating in value. The Union, owns a sizeable percentage of Mbale Town prime land and buildings.

## **Uganda Cooperative Savings and Credit Union (UCSCU)**

UCSCU was formed in 1972 and has continually been in operation. The Union was formed with the objective of promoting the growth and development of Savings and Credit Cooperatives (SACCOs) in Uganda. Its membership is exclusively SACCOs, which currently number over 1.500. UCSCU's Vision is "To be the leading, sustainable union for all SACCOs in Uganda" and the Mission is: "To promote and empower SACCOs in Uganda by offering high quality services" UCSCU subscribes and adheres to the cooperative values. In addition, its institution-specific core values are: Team work, Stakeholder responsiveness, Member-sensitivity and Productivity

### **UCSCU offers various services to the SACCO movement namely:**

**Capacity Building:** UCSCU offers training to SACCO committee members, sub-committees, management and general membership. The training activities address several technical areas to build up ownership, skills and internal capacity within the SACCOs. UCSCU has a training centre at Maganjo 10 Kms along Bombo road where some of the trainings and workshops are held.

**Technical Services:** UCSCU provides technical services to SACCOs such as putting in place best Bookkeeping and Accounting practices, new SACCO Policies and Procedures, Loan portfolio management tools, Risk management tools, Business and Strategic Plans. UCSCU played a leading role in the development of the current model Bye Laws for registering SACCOs in Uganda.

**Marketing:** UCSCU runs nationwide marketing campaigns for SACCOs to promote and build their image.

**Representation:** UCSCU acts as a representative and spokesman of SACCOs nationally and internationally.

**Advocacy:** UCSCU is aware that SACCOs cannot grow as safe and sound financial institutions unless an enabling law is in place. Therefore, currently UCSCU is an active participant in discussion with Government for an adequate law for SACCOs.

**Information Management:** UCSCU is building a database for SACCOs countrywide. For example, UCSCU has recently completed a survey that enabled building information on the level of SACCO penetration at sub-county level in Uganda.

**Networking:** UCSCU facilitates communication and interaction within SACCOs. These include inter-visits of SACCOs nationally and internationally. UCSCU also organizes regular forums for managers and leaders of SACCOs.

### **Reasons of success for UCSCU have been the following**

The Savings and Credit Cooperatives' in the country have survived. The Union has a mix of rural and employee based cooperatives which enable spreading of the operating risks in case one sector is affected. Another reason for survival is that since 1972, the Union has not attracted huge indebtedness, which would have caused attachment of properties in the event of failure to repay. Yet indebtedness coupled with default has been one of the major undoing for a majority of cooperative unions in Uganda. Another reason is that way back in the early 1980s the Union acquired its own premises in which it located the head quarters. This enables it operate a head office at a relatively lower cost within the otherwise expensive central region. Partnerships and linkages with development partners have been important for UCSCU;s survival. Such partners include: World Council of Credit Unions (WOCCU), the Canadian Cooperative Association (CCA), and German Technical Cooperation (GIZ). These have provided both technical and financial support to UCSCU over the years. During 2008 UCSCU entered into a partnership with Government of Uganda for the development of a rural financial service infrastructure countrywide using the SACCO model. This Public Private Partnership (PPP) enabled USCSU develop its countrywide infrastructure and enhance its presence. UCSCU has a well-defined path over the next 5 years, as reflected in its strategic plan 2013/2017.



## Summary of why and how some cooperative unions have survived the post-independence era

**Strong Board and management teams:** The unions that have survived may be rated as strong. This is because they have been able to steer their organizations through turbulent times. They have also strategic plans and business plans, and redefined the vision and mission statements for guiding the organizations over the next years.

**Member focus and nurturing cooperative-member relations:** Taking into account the reviewed organizations it is noted that there is member focus in the Unions' operations. The Unions have provided products that are demanded by the members while diversifying into various lines of business.

**Provision of Innovative Products and Services:** The Unions have been creative and provided products for members' use e.g. crops (members provide the raw materials, thus materials are locally secured) and the final outputs are demanded by the communities (members are part of the market for the final product) and international markets. For example, the oil produced by NGCU is from members' sun flower and cotton seed, and is consumed by both the local communities and has national and regional markets.

**Access of Technical Support Services:** The Unions access technical assistance and put it to good use. This enables them tap into experiences of other cooperatives regionally and internationally.

**Linkages and Collaborations:** The Unions collaborate and network with other organizations nationally and internationally. For example UCSCU collaborates closely with WOCCU and therefore shares WOCCU's rich international experience. UCSCU has also implemented the GOU/RFSP focusing on SACCO development in the country.

**Access to funding opportunities:** With strong leadership and clear records and reports, the Unions are able to access financial resources from partners.

**Putting the indebtedness under control:** While some surviving unions had large debts incurred over the years, some have been able to put them under control by servicing them.

**Post war Socio-economic Stability:** After the end of the wars, Uganda attained socio-economic stability, which provided opportunities for the cooperative unions to tap into. Those Unions that recognized the stability as opportunities and re-positioned themselves have been able to survive. Vibrant economic activities in the areas where the Unions operate have also contributed to success.

## **Reasons why some cooperatives unions collapsed**

**Indebtedness & Misappropriation:** Many Unions signed for credit facilities and mortgaged properties. Due to poor management, the Unions failed to pay back. The loans kept on attracting interest and eventually the lenders attached the properties. For example, South Bukedi Cooperative Union in Tororo sold off several vehicles, buildings and the Nyakesi Ginnery, and the cooperative house in Tororo Town, and cooperators alleged that the funds were not ploughed back. It was alleged that funds amounting to Ushs 240 million shillings obtained from the sale of the Dabani and Busolwe Ginneries that were located in Busia and Butaleja districts had been misappropriated.

**Mismanagement:** many unions lost property due to mismanagement coupled with other factors, For example in its post independence peak days the Bunyoro Growers' Union owned a cotton ginnery, a petrol station, a hides and skins tannery, a carpentry workshop, five lorries, two pick-up trucks, a cotton-cake and oil making machine, a commercial building and a coffee processing factory. It also had about 65 square miles of land and 2,000 heads of cattle in Masindi, Hoima, Buliisa and Kampala. Most of the properties were lost through sale offs to settle debts, and mismanagement. Another example is Masaka Growers Cooperative Union (MGCU). The Union is virtually closed due to mismanagement, political interference and indebtedness. During the late 1980s, using loan facilities, the Union had opened a soft drink factory under the brand name *CREPS*, but by 1996, the factory had collapsed although farmers had been actively mobilized to provide the pineapple fruit, which was the raw material used for the making of the soft drink. Efforts to reactivate the factory were futile as large amount of money were required yet the proceeds from the asset sales had all been exhausted. To note also is during the 1980s, the Union suffered from political interference when political leaders were being made to run the Union's Board.

**Unviable Entities:** A typical example is the Sebei Elgon Union. The Union was formed basing on the 8% contribution Sebei farmers were making on the entire business of BCU. The political considerations on which the Union was based did not analyze whether this % was adequate to sustain an independent Union.

**Inefficient, ineffective Boards and management** that could not innovate and tap new opportunities availed through the open economy, create partnerships, be member focused and run the cooperatives in the best interest of the members, These left the co-operators agonizing over the lost glory of their unions. The leadership did not keep members informed about their union. An example of effective leadership was reflected in Lango Union where leaders were not

keeping their members informed for several years on issues concerning the state of the assets. Lango Cooperative Union farmers accused their leaders of selling off the Union's ginneries to an Indian owned company dealing in cotton production in the region. But the secretary urged that the ginneries under contention were sold by Government in 1997, to raise money Government owed former union workers. The eight ginneries in contention were Odokomit, Aboke, Jaber, Aloji, Namasale, Aduku, and Ijuje.

**Losses due to the wars: Some unions lost assets during the war.** For example; Banyankole Kweterana Cooperative Union founded in 1986 lost assets during the wars. However, Government made some compensation. Other internal factors also explain the collapse of this once giant organization.

**Government Policy of liberalization was abruptly implemented,** yet cooperative unions had been subsidized for several years.

### **Suggestions of the future of cooperative unions**

#### **i) Develop and Offer Innovative Products and Services, while Observing Member Focus**

Cooperatives should carry out institutional self assessment; study the opportunities available, re-define their vision and mission statements, and core values.

The Unions should enter new markets apart from the traditional crops of cotton and coffee. They need to observe member sensitivity as they tap into new ventures.

#### **ii) Develop Internal Policies and Procedures and Codes of Conduct**

To enable the Unions run in a professional manner and hold the leaders accountable, cooperatives should be supported to develop a comprehensive policy framework for their operations. Conflict of interest, corruption, embezzlements should be controlled through proper policies and adoption of ethical values.

#### **iii) Adopt and Implement Performance Standards and Education**

Minimum standards for Boards, financial ratios, e.g. costs, working capital levels etc. Minimum education levels should be defined and implemented. Educate all in the cooperative (members, boards, and employees).

#### **iv) Offer Competitive Services, Implement Internal Resource Mobilization and Focus on Sustainability**

Over the years, cooperators have struggled for reforms to control their organizations they were not funding. Government on the other hand wanted a firm grip on cooperatives because of the financial resources it was injecting in them, and the strategic nature of the commodities dealt in. For cooperatives to be truly member formed, controlled and used, cooperators must provide the working capital through share subscription. The cooperatives must also budget and operate efficiently and effectively, and capitalize profits as institutional capital. Institutional capital (retained earnings) is critical for the sustainability of cooperatives as it represents funds internally generated by the cooperatives and is zero cost funds.

### **Promotion of Mergers**

Where feasible, mergers should be promoted. For example Mbale region has two separate Unions BCU and Masaba Cooperative Unions. The two should be encouraged and supported to merge into one strong organization.

### **Strengthen the Law for Cooperatives**

Many Unions that collapsed lost a lot of property but seems nothing was done for them to be held accountable. Therefore, the cooperatives law should be strengthened to hold leaders accountable.

### **Strengthen Supervision and law Enforcement**

Regular monitoring of Unions by Government officers should be implemented. This however, will require supporting the Registrar's office with additional resources such as human resource and equipment. Enforcement of the law should be taken up so that leaders who misappropriate cooperators funds and properties are brought to book.

### **Government Complete Compensations**

Where Government still owes money to the Unions for example through war costs, refunds should be finalized so that the Unions can put such monies to use.

### **Conclusion**

The future of the unions will be bright if they realize that times have changed and reforms are the way forward. Those Unions that realized this are surviving and moving forward.

The tertiary organizations may have to play a catalytic role to support the Unions move forward.

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