



THE FALSE START OF COOPERATIVE SOCIETIES IN UGANDA: THE CASE OF THE BRITISH AMERICAN TOBACCO COMPANY IN WEST NILE

A THINK PIECE WRITTEN FOR THE NATIONAL DEBATE ON THE
REVITALISATION OF THE COOPERATIVE MOVEMENT IN UGANDA

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Introduction

A cooperative society can be defined as an autonomous association of persons united voluntarily to meet their economic, socio-cultural needs and aspirations through jointly owned and democratically controlled enterprises (International Co-operative Alliance, 1995). An ideal cooperative society must have principles and ethics that are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Derived from the tradition of their founders, cooperative members should believe in the same ethical values of honesty, openness, social responsibility and caring for others. In order to maximize the potential of cooperatives, there are internal structural factors that need to be exploited. These factors include; an enabling legal environment, access to credits, capable management and governance, autonomy and freedom from government control, a market-driven approach and collaboration with other cooperatives.

In Uganda in general and West Nile in particular, there are many traditional cooperative societies whose lifespan is as long as that of the communities that lived in the region. Depending on the nature of the cooperation, the Kakwa have uya-food for work, lokita-digging in each other's fields in turns, doju or dozu – work for food crops and kama-keeping part of the harvested crops in a headman's homestead in hundreds (thus kama) of granaries for uncertainties that include delayed rains resulting in famine and lack of seeds. The Lugbara equivalents are (uya, kita/adeti, kama and osita). Depending on their levels of administrative setup, the Alur and Madi are likely to have their equivalent words. Since their areas are not tobacco growing, they will be left out of this study. These cooperative societies lasted the test of time because they are based on the traditional concept of social capital, membership is limited to a clan or village and there is no restriction on membership. The British American Tobacco networks or cooperatives that were instigated by the government and not by the people concerned were not based on the cultures of the people of West Nile hence its false start and subsequent failure.

The traditional cooperatives serve a broad set of socio-political and economic objectives ranging

from self-help and grassroots participation to welfare distribution (Uma, 1981). It is a vehicle for cooperation and collective action as well as building and reinforcing communities' concepts of survival, sustainability, stability of economies and providence for a favorable climate for continuity, reduction of inequality and the promotion equitable sharing of the costs and benefits of sustainable development. In the traditional cooperatives almost all elders form a board of governors; Zeuli, 2004, suggests that all board members of modern cooperatives should be selected on the criterion of;

- (i) good business judgment
- (ii) independent thinking
- (iii) willingness to ask critical questions, respect other members and
- (iv) integrity, as well as have a strong work ethic and comprehensive understanding of cooperatives.

Cropp (2005); observes that the success or failure of any cooperative is a result of the functioning of its board members that represents cooperative members. The US Overseas Cooperative Development Council (2009) argues that efficiency of cooperatives depends on;

- (i) sound business practices
- (ii) strong membership participation
- (iii) efficient apex organizations that provide oversight and services and
- (iv) a facilitating economic environment.

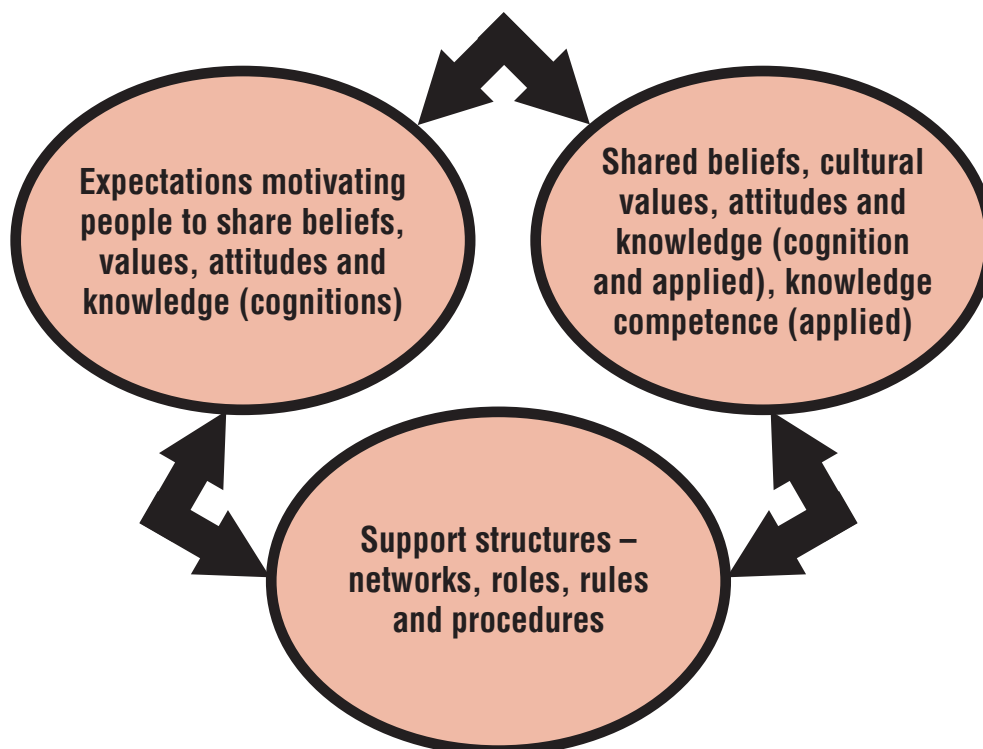
The traditional depends largely on representation although it is known despite the number of members present. It is always opinion of few members that matter. These institutional differences and the purpose between the traditional cooperatives and modern cooperatives speak volumes on why traditional cooperatives last for years while the modern cooperatives tend to fail. Essentially, a cooperative should be based on the members' concepts of social capital or where members come from diverse groups, conceptual framework should be used to devise what is common to the members of the cooperative under formation.

Social Capital

The concept of 'social capital' came into use from about 1890, the term that was used at that time was social network. At that time, Alexis de Tocqueville, observed that Americans were prone to meeting at as many gatherings as possible to discuss all possible issues of state, economics, or the world. Jane Jacobs also used the concept in the 1960s. In each case, it was argued that through social capital, work is transparently done resulting in greater participation from the people thus fostering democracy and effective work. The

social capital or network concept has, for the last two decades interested sociologists, economists, political scientists, development practitioners as they related it in one way or another, in as far as it appeals, to social resources embedded in social relationships which are suitable for a wide spectrum of possibilities. In relation to economic development, social capital has been viewed from networks, institutional and synergy perspectives.

Conceptual Framework of Social Capital



Source: J.C. Munene, S.H Schwartz and G.M. Kibanja. *Escaping from behavioural poverty in Uganda*

Through social capital, people care for their young or sick, dig, eat and mourn for their dead together. Groups or social formations can be based on clan, village, gender or age set. Social capital came to appeal to development practioners, through its nostrum, among others, the saying 'it's not what you know; it's who you know that matters' Fine (2000). The saying is not a means of pointing to the advantages and disadvantages of nepotism but to the idea that

interpersonal connections can produce favorable outcomes. The advantage of numbers is further amplified by rural development researchers who claim that often when rural people are asked what keeps poor people poor, the first thing they say is, "the poor are alone" (IFAD, 2001). When asked what they appreciate most about a successful rural development project in their community, before mentioning monetary or technical benefits, the poor participants

frequently remark on how the project helped them to stand together. It is in support of the idea that strong social organizations make it possible for the poor to gain access to resources and knowledge within their communities and to develop links with external

partners IFAD (2001). The way a community uses its human, food and land resources can be studied and adapted in the formation and management of modern cooperatives.

Conceptual Framework

A well-constructed conceptual framework based on a people's culture can direct planners and managers on how groups of people or individuals can best manage land, financial and human resources of an agricultural

cooperative. A conceptual framework acts as a visual outline to represent concepts or research ideas about various relationships that can result in the setup of a stable cooperative.

An illustration of a Conceptual Framework for a Cooperative



Source: Field research

In this framework the assets are human capital, land, laws (written or unwritten) tradition of cooperation or social capital and finance resources. The activities include observation of the communities' ethics; farming, organization and sale of say the tobacco. Outcomes are mirrored in improved incomes, increased production, market access and risk sharing. Relatively educated members of the community included human capital that can join the group of elders who form a board resulting in the general improvement of the conditions of life thus sustainable rural development. Conceptual frameworks, according to educational researcher, Smyth (2004) when structured from a set of broad ideas and theories can help a researcher or practitioner to properly identify the problem they are looking for.

The rural poor live in their own economic world that includes bartering. They become victims when they are simply integrated into the money driven world economy without taking specific policies and organizational initiatives that are likely to improve their lot. To make the market work for poor people, who are not passive receivers of whatever is prescribed to them as medicine, specific policies that are aimed at dealing with the promotion of pro-poor growth must be undertaken—growth that augments the choices of the poor by providing them with education, ideas, goods and services or by offering them income-generating opportunities and decent work. In recent years promoters of change have come to realize that change must not be brought from without but from within if it is to be accepted by the people it is meant to change.

The Case of the British American Tobacco Company in West Nile

The British American Tobacco (BATU) is a multinational organization and has been operating in Uganda since 1927. It started by growing both air and fuel cured tobacco. It had barns where it bought the green tobacco leaves from the farmers and then cured itself. The uncertainties of what became of the tobacco leaves after curing compelled BATUU to outsource the curing of tobacco to the farmers. This decision also went along with the barns BATUU owned, they too were given to farmers resulting to increased tobacco production.

By 1950s the tobacco farmers in West Nile were organized into a cooperative. BATUU had no option but to work with government policy – cooperatives. By early 1960s the 23 tobacco cooperative societies in West Nile region had formed a union (Ogwang and Anguyo, 2013). There were primary cooperative members composed of individual growers or farmers and the pre-requisite for this formation was a minimum membership of 30 individuals. A member of a cooperative society was required to pay membership fee and own shares; often cooperatives were so large that many members were not known to each other. For instance, Koboko whose total population was over 250, 000 people, had two cooperative societies which were oversubscribed.

Societies grow nurseries. Members of a given cooperative society elect two delegates who form a board at the union. Thus, the West Nile Cooperative Union was composed of forty six (46) delegates from the various societies. Although there was regular Annual General Meetings (AGM), this left little impact because almost all primary members of these societies were illiterates. Attendance of AGMs was poor and the societies had a problem of finding people with the basic education and the ability to interpret bi-laws who could be voted delegates as well as run the societies. The Board (Committee) runs the cooperatives on behalf of its members with the primary role of collectively marketing the tobacco produce. The union has various sub-committees, like finance and administration. The management staffing is an autonomous lot appointed by the committee and is not comprised of members of

the society as people often clung on power.

BATU supplied each farmer with inputs like fertilizers, thermometers, hoes, and pipes among other things. Normally BATU brought these inputs to the union and the latter supplied cooperatives societies which in turn supplied their members. The amount of inputs supplied was restricted to roughly 30% of the farmer's expected crop sales. The crops were bought on credit and payment was not prompt. When the crop is harvested, the account is credited until the loan is paid off; thereafter farmers receive cash for the additional tobacco sold. Each year the company announced pre-plant prices for the different grades of tobacco leaf. Often the pre-plant price and buying price would be the same with exception to 1995 when the marketing prices were less than the pre-plant prices. Wood fuel was never supplied on time because trucks at the union or societies were either not enough or too old. Supply of inputs – societies expected value for money particularly because of bulk purchase but both the cooperative societies and union members did not know the market prices for all inputs. Government fixed its tax a year in advance and then BATU fixed price. Farmers were generally the price takers because BATU dictated the price without any negotiations. BATU paid the union a commission of 10% of the sales to enable it run the affairs of the societies on behalf of BATU. Of the ten percent, the union retained 40% and sent 60% to the societies. Part of the revenue retained by the union was used for paying delegates' allowances when they attended the union's Annual General Meetings (AGMs). The distribution of this money yielded sour grapes between the members and their delegates because the delegates allowances sprung up their personal growth compared to the rest of the members – it was often seen that within a period of two years members at the societies' helm, had soon bought trucks which were rented out to BATU for transportation of wood fuel and tobacco leaves to BATU stores.

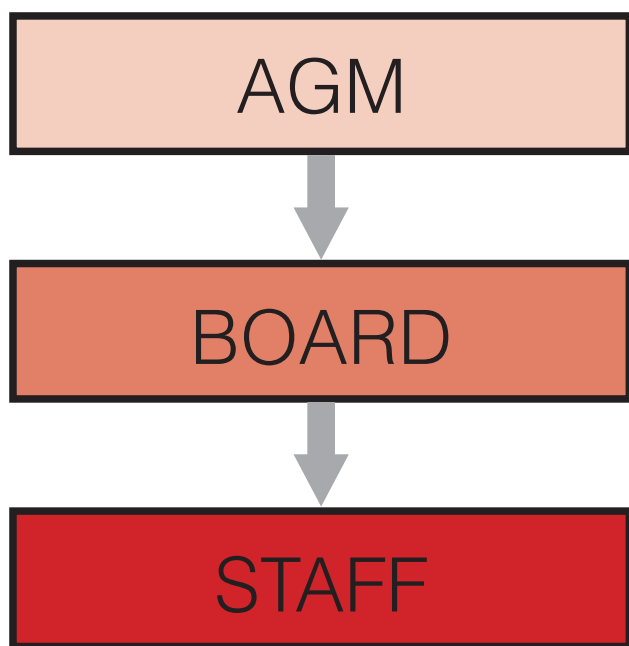
Requests for inputs and agreed supplies were handled by BATU extension staff, after checking with accounts in Kampala, to ensure that the farmer is not over his

maximum credit allowance. BATU also provided technical advice through extension staff, by using demonstration plots and 'master' farmers throughout the production areas to demonstrate correct cultivation practices and the potential gains from receiving BATU inputs. New farmers were vetted before joining the scheme. The criteria for vetting included farming ability, proximity to other farmers, availability of labour, quality of soils, and local character references. After one year in the scheme, farmers were appraised according to their performance (with respect to yield, quality of tobacco). Poor performance would limit the amount of credit available in the following year and after two consecutive years of poor yields, farmers were de-registered.

Individual farmers harvested, cured, graded the

tobacco leaves and transported them to purchasing points where the leaves were further graded and valued. The value of the produce was then credited to the farmer's account until 100% of the loan had been recovered, only then would the farmer receive cash payments. At the end of the season individual farmers received bonus (which was paid just prior to Christmas) of up to 3% of the value of the harvest, based on the quality and volume of the tobacco that they produced that year. The major development for the 1997 season was the enactment of an amendment to the Tobacco Law, which was to safeguard farmers and companies entering into credit agreements. Basically, it commits the farmer to selling to the company with which it has an agreement and commits the company to purchasing all tobacco from that farmer (see enforcing repayments).

Figure 3: Illustration of an Organogram of a Cooperative Society



- (i) giving information on how their cooperative society was to be run
- (ii) visiting the cooperative societies and sensitizing them on how a cooperative should be run or work
- (iii) guiding cooperatives on prudent accounting practices and requirements
- (iv) foreseeing the registration of the society by ensuring that all the necessary documents and other statutory requirements (bylaws, at least 30 founding members, statement of affairs, assets, liabilities and financing) were met are in place

The role of the District Cooperative Officer (now referred to as District Commercial Officer) was to supervise the cooperative and audit their accounts as mandated by the cooperative statute, cooperative regulation, and society bylaws.

As mentioned earlier, the running of the West Nile Union was largely interfered by BATU and the Government of Uganda. In those formative days there was a fully-fledged Ministry for Cooperative under the stewardship of John Kakonge (RIP). The incumbent government at the time drafted bylaws which may need revisiting if they are to meet the current level of development.

At that time the tobacco growing counties of West Nile – Aringa, Koboko, Maracha and Terego were in one district – West Nile District. The role of the District Cooperative Officer included:

In the 1960s, the minister of cooperatives directed BATU and the entire West Nile region, to start growing tobacco in Bunyoro (Anguyo, 2013). Cooperative unions and societies were an integral part of the development agenda of the UPC government to the extent that members of the ruling Uganda People Congress (UPC) filled various positions both as delegates and union chairs. The government funded the unions; if there was a problem with one union or society, government came in with money to assist it. There was daily interference on how they should be run (Anguyo, 2013).

With a relaxed Government interest, in 1996 BATU decided to directly with the farmers leaving out the West Nile Cooperative Union. BATU assets were sold to the Union and societies; it also closed its factory in Kampala about six (6) years later and now exports to Kenya the raw leaf without any value addition. BATU realized that they were producing more tobacco than they needed for the cigarette business in Uganda. It is estimated that 25,000 tons of tobacco leaf was enough to produce 30 billion cigarette sticks. In Uganda, the

total market including illegal trade is 2 billion sticks (www.BATU.com). A year's production would therefore last BATU 15 years. BATU Uganda currently exports leaf to 20 different markets. Part of this goes to Nairobi which has a central factory for 16 countries including Uganda and can therefore ensure consolidation of new technology and best practices. It therefore found it irrational to think about reopening the cigarette factory in Jinja which employs only 35 people.

Teething Problems

1. The formation of the West Nile Tobacco Cooperative Union was top down. In addition to West Nile, tobacco was also grown in Lira, Hoima and Kihhihi. With this a national cooperative for tobacco growers should have been set up to integrate the different efforts and enhance efficiency in resource allocation.
2. The Union was not based on the people's culture. If the Government wanted to assist, it should have studied how traditional cooperatives operate so that it could; assimilate the conceptual framework used by local formations with the government propositions this would enhance ownership by the people of West Nile.
3. The members of staff were hired by a board which largely comprised of semi illiterates with limited understanding and ability to run the societies and unions professionally. This kind of set up was a recipe for high staff turnover and corruption. The union's limited educational capacity can be seen from the fact that it did not know the local or international prices of tobacco. Worse still, when BATU supplied items like thermometers, pipes and fertilizers on credit, farmers had no means of comparing the BATU prices with those in the market.
4. A well-managed cooperative could have thought of undertaking value-addition. This could enhance higher economic returns to members and the country. The Government should have helped unions add value to the tobacco grown in Uganda by an enabling legal environment and credit facilities. A cooperative should essentially strive

to become self-reliant, accumulate capital and develop other resources in order to free itself from all external controls and directions.

5. Almost all society members of the West Nile Cooperative Union were men. Tobacco growing is labor intensive work and farmers work all year opening new fields, preparing seedlings, transplanting, weeding, curing and transporting to selling points. Often when the money finally comes, it is in the names of the male members of the family. Women got a raw deal as they devoted all their time and energies to growing tobacco. Apart from not earning much from the tobacco, the food baskets were left bare as food crops like cassava that would equally contribute to the welfare of the family were not given adequate attention. Perhaps the below song is a clear depiction of women's predicaments:

Kakwa	Literal translation
Pakitori lo juwe	Factory has been brought
Koboko ni de	To Koboko
Ma gbandra lo kolo	so that cassava be left
Ma yi nyosu nyo	What shall we eat
ŋazi kine	Girls

The female composer of this song foresaw and experienced famine in families. They worked all year round in the tobacco fields but when it came to enjoyment of the benefits, it was only the men who ripped the benefits of the family labour with new clothes, a bottle of beer.

6. Cooperatives need to develop unique ethical

qualities that will help distinguish them from their competitors.



Trust lies at the heart of cooperation. People who work together must know and trust each other. Without trust, people do not communicate and, as a result, cooperation is unlikely. It is very difficult for people to trust each other unless they share a commitment to ethical principles. An important ingredient in building trust among and between members and their cooperative organization is ethic code of conduct. Where there are no ethical codes, cultural values can be used to streamline the running of these societies.

In 1996, all curtains fell on BATU when its monopoly was reduced by opening the market for tobacco to other buyers. Farmers started enjoying a free market in 1995, when the pre-plant price was less than the actual price. When the union questioned BATU, it responded by refusing to renew its contract. With the end of BATU's monopoly, the union bought the former's ware houses and centres. Despite this status

quo, BATU went ahead with constructing new ware houses. On the other hand, farmers realized that they were getting value for money without the unions; this may be because farmers did not have to contribute for maintenance of the cooperatives. Albeit, farmers did not realize that the cooperative system provided them with a powerful mouthpiece, which was not good for the BATU.

On its side, the Union invited Mastermind Tobacco Company (which later changed its name to Continental) to take over the cooperative system of tobacco production which BATU had dropped. Continental was formed by a combined effort of former Kenyan engineer and Burundian sales officer of BATU. With the coming of Continental into the scene, sale prices of tobacco rose from an average of UGX 1,200 a kilogram to an average of UGX 4,000/=. Countries like Zimbabwe and Malawi with solid commercial farmers unions, were receiving an average of \$ 2.1 per kilograms. Farmers were spoilt for choice as they could sell to an alternative buyer. Indeed BATU claimed it had incurred significant losses of approximately \$200,000 with most of their loans going bad.

Conclusion

Seventy percent (70%) of people living in extreme poverty are located in rural areas of developing countries. They are mainly small-scale producers. Despite their production potential, small-scale rural producers (SRPs) confront serious constraints in profiting from their resources due to lack of basic infrastructure, limited knowledge and access to services for production, finance and business development and limited ability to influence favorable policy. In many cases, current trends will continue to marginalize these rural producers with particularly negative effects unless an effort is made to address their condition.

One way of addressing the plight of these small-scale producers could be through the formation of cooperative societies. Through these cooperative societies, the small-scale producers can be enabled to reach distant markets. A cooperative can also enhance the income of producers through collectively marketing their farm products and providing producers with farm supplies at lower cost. Another advance of a cooperative society is the integration of members making them form a marketing chain, thus contributing to meeting both the supply and demand sides since they open up markets for supply of inputs and marketing of outputs. With Government support or access to credit facilities, they can enter into value addition. This arose when the BATUs monopoly was cancelled by the Government and responded by dropping out of the cooperative arrangement, selling its assets in West Nile to the West Nile Cooperative Union as well as closing its factory in Uganda. Instead of inviting the Continental (formerly Master Mind) to take over the co-operative system of tobacco production, it should have strengthened the Union which BATU had dropped. Care should have been taken to look at all the weaknesses and strengths that were central in the formation of West Nile Cooperative Union. Did the farmers or Union officials realize the need to think about value addition?

The teething problems relating to the formation and management of the West Nile Cooperative Union could have inhibited the management and AGM from innovating beyond tobacco growing. One wonders if the cooperatives would have succeeded had the formation been more indigenous, incorporating the

ideas and values of the local cooperators. Despite, such unresolved questions, it is not too late for policymakers create standards and guidelines which provides a conducive atmosphere for public-private partnerships. Here cooperatives will be open to big business opportunities that stretch beyond agriculture.

To make markets work for poor people, specific policies must deal with market failures and target the promotion of pro-poor growth; growth that augments the choices of the poor by providing them with goods and services, technical advice and widening opportunities for wealth creation while nurturing a dignified livelihood.

For the cooperative movement in Uganda to succeed, government needs to use its existing physical infrastructure, legal and regulatory regimes to provide an enabling environment for citizens to form synergies in cooperatives for different livelihood ventures. Government's continuous role will be to guide citizens' collective efforts towards the achievement of the National Development Plan, Vision 2040 and also sector investment plans.

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