

# **THE LEGAL, BUSINESS, ETHICAL AND KNOWLEDGE STATUS OF COOPERATIVES IN UGANDA: “A FORK IN THE ROAD”**



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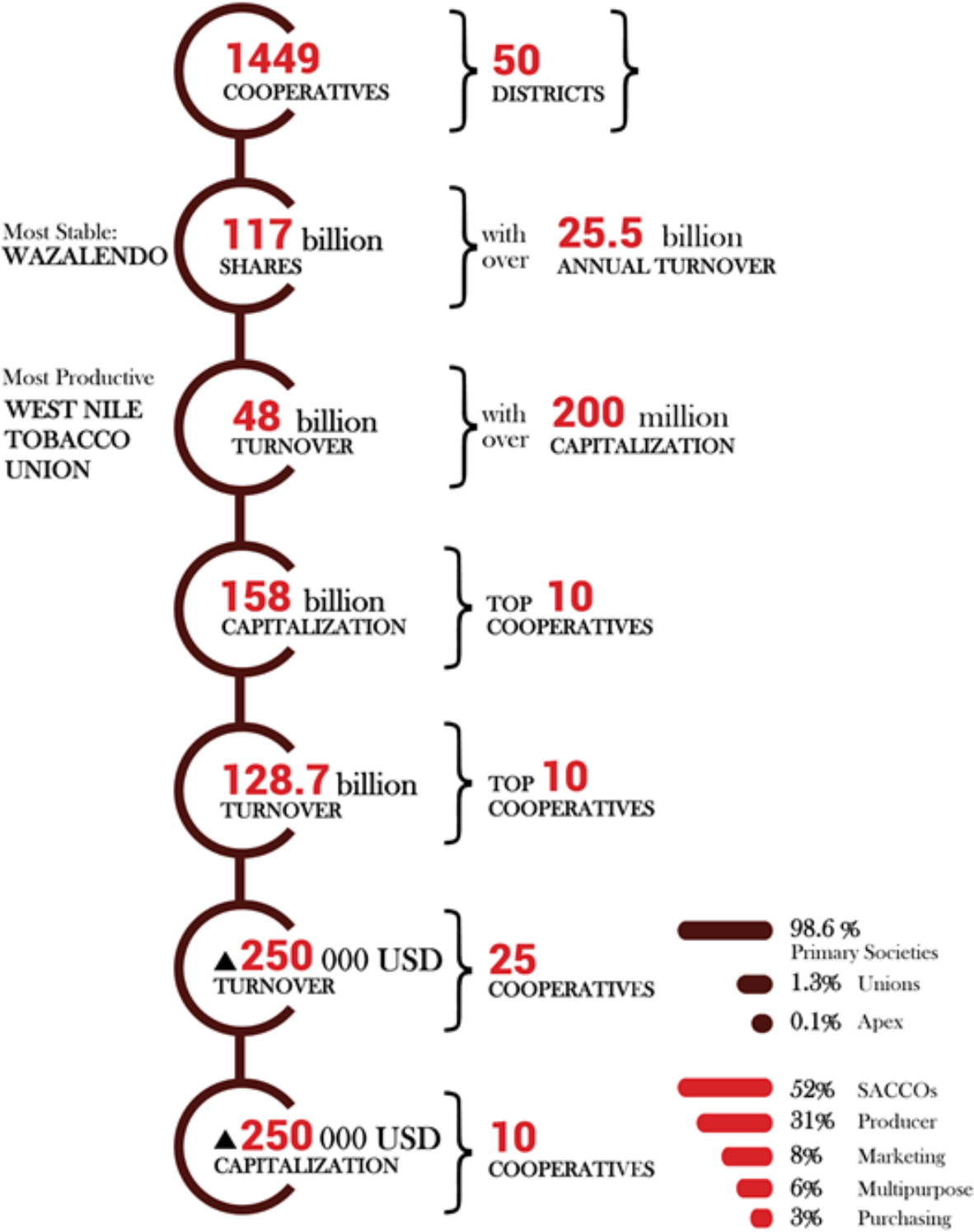
Cover design: By Levi Leku – Facelift design

Printed in Uganda by Grand Brand

Library and Archives in Publication  
Available upon request

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# Foreword

As Africa rises, we continue to see certain predominant socio-economic and geopolitical trends; for many of her countries including Uganda, Africa's agriculture, mining, infrastructural development and social services present the most opportunities accelerated by the abundance in mineral wealth, tropical weather and a healthy growing population that can provide labor to drive growth. However certain obstacles including donor dependency, poor leadership at all levels, individualism, limited innovation, lack of originality/copy-cat syndrome and the colonial hangover need to be dealt with for unaided development originated by Africans for Africa's future to be achieved.

In Uganda's case achieving her development goals within the desired timeframe will mean that the cooperative sector occupies a predominant place in all its sectors alongside government, other private businesses and the international community. As the engine for development, cooperatives can potentially realign the financing structure by accelerating the generation of local revenue and expanding the current narrow tax base, increasing productivity and employment, boosting industrialization and competitiveness, bridging the social services gap as well as increasing infrastructural development.

It is therefore imperative that the health of this development engine is checked for the long journey ahead. The apparent problems facing cooperatives are exacerbated by limited record keeping and information analysis that has dramatically plagued the sector. It is time for cooperatives to embrace technology and competition and realize that a business that does not record its life's journey works in isolation from the realities of the day, hence limited in opportunity.

The status of the cooperative movement in Uganda today calls for urgent and strategic decisions to be made if these organizations are to create the impact that it has been associated with. For the cooperators, its time to go back to the basic principles, ethics, and values as prescribed by the 28 Rochdale pioneers and promoted by the International Cooperative Alliance.

Moreover, African governments should consider integrating the cooperative business model within all their development plans, establishing and implementing conducive and sector friendly policies and laws as well as provide a secure and peaceful environment that facilitates the continuous growth of the cooperative sector. The development partners equally have to rethink their strategy on how they support cooperatives by investing in infrastructure, research and business development services with clear benchmarks that produce a return on investment.

Notably, the success of cooperatives will largely depend on the collective commitment of individual member cooperators to take their destiny in their hands and drive their cooperative towards a household focused and integrated people centered business module delivering equitable, inclusive and sustainable development. The future is bright for those who keep a positive spirit, are decisive on which path to take when they reach a fork in the road, as intimated in this report.

# Acknowledgement

After several years of engaging with the cooperative movement and realizing the need for reliable and up to date information on the cooperative movement in Uganda, this report is a contribution of the Uhuru Institute for Social Development to the development of the sector in Uganda. Special thanks go to our partners the Fund for Global Human Rights that funded this phase of research and Busara Centre who provided training and technical assistance to the research team.

To the research team and all the personnel at the Uhuru Institute for Social Development led by Jane Amuge Okello, David Baganda, Sean Budeyo and Francis Lulahali thank you for your invaluable input amidst challenges that could only be overcome by resolve, determination, and love for humanity.

Our gratitude equally goes to the Government of Uganda through the National Council for Science and Technology, Makerere University School of Social Sciences Research Ethics Committee for seeing value in this research as well as the Department of Cooperatives (MTIC), Directorate of Financial Services (MoFPED), offices of the DCOs, RDCs and CAOs for providing information and an enabling environment for the completion of the exercise.

A big vote of thanks goes to the boards, managers of the 1449 cooperatives profiled, critical informants from UCA, UCCFCS, UMRA, Puliida, Agriterro, We Effect, Trias and Freelance experts including Charles Kabuga, Carilus Ademba, David Baguma, Hon. Yona Kanyomozi, whose contribution made this research undertaking a success.

For a movement whose history is mostly concealed and necessary documentation or archives are unkempt, we pay tribute to A.R Kyamulesire(RIP) and Charles Kabuga for their contribution in keeping some of the cooperative movement's history alive for the benefit of the generations that have proceeded their leadership. Together we can successfully build giant and impactful cooperatives.

# Table of Contents

FOREWORD .....	3
ACKNOWLEDGEMENT .....	4
TABLE OF CONTENTS .....	5
LIST OF FIGURES .....	6
LIST OF TABLES.....	7
ABBREVIATIONS AND ACRONYMS .....	8
EXECUTIVE SUMMARY.....	10
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>12</b>
1.1 BACKGROUND .....	12
1.2 RESEARCH METHODOLOGY .....	14
<b>CHAPTER 2: CONTEXTUAL FRAMEWORK.....</b>	<b>16</b>
2.1 A BIRD EYE'S VIEW OF THE GLOBAL COOPERATIVE SECTOR .....	16
2.2 A HISTORY OF COOPERATIVES .....	18
<b>CHAPTER 3: THE LEGAL STATUS OF COOPERATIVES IN UGANDA .....</b>	<b>22</b>
3.1 COOPERATIVE LAWS AND REGULATIONS.....	22
3.2 COOPERATIVE REGISTRATION IN UGANDA .....	27
3.3 THE STRUCTURE OF COOPERATIVES IN UGANDA.....	27
3.4 NATIONAL COOPERATIVE POLICY .....	28
3.5 THE MUTATING COOPERATIVE IDENTITY .....	28
3.6 BUSINESS CONTRACTS .....	29
3.7 COOPERATIVE CONFLICT RESOLUTION & MANAGEMENT.....	30
3.8 COOPERATION AMIDST INSECURITY; PARTIAL AND SELECTIVE WAR CLAIMS PAYMENTS .....	31
3.9 EMERGING LEGAL & POLICY RELATED ISSUES .....	32
<b>CHAPTER 4: THE BUSINESS STATUS OF COOPERATIVES IN UGANDA .....</b>	<b>35</b>
4.1: COOPERATIVES IN UGANDA: ARE THE NUMBERS ADDING UP? .....	35
4.2 COOPERATIVE BUSINESS TYPES & REGIONAL DISTRIBUTION .....	36
4.3 BUSINESS PERFORMANCE & THE CONTRIBUTION OF COOPERATIVES TO UGANDA'S GDP .....	38
4.4 FINANCING FOR COOPERATIVES.....	40
4.5 MEMBERSHIP ACTIVITY, ARE COOPERATIVES AT CROSSROADS?.....	46
4.6 COOPERATIVE NOSTALGIA FOR PROTECTIONISM AND MONOPOLY IN SOME KEY SECTORS.....	48
4.7 COOPERATIVE TRADE: ARE THE FUNDAMENTAL DRIVERS IN CHECK? .....	48
4.7 LAND OWNERSHIP, USAGE, GRABBING .....	50
4.8 BUSINESS INFRASTRUCTURE .....	51
4.8 COOPERATIVE BUSINESS DEVELOPMENT .....	52
4.9 COOPERATIVE RISK MANAGEMENT .....	54
<b>CHAPTER 5: THE KNOWLEDGE STATUS OF COOPERATIVES IN UGANDA.....</b>	<b>59</b>
5.1 THE ROLE OF NON- SCHOLASTIC PROGRAMMES IN COOPERATIVES EDUCATION .....	59
5.2 THE STATE OF COOPERATIVE ACADEMIC EDUCATION IN UGANDA .....	62
5.3 RESEARCH & INFORMATION RESOURCES .....	64
5.4 COOPERATIVE READING CULTURE .....	66
5.5 PUBLICITY .....	67



<b>CHAPTER 6: THE ETHICAL STATUS OF COOPERATIVES IN UGANDA .....</b>	<b>69</b>
6.1 UNPACKING COOPERATIVE ETHICS .....	69
6.2 VOLUNTARY AND OPEN MEMBERSHIP .....	70
6.3 ARE COOPERATIVES IN UGANDA THE DEMOCRATIC ENTITIES THEY ARE MEANT TO BE? .....	71
6.4 IS MEMBER ECONOMIC PARTICIPATION STILL A DEAL? .....	73
6.5 COOPERATIVE AUTONOMY IN UGANDA: A REALITY OR A FALLACY? .....	74
6.6 COOPERATION AND A VALUELESS SYSTEM: THE INCOMPATIBLE MATCH? .....	75
6.7 EDUCATION AND ETHICAL CONDUCT .....	75
6.8 COOPERATION AMONG CO-OPERATIVES .....	75
6.9 CONCERN FOR COMMUNITY: ARE COOPERATIVES CREATING SOCIAL IMPACT? .....	77
6.10 WILL SUPERVISION DELIVER ADHERENCE TO ETHICAL PRACTICE? .....	77
<b>CHAPTER 7: LESSONS AND RECOMMENDATIONS .....</b>	<b>79</b>
7.2 AREAS FOR FUTURES RESEARCH .....	83
<b>REFERENCES .....</b>	<b>84</b>

## List of figures

FIGURE 1 NUMBER OF COOPERATIVES PER CONTINENT IN THE WORLD COOPERATIVE MONITOR REPORT 2017 .....	13
FIGURE 2 COOPERATIVE WITH COPIES OF LAWS & REGULATIONS .....	26
FIGURE 3 NO. OF COOPERATIVES REFERRING TO LAWS & REGULATIONS .....	26
FIGURE 4 MEMBERSHIP COMPOSITION .....	28
FIGURE 5 COOPERATIVES THAT ISSUE CONTRACTS TO COMMITTEE MEMBERS .....	29
FIGURE 6 COOPERATIVES ISSUING CONTRACTS TO EMPLOYEES .....	30
FIGURE 7 UNRESOLVED CONFLICTS .....	30
FIGURE 8 PREMISES OWNED AND RENTED BY COOPERATIVES .....	35
FIGURE 9 MEMBERSHIP AGES BREAK DOWN BY COOPERATIVE TYPE .....	36
FIGURE 10 COOPERATIVES BY PRIMARY BUSINESS ACTIVITIES .....	37
FIGURE 11 ACTIVE MEMBERSHIP TYPES BY REGION .....	37
FIGURE 12 100 TOP COOPERATIVES CAPITALISATION BY TYPE .....	40
FIGURE 13 RESERVES KEPT BY COOPERATIVE TYPE .....	41
FIGURE 14 RESERVES HELD BY COOPERATIVES .....	41
FIGURE 15 GRANT SOURCES FOR COOPERATIVES .....	42
FIGURE 16 SOURCE OF LOANS FOR COOPERATIVES .....	45
FIGURE 17 INTERNAL LENDING INTEREST RATES BY COOPERATIVES .....	46
FIGURE 18 MEMBERSHIP ACTIVITY .....	47
FIGURE 19 DORMANT MEMBERSHIP BY COOPERATIVE TYPE .....	47
FIGURE 20 FREQUENCY OF SALES BY COOPERATIVES .....	47
FIGURE 21 VALUE ADDITION .....	49
FIGURE 22 PRODUCT STANDARDISATION .....	49
FIGURE 23 STANDARDISATION .....	49
FIGURE 24 COOPERATIVES WITH EXPORT LICENCES .....	50
FIGURE 25 COOPERATIVES WITH LAND TITLES .....	50
FIGURE 26 COOPERATIVES WITH STORES .....	51
FIGURE 27 TYPE OF RECORDS HELD BY COOPERATIVES .....	52
FIGURE 28 RECORD TYPES KEPT BY COOPERATIVES .....	53
FIGURE 29 BUSINESS PLANS .....	53



FIGURE 30 BANK ACCOUNT TYPES BY COOPERATIVE TYPE .....	54
FIGURE 31 EXTERNAL RISKS FACED BY COOPERATIVES.....	54
FIGURE 32 INTERNAL POLICIES AFFECTING COOPERATIVES .....	54
FIGURE 33 PLACES WHERE COOPERATIVES KEEP THEIR MONEY .....	55
FIGURE 34 INSURANCE ABSORPTION BY COOPERATIVE TYPE.....	55
FIGURE 35 INSURANCE POLICIES IN COOPERATIVES.....	55
FIGURE 36 STATUTORY COMMITTEES .....	56
FIGURE 37 COOPRATIVES WITH INTERNAL AUDIT.....	57
FIGURE 38 TAXES PAID BY COOPERATIVES .....	57
FIGURE 39 TAXES PAID BY COOPERATIVE TYPES .....	58
FIGURE 40 COOPERATORS EDUCATION LEVELS BY COOPERATIVE TYPE .....	61
FIGURE 41 .....	67
FIGURE 42 ONLINE MARKETING PLATFORMS USED BY COOPERATIVES .....	68
FIGURE 43 ETHICAL CONDUCT AS A UNIQUE FEATURE OF CO-OPERATIVES .....	69
FIGURE 44 COOPERATIVES HOLDING STATUTORY COMMITTEE ELECTIONS EVERY TWO YEARS .....	71
FIGURE 45 QUORUM OBSERVANCE BY COOPERATIVE TYPE .....	73
FIGURE 46 COOPERATIVES SERVING NONMEMBERS BY COOPERATIVE TYPE.....	73
FIGURE 47 INTERNAL RISKS FACED BY COOPERATIVES.....	75
FIGURE 48 COOPERATIVES BY AFFILIATION.....	76
FIGURE 49 MTIC REPRESENTATION AT AGMS .....	78

## List of tables

TABLE 1 2015 GLOBAL TOP COOPERATIVE SECTOR LEADERS .....	17
TABLE 2 NUMBER OF COOPERATIVES REGISTERED BY BUSINESS TYPE.....	35
TABLE 3 TURNOVER OF TOP 10 SECTOR LEADERS FROM THE 50 DISTRICTS .....	39
TABLE 4 COURSES OFFERED IN UGANDA COOPERATIVE COLLEGES KIGUMBA AND TORORO & OTHERS.....	63
TABLE 5 NUMBER HAVING ELECTIONS EVERY 2 YEARS.....	72

# Abbreviations and Acronyms

ACDI	Agricultural Cooperative Development International
AGM	Annual General Meeting
BoU	Bank of Uganda
CAA	Civil Aviation Authority
CGAP	Country Level Global Assessment Programme
CICOPA	Centre for International Cooperative Alliance
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
DCO	District Commercial Officer
EU	European Union
EURICSE	European Research Institute on Cooperatives and Social Enterprises
GIZ	German Development Agency
ICA	International Cooperative Alliance
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
KERUSSU	Kenya Rural Savings and Credit Cooperative Union
KII	Key Informant Interview
KUSCO	Kenya Union of Savings and Credit Cooperatives
MoFPED	Ministry of Finance, Planning and Economic Development
MTIC	Ministry of Trade, Industry and Cooperatives
PROFIRA	Project for Financial Inclusion in Rural Areas
SACCO	Savings and Credit Cooperative Organizations
SGDs	Sustainable Development Goals
SIDA	Swedish International Development Agency
SNV	Netherlands Development Organization
SSEs	Social Solidarity Economies
SWOT	Strength, Weakness Opportunities and Threats
UCA	Uganda Cooperative Alliance
UCCU	Uganda Co-operative Central Union
UCCCU	Uganda Crane Creameries Cooperative Union
UCSCU	Uganda Credit Savings Cooperative Union
UMRA	Uganda Microfinance Regulatory Authority
UNDP	United Nations Development Programme
USAID	United States International Development Agency

Narration of a conversation between Summerfield (S) and Wamala(W)<sup>1</sup>

### **NARRATION OF A CONVERSATION BETWEEN SUMMERFIELD (S) AND WAMALA(W)**

**S: Cast a glance over Nakasero. "Well, what do you see?"**

**W: I see roads and streets**

**S: "No, that is not what I mean"**

**W: "I see the Ngomeli Jail"**

**S: No, that is not what I mean, Look more carefully".**

**W: I see houses and motor cars on the road".**

**S: That is what I mean. Whose property is all that you have just seen?**

**W: It belongs to Europeans and India traders**

**S: "Did they bring it along with them when coming from home?"**

**W: Yes**

**S: No no! These are derived from your crops. From cotton and coffee; traders got all those things. They have made syndicates. Why don't you also form cooperative societies and instead of selling your crops individually you would sell them cooperatively to British traders overseas where you could get a better market. You know there are three groups of middlemen between you and the foreign traders and if you cooperate you will be able to do away with these middlemen and you will be able to market your crops directly to overseas traders. There are lots and lots of cooperatives. I do not see why Uganda does not cooperate and get control over her crops. I hear of schools such as King's College Budo, Namilyango, and Makerere. Well, where will all your children go after schooling? Here in Buganda you all look forward to being appointed chiefs, for you all are of the opinion that chieftainship is the only way to become rich, but how will his highness be able to offer chieftainships to all those leaving school?**

**As you start to read this report ask yourself what responses you would give if you were to have another conversation of this kind with a one Summerfield. If you are already in a cooperative what you are doing with the advise in this extract.**

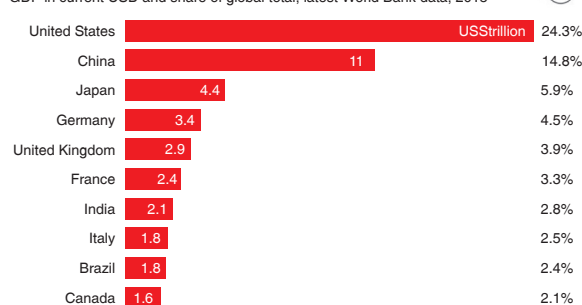
<sup>1</sup> Extracted from: A history of the Uganda Cooperative Movement 1913-1988 by A.R Kyamulesire (1988)

# Executive Summary

The cooperative movement which is as old as human endeavor is becoming more relevant today instigated by failures in unrestrained capitalism and socialism. Cooperatives continue to prove to be a more sustainable model because of its double bottom nature; a social business that is entirely created to meet their members' needs. Globally the top 300 cooperatives contribute 2.1 trillion of Global GDP, almost the size of the Indian economy. In essence, cooperatives contribute 2.8% of global GDP<sup>1</sup>.

## The world's biggest economies

GDP in current USD and share of global total, latest World Bank data, 2015



Source: World Bank and Visual Capitalist

Although this figure is promising, none of the top 300 cooperatives are in Africa. And although there are growth prospects within the movement in Africa, it is concentrated in just a few countries with Kenya having the highest cooperatives turn over to GDP contribution at 43% the highest in the world<sup>2</sup>. In Uganda, cooperatives are virtually in all sectors including finance, industry, agriculture, social services with the financial sector being most predominant 52%, followed by agriculture cooperatives at 40%, and multipurpose at about 8%, transport, and others occupy the balance.

According to this research, cooperatives contribute about 2.3% of Uganda's GDP-this provides a compelling justification for cooperatives to rethink their strategy. Some of the challenges facing the cooperatives include a loss of the co-operative's identity, high dependency, a contested legal framework amidst limited cooperative education and research.

This study observes enormous opportunities for cooperative growth including a youthful population, mineral and natural resource wealth which if exploited could substantially drive Uganda's development agenda. One of the critical threats to the growth of cooperatives is government's limited prioritization of the sector as depicted by the fact that cooperatives are only mentioned once on page 47 of vision 2040. More so the department of cooperatives is one of the least funded receiving about 2 billion shillings a year.

This study makes specific recommendations as follows:

- All stakeholders must uphold the centrality of cooperative identity (principles, values, and ethics) as the disregard for this identity is cited as the cause of all the challenges cooperatives are facing.
- Cooperatives also need to realign their business strategies to the market by improving records management, investing in research, adopting ICT, promoting education and knowledge sharing, developing risk management mechanisms; -and diversifying into other business types like social services and none tradition cash crops.
- The Government of Uganda needs to provide a secure and peaceful environment as well as realign the laws and policies by striking a balance in fulfilling their interest as well as that of the movement.
- Development partners need to rethink their engagement strategies if they are to maximize the return on the massive investments they are making within the cooperative movement.
- A collaborative framework for shared resources amongst cooperatives together with public-private partnership initiatives will ensure resource maximization and create a network that opens opportunities for cooperatives, government and development partners.

<sup>1</sup> <http://www.visualcapitalist.com/74-trillion-global-economy-one-chart>

<sup>2</sup> Soko Directory (2016). Cooperative movement shifting economic potential (article; 24/5/2016). <http://sokodirectory.com/2016/05/cooperative-movement-shifting-economic-potential>



## VOICES FROM THE FIELD

***"The absence of the cooperative spirit is lethal"***

Government Official

***"A cooperative that starts off with donor funding has difficulty taking off because of missing the first stage of business teething having invested the initial days in fulfilling the donors' mission"***

Cooperative Expert

***"The Cooperative bank is a necessity but must be financed by cooperators, run with new technology & qualified people with business acumen"***

Cooperator in Kabale

***"Our Cooperative has done everything to succeed, but the regulation for big SACCOs will kill us".***

Large SACCO official

***"Taxation is good, but Co-operatives need a special tax regime because they are social impact investments.***

Cooperator - Tororo

***"Cooperatives are value based businesses that must be run in line with principles"***

NGO Official

***"We can not talk of a strong cooperative movement when the Apex body, National Unions and the primary societies are highly donor dependent amidst oblivion of what is happening with their membership and lack of a living database to refer to"***

Government Official

# CHAPTER 1: INTRODUCTION

## 1.1 Background

*“Cooperation touches no man’s fortune, it seeks no plunder, it causes no disturbance in society, it gives no trouble to statesmen, it enters no secret associations, it envies no dignity, it asks no favors, it keeps no terms with the idle, and it will break no faith with the industrious. It means self-help, self-dependence and such competence as labor, skill or thought can win and this it intends to have”*

*Quote by George J. Holywooke<sup>3</sup>*

The above statement illustrates the holistic preserve of cooperatives- as entities that embody the ideals of unity, industry, productivity, dignity, peaceful coexistence and happiness. In short, the world would be the best place if everyone embraced cooperation guided by the original ideals of the Rochdale pioneers.

The question here is whether cooperatives are understood and what kind of information cooperators, and development partners are relying on for planning and decision making? The other issue is whether there are universally agreed tools and data requirements available for documenting their operations, performance and if those in use are sufficient in communicating the unique value that the sector offers? The bigger question, therefore, is what the actual status of the cooperative movement is?

Though cooperatives the world over play a significant role in providing essential products and services like storage, marketing, processing, trade, input supply, credit, transport, banking, housing, education, health, and funeral, etc. to a larger extent cooperatives especially those in the rural areas are plagued with challenges such as loss of co-operative identity, complex legal regimes, poor governance, limited enterprise selection and business development skills, and none compliance to ethics

and principles. There are also scattered and limited effort by governments, cooperative federations and their members in keeping up to date information on the progress, performance and the impact of cooperatives in holistic development. While there are a few initiatives to increase cooperative education, training, infrastructural development, less effort has been directed towards the establishment of reliable national, regional and international databases. Without the latter, cooperatives and development partners will have precarious plans and projections.

*“In an increasingly performance-oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things.”*

In one of ICA’s efforts towards a seamless and reliable global data collection and analysis methodology for cooperative, studies were done in Brazil, Canada, Colombia, Philippines, Russia and the United Kingdom. The conclusion drawn from this study is that no single ideal model for cooperative statistics exists and that different countries and sometimes counties or provinces have their way of data collection and analysis. And that there was a need to come up with a universally accepted methodology with common variables like number of members, number of employees, annual turnover, classifications by economic activity and identity of the members of the cooperative to help in defining and implementing appropriate processes globally.

In line with some of the recommendations advanced, The International Cooperative Alliance initiated the ranking of the 300 top cooperatives in 2005 and the World Cooperative Monitor (WCM) in 2012 to collect, analyse and disseminate annual data obtained from government ministries, federations, and large size cooperatives with the ability to feed their own data online. Notwithstanding the usefulness of the information that the WCM provides, there is still a considerable gap presented by the use of old datasets derived from cooperatives,

<sup>3</sup> Charles Kabuga & Pius K Batarinyebwa (1995). Cooperatives: Past, Present, and Future. Kampala: Uganda Cooperative Alliance

government statistics bodies and research organizations with the ability and interest to share .. For instance, the 2017 WCM report contains data from only 2,379 cooperatives from 61 countries individually broken down as:

**Figure 1: Number of Cooperatives per continent in the World Cooperative Monitor Report 2017**



Despite the WCM initiative, more effort will be needed to increase completeness, inclusivity, accuracy, and reliability of the data and information its able to capture. The challenge of limited documentation on the works and impact of the cooperative movement at the global level is symptomatic of what is happening at other levels of cooperative businesses.

In Uganda, the primary source of data on cooperatives is the registry- which contains initial information on the cooperatives at registration and the annual audit reports presented to the department of cooperatives<sup>4</sup>The cooperative registry is meant to be updated annually based on the audit reports which would tell whether the cooperative is a going concern or not. According to the registrar of cooperatives' office, compliance to audit has been a specific challenge exacerbated by insufficient funds

and limited staffing for supervision, monitoring and regulation<sup>5</sup>.

*“We can generate necessary information based on the register and more recent data from annual audit reports submitted by cooperatives. We also rely on yearly statistics produced by the Uganda National Bureau of Statistics. There are also recent efforts to clean the database and so with the help of PROFIRA we are profiling Savings and Credit Cooperative Societies in Kampala. I believe this will give us some insight on the status of SACCOs in Kampala to start with. Nonetheless, some SACCOs may not heed to our call for information submission, and so the data sets may not be full sets for the Kampala Survey<sup>6</sup>”.*

*Government official*

It is evident that comprehensive and well-aggregated data sets that guide on the status of the cooperative business sector in Uganda do not exist. The Annual Statistical Abstract which is UBOS's annual publication only provides critical statistical information derived from the latest surveys, censuses and administrative records of Ministries, Departments and Agencies (MDAs) which is used in tracking outcomes of policies as well as decision-making<sup>7</sup>. Although this publication provides insightful data sets, it is devoid of the details of the individual cooperatives, and yet with the recognition of the cooperatives as the most viable model for sustainable socio-economic transformation, their progress and contribution need to be tracked to enhance coordinated and well-founded policy decisions.

The absence of social accountability through consistent and well-represented information on cooperative development gives room for skewed perceptions on what the cooperative sector is about. By recognizing that the lack of accurate knowledge concerning the economic and social impact of co-operatives affects the view of how important

<sup>5</sup> Key Informant in the registrars' office, 23 January 2018

<sup>6</sup> Ibid

<sup>7</sup> UBOS (2017). 2017 Statistical Abstract. Kampala

<sup>4</sup> Section 22 Cooperatives Societies Act Cap 112. 1991



these organizations are, the Uhuru Institute for Social Development has conducted a study on the Legal, Business, Ethical and Knowledge status of Cooperatives in Uganda.

This research tackles four research questions:

- 1). Are cooperatives in Uganda legally registered and functioning fully in accordance with the international cooperative principles and the relevant policies and laws?
- 2). What kinds of businesses are cooperatives in Uganda engaged in and how are they aligned to the countries development plan and the global business environment?
- 3). What efforts have cooperatives put in place to enhance organizational development, that is human resource training, membership development, and internal policy development?
- 4). To what extent are the cooperatives positioned for the competitive business environment, that is, are they audited, tax compliant, using the right technology and observing the health and safety measures required in their businesses, etc.?

The research findings herein helps to answer the broad questions above and presents primary and secondary information on the 1449 cooperatives profiled while making a comparison with the status of cooperatives elsewhere to derive best practices and recommendations for the advancement of cooperatives in Uganda.

## 1.2 Research Methodology

This was an operational research intended to reach all cooperatives in Uganda however due to budgetary constraints the first phase covered 1449 cooperatives in the districts of Kampala, Wakiso, Mukono, Buikwe, Kaliro, Kamuli, Mbale, Tororo, Butaleja, Budaka, Mbale, Kapchorwa, Bukwo, Kween, Kumi, Soroti, Moroto, Napak, Nakapiripirit, Kabong, Kotido, Abim, Lira, Amolatar, Kitgum, Agago, Pader, Lamwo, Nebbi, Pakwach, Arua, Maracha, Arua, Koboko, Kiryandongo, Hoima, Kyegegwa, Bunyangabo, Kabarole, Ntoroko, Bundibugyo, Kasese, Rakai, Kalungu, Masaka, Ibanda, Mbarara, Rukiga, Rubanda, Kabale. In some districts like Kampala, Wakiso, Mbarara, Ibanda, Hoima, and Mukono the cooperatives were not exhausted, there may also be instances in some districts where some cooperatives

may not have participated due to unwillingness and limited outreach.

This study employed quantitative and qualitative approaches obtaining data using standardized questionnaires administered to 1449 respondents including among others board committee members and managers of the cooperatives profiled. It also entailed customized Key Informant Interviews with 265 industry stakeholders including staff of government MDAs, development partners, NGOs, cooperative colleges as well as cooperators and industry experts; desk reviews of published and unpublished literature as well as observations of physical aspects of the cooperatives that participated. The questionnaires were administered to board members and managers of cooperatives who had given consent. The key informant interviews were conducted with members of cooperative societies profiled, cooperative practitioners, government officials in relevant offices, and development partners working with the cooperative sector.

The primary data collection process was done between 20<sup>th</sup> August 2017 and the 31<sup>st</sup> March 2018.

Some of the challenges this exercise faced include: lack of physical offices and signposts, inconsistent data at the district commercial offices, poor quality financial and membership data sets, negative propaganda to SACCOs by some elements in the cooperative movement on Uhuru Institute's research mission, inaccessible terrains and the October raid on the premises of the Uhuru Institute for Social Development. These factors in many ways depicted the challenges in the cooperative movement today. Nonetheless, the firm resolve of cooperators to contribute to a new era and that of the research team to accomplish the task is laudable.

The research exercise has delivered the following: -

1. An initial online database and a directory with details of 1449 cooperatives in 50 districts providing an opportunity for government and other stakeholders to build on.
2. A research report which provides an insight into the status of the cooperative movement today.
3. An alternative methodology and data collection software for data collection and analysis of co-operatives which could be adopted and improved on for further data capture and reporting.

The report is structured as follows:

**Chapter 1:**  
Introduction of the  
study

**Chapter 2:**  
The contextual framework  
of cooperatives

**Chapter 3:**  
The Legal Status of  
Cooperatives in Uganda

**Chapter 4:**  
The Business Status of  
Cooperatives in Uganda

**Chapter 5:**  
The Knowledge Status of  
Cooperatives in Uganda

**Chapter 6:**  
The Ethical Status of  
Cooperatives in Uganda

**Chapter 7:**  
Lessons and  
Recommendations.

# CHAPTER 2:

## CONTEXTUAL FRAMEWORK

### 2.1 A bird Eye's View of the Global Cooperative Sector

*“Founded on the principles of private initiative, entrepreneurship and self-employment, underpinned by the values of democracy, equality, and solidarity, the co-operative movement can help pave the way to a more just and inclusive economic order.”*

*Kofi Annan.*

This quote outlines the opportunities for the co-operative movement as a source of empowerment for people as well as its underlying principles”

One in every six people belongs to the 3 million cooperatives on earth, employing 10% of the employed population and generates 2.1 trillion USD in turnover while providing services and infrastructure society needs to strive<sup>8</sup>, making cooperatives one of the most stable and sustainable social business models. The United Nations recognizes that cooperatives in their various forms promote the fullest possible participation in the economic and social development of all people including women, youth, older persons, persons with disability and the indigenous people. And that they are therefore becoming a significant factor of economic and social development by contributing to the eradication of poverty and hunger<sup>9</sup>. Therefore, all the 17 SGDs i.e. No poverty; Zero Hunger; Good Health and Wellbeing; Quality Education, Gender Equality, Clean Water, Affordable and Clean Energy, Decent Work and Economic growth, Industry Innovation and Infrastructure, Reduced inequality, Sustainable cities and communities; Responsible Consumption and Production, Climate Action, Life below Water, Life on Land, Peace and Justice strong Institutions, and

<sup>8</sup> ICA (2010). Build the Coop message and secure the Coop Identity Strategic Plan 2010-2020. Brussels: Belgium

<sup>9</sup> Resolution adopted by the General Assembly on the 18th December 2013, during the 68th Session of the United Nations.

Partnerships to achieve the Goal can all be realized through cooperatives because they are not profit driven businesses<sup>10</sup>.

Despite the growth of the global cooperative movement, Africa's share of growth is still dismal perhaps because the colonial governments primarily initiated the first cooperatives for the latter's benefit and later spoon fed by the post-independence governments who were typically driven by African socialism. Many cooperatives in Africa have not gotten over the hangover and are struggling to cope with the demands of a liberalized global business environment.

One key informant described cooperative initialization in Africa in this way:

***“The cooperatives reduced the cost of importing slaves through the high seas to Europe, it was all happening here in Africa and the Pearl of Africa; the colonial governments invested big time in the cooperative movement because a large portion of revenues generated was repatriated to the United Kingdom. Remember Africa had already been mortgaged and it was time to reap big.”***

Amidst the various growth trends, governments in Africa, Asia, Europe, North America and the Americas are each promoting country development through integrating cooperatives in their development agendas through laws, policies, and plans. Seoul City Council (Korea) for example announced in 2013 the city's primary strategy for promoting cooperatives, which included developing a decree for cooperatives, and providing support for the following seven sectors of cooperatives: collective education, care, health, housing, the market for traditional crafts, parents with babies, and temporary employment. The mayor of Seoul indicated his intentions to create a new Seoul where each person

<sup>10</sup> UN Vision 2030

belongs to at least one cooperative<sup>11</sup>. In Kenya where Africa's largest Cooperatives emanate, a policy-themed “promoting Co-operative Enterprises for Industrialization” has been developed to align cooperative business development with the country's Vision 2030. The policy aims at transforming the Co-operative sector into vibrant social and commercial entities through co-operative extension services, education and training, cooperative marketing and research, external audit services, cooperative credit and banking services, promotion of good corporate governance, reinforcing the catalytic role of Government in co-operatives for poverty reduction through wealth and employment creation in Kenya.<sup>12</sup>

On the other hand, Uganda's vision 2040 mentions cooperatives only once on page 47, and it refers to the model in relation to promoting agriculture<sup>13</sup>. One wonders the extent to which the technocrats in Uganda's Planning Authority appreciate the value of cooperatives in inclusive socio-economic development.

inefficient and ineffective. The East Africa Parliament with Support from the East African Farmers Federation has developed the East African Community Cooperative Societies Bill 2014<sup>15</sup>. The purpose of which is to harmonize cooperative regulation in the region to increase the exploitation of the opportunities that are presented by the community. Albeit, since 2014, very little has been done to push this bill into law rendering the region scattered with various efforts in individual countries towards enacting national laws. While these amendments are timely and are meant to support the growth of cooperatives, in some countries cooperatives are distressed by many of the provisions therein. In Kenya the proposal to have the SACCOs under the supervision and regulation of the Central Bank of Kenya was vehemently resisted until a more industry accepted law -SACCOs Societies Act was enacted in 2008. Cooperatives in Uganda have their fair share of disgruntlement after the passing of the Tier 4 Microfinance & Money Lenders Act , 2016 and the proposal to split the SACCO regulation to Bank of Uganda<sup>16</sup>, Uganda Microfinance Regulatory Authority and the Ministry of Trade Industry and Cooperatives<sup>17</sup>.

**Table 1. 2015 Global Top Cooperative Sector Leaders\***

Name of the cooperative	Sector	Turnover (Billion International Dollars- World Bank)	Country
Zen-noh	Agriculture and Food	38.80	Japan
Credit Agricole	Banking & Finance	49.92	France
Mondragon Corporation	Industry & Utilities	13.35	Spain
Rewe Group	Wholesale/ Retail	48.18	Germany
Kaiser Permanente	Insurance & Mutual	67.44	United States
Confederacao Nacional Das Cooperativas Medicas Unimed do Brazil	Health, Education and Social Care	15.92	Brazil
Selectour Afat	Other sectors i.e. IT	2.87	France

\* ICA (2017). World Economic Monitor 2017. Brussels: Belgium

The viewpoint that the comparative advantage of cooperatives does not depend on their size and/or economic but on their nature and identity; locally based, community-oriented and democratically controlled cooperatives and SSEs are more relevant for the achievement of the global goals than the “cooperative giants”, many of which are cooperatives by name only, not by nature<sup>14</sup> is worth exploring. Furthermore, several attempts are being made in securing conducive legal environments for cooperatives, to that effect governments have invested in establishing new laws and amending laws which in many countries had become archaic,

Within the cooperative societies, the need for ethics pervades any other; leadership and governance challenges continue to be the biggest in the movement. Most leaders today can be summarized as **“nest feathered, main chancers, ego builders, recognition seekers, hijackers, political ladder climbers, dogma peddlers and asset accumulators”<sup>18</sup>**.

Effective leadership stands apart from others in terms of vision, empathy, and commitment and these qualities are lacking in many spheres.

11 Soojin Kim. The Cooperative Movement in Korea [Abstract]; Hankuk University of Foreign Studies, 25/2/2013.

12 Kenya Cooperative Development Policy 2017

13 MOFPED Uganda (2010). Uganda Vision 2040.

14 ILO (2014). The role of Cooperatives in achieving the sustainable development Goals- the economic dimension. Nairobi

15 The East African Parliament (2014). The East African Cooperative Societies Bill 2014

16 Government of Uganda (2003). Micro Finance Deposit Taking Institutions Act, 2003

17 Government of Uganda (2016). Tier 4 Microfinance and Money Lenders Act, 2016

18 Article by Sasikumar (2017). Cooperatives Should reinvent themselves: <https://www.thehindubusinessline.com/opinion/cooperatives-should-reinvent-themselves/article>



Cooperatives lag way behind other institutions in terms of professional management, and this gap has to be bridged at the earliest if cooperatives have to survive in a competitive environment. Cooperative leaders besides possessing universally accepted qualities of mastery over the domain, adherence to ethics and association with professional bodies should invariably possess the quality of empathy for members who are often ordinary people. There is an urgent need to institutionalize and strengthen arrangements for ensuring sound human resources management practices in cooperatives covering recruitment, compensation package, re-skilling, career advancement and social security of employees of all cadres. Cooperatives must be run on their intrinsic principles and values

While conversations on the role of cooperatives in global socioeconomic transformation continue to reverberate in many dialogue spaces, systematic documentation of their operations and impact remains a challenge. The overarching need for a clear focus on, and measurement of, cooperative functioning and effects arise from its potential to effect change in the dominant economic model, address the causes of socio-economic marginalization, and illustrate the social and ecological achievements of co-operative enterprises cannot be overemphasized<sup>19</sup>. Other than the 2014, Global census on cooperatives<sup>20</sup>, ILO studies –Coop Africa programme, those done by ICA through EURICSE and a few governments mainly in Europe and the United States, the systematic collection of regular data is still a long way to be achieved. There is a definite need for methodologically robust, internationally comparable, and regularly updated data to elucidate the role and importance of co-operatives. Achieving this objective is not simple, and it will require a tremendous amount of work by both the co-operatives and researchers. Korea<sup>21</sup>, Canada, Italy<sup>22</sup> and Rwanda have compelling narratives on the impact of robust statistics, integrated development models and the role of government planning and investment in the cooperative movement.

## 2.2 A history of cooperatives

To appreciate the context of cooperatives in Uganda today, we will trace the initialization of the model which in many ways will provide explanations and enable us to draw lessons and derive recommendations that will shape the path of the cooperative movement in the future.

Cooperation in its broader framework accommodates the informal systems like *Idir* in Ethiopia, *Tontines* in West and Central Africa, *Stokvels* in South Africa, *ROSCAs* and *VSLAs* in Uganda<sup>23</sup> as well as the modern cooperatives which are the focus of this study. It is of prime importance to understand how cooperatives were introduced, what cooperative philosophy was construed and how this relates to cooperative behavior socially, culturally and economically.

The emergence of formal cooperative organizations is rooted in the upheavals that characterized the Industrial Revolution in England during 1750-1850. During this period many small, home-based enterprises disappeared, forcing workers to move to cities where they faced harsh working conditions and low wages. In rural areas, the enclosure movement and changes in land tenure patterns drove many small farmers off their lands into towns and cities looking for work. Building on trade and social guild traditions, mutual aid, and “friendly society” organizations sprang up to address the conditions of the times and contributed to the development of the cooperative business ideas.<sup>24</sup> Arguments that provided a broader rationale for cooperative organizations were articulated by Robert Owen (1771-1858) and Charles Fourier (1772-1837), who were inspired by conditions of the period to search for paths to a more harmonious, utopian society. The more pragmatic William King (1786-1865) advocated the development of consumer cooperatives to address working-class issues, and his self-published magazine, “The Cooperator,” provided information on cooperative practice as well as theory. King emphasized starting small cooperatives with capital that could be supplied by its members.<sup>25</sup> He stressed the use of democratic principles of governance and the education of the public about cooperatives.

19 Centre for the study of cooperatives (2015). *Cooperatives for Sustainable Communities: Tools to measure cooperative impact and performance* Cooperatives and Mutual Canada

20 Dave Grace & Associates (2014). *Measuring the size & scope of the cooperative economy- results of the 2014 Global Census on Cooperative*. United Nations Department of Economic and Social Affairs.

21 Soojin Kim (2013). *The Cooperative Movement in Korea: Abstract*

22 EURICSE (2010). *Cooperatives: The Italian experience*. Geneva. ICA

23 Patrick Develtere, Ignace Pollet & Fredrick Wanyama (2008). *Cooperating out of poverty: The renaissance of the African cooperative movement*. Geneva: ILO

24 Parker Florence E. (1956). *The first 125 years: A history of distributive and service cooperation in the United States 1829-1954*. The Cooperative League of the United States of America

25 *ibid*

The wave of consumer cooperatives that followed included the Rochdale Cooperative which was founded by 28 male Rochdale pioneers in 1844 to deal with the undignified work conditions like; low pay, long hours, unsanitary workplaces, and no mechanisms for claiming worker rights as well as substandard goods produced by profit-driven large-scale producers who didn't care about health and quality.<sup>26</sup> These efforts were part of a broader vision in which other social needs could be met through cooperative action. Building on the successes and failures of organizations that preceded it, the Rochdale pioneers codified the principles of a successful cooperative business operation. These were widely publicized and distributed and are the basis of the seven principles that continue to guide and distinguish cooperatives from other conventional businesses<sup>27</sup>.

From then, modern cooperatives spread out across the world propelled mainly by the need to find solutions to the suffering that ensued the 1<sup>st</sup> (1914-18) and 2<sup>nd</sup> (1939-45) world wars and the excesses of capitalism. While modern cooperatives were established at different times, it is interesting to note that some countries like China whose movements are a lot younger have inspiring stories on the impact of the cooperative movement. This variance can be attributed to the extent with which citizens and the different countries' governments have integrated cooperatives in their development frameworks and therefore the level of investment and support the respective governments have placed in ensuring coherence in statistics, the legal regime, policy frameworks and a coordinated relationship amongst the cooperatives, the state and development partners.

## Uganda's Cooperative epochs

Like other parts of the world, informal cooperation at family, clan, tribe and farmer groups levels preceded the modern cooperatives. Informal cooperation was mainly to respond to natural pressures. In Uganda, a semblance of the Rochdale cooperatives was instigated by the introduction of cotton in 1902 and the spread of Arabica coffee as a cash crop in 1903<sup>28</sup>. When the first Cooperative (Kinakulya) was founded in Mubende in 1913, farmers were being

forced to work in the farms of their colonial masters denying the former the opportunity to produce for themselves. Worse still the farmers were forced to grow specific crops based on the guidelines of the colonial master without the right to market. It is such conditions that prompted the farmers in Ssinga to form a cooperative even when they were not indoctrinated in the Rochdale principles<sup>29</sup>.

With the formation of Kinakulya, more farmers in Buganda formed associations the largest and most conspicuous being the Baganda Growers Association (August 1923) which buttressed throughout Buganda especially after the blessing of Kabaka Daudi Chwa II. The Kabaka encouraged the formation of county associations to improve coordination and advisory services. The strength of this association is evident in that, by October of the same year, the association had branches in Kyadondo, Busiro, Ggomba, Kyaggwe, Bulemezi, Ssinga, Butambala and Mawokota. In November 1923, the association was able to advocate for the right of one of their members whose Coffee Shamba was up for destruction in favor of cotton-the colonialist's preferred crop<sup>30</sup>. For seven years, this association did not collect any money from its members until 1930 when they realized that they needed resources which would come from none other than the members of the business. The advice from Mr. Summerfield to the association members to stop individualism and instead form a cooperative for bulk marketing led to the transformation of the association to Uganda Growers Cooperative Society.

The number of quasi-cooperatives continued to grow across the country driven by the motivation to bulk and market together until 1946; when the cooperative ordinance was introduced. The latter law was received with mixed feelings across the cooperative divide, Cooperatives like Namutamba Growers that appreciated the role of the Cooperative Department in tackling complex commerce problems were swift on their feet, while groups under I. K Musazi's Uganda Africa Farmers Union remained suspicious of the intentions of the colonial masters, while Munaaba's trade union also preferred operating as a limited liability company. It was until the 1946 ordinance was amended to accommodate the demands of the ever-growing groups under Musazi's Federation of Partnerships that more groups especially from Masaka, the Northern and Eastern Parts of Uganda agreed to register<sup>31</sup>.

26 Orin E. Burley, *The Consumers' Cooperative as a Distributive Agency*, (McGraw-Hill Book Company, Inc., 1939).

27 Fairbairn, Brett et al. (1991). *Cooperatives & Community Development Economics in Social Perspective*. Canada: University of Saskatchewan, Saskatoon

28 Charles Kabuga & Pius K Batarinyebwa (1995). *Cooperatives: Past, Present, and Future*. Kampala: Uganda Cooperative Alliance

29 Aloysius R. Kyamulesire (1988). *A history of the Uganda Cooperative Movement 1913-1988*. Kampala: Uganda Cooperative Alliance

30 Ibid.

31 Kyamulesire officially op.cit

## 1952-1970: Enthusiasm, Strategy, Political Will, Expansion & Prosperity

Between 1952 and 1970 the cooperative movement grew eightfold such that by 1970 there were 54 cotton ginneries owned by 19 cotton Unions the movement employed twice the size of the of public service and had the monopoly to grow and market coffee and cotton. The 1962-1970 government had pursued a policy of vigorously promoting the establishment, diversification, and expansion of the cooperative movement. In Uganda's first five years' development plan the government had committed itself to use the cooperative model as the key tool for social, economic transformation<sup>32</sup>

***“An integral part of government’s policy for agriculture is its policy for the development of the cooperative movement as the sphere for crop marketing and agricultural credit”<sup>33</sup>***

## 1971- 1980: The storm

This era saw a considerable decline in the operations of cooperatives, and cotton prices fell to a record low. The coffee sector was characterized by smuggling for a ready market in Kenya, Rwanda and DRC. More people abandoned cash crop production for trade in what was commonly known as Magendo<sup>34</sup>. This period was characterized with:

- a decline in crop production yet cooperatives had to buy these crops even when cotton, for example, had become unviable
- Arbitrary price fixing devoid of systemic formulas of pricing at the marketing boards
- Illicit commodity trade in the form of smuggling and hoarding of consumer goods
- Managerial inefficiency, dishonesty, and limited skill.
- Rundown equipment following several idle periods and physical damage
- A cooperative bank that was overdrawn by 18 million
- Toxic debts, i.e., government borrowing from

commercial banks to lend to the unions who were indebted to their members and vice versa

Despite the difficulties of this period, the cooperative movement grew stronger in numbers from 2536 to 3095 and capitalization of 1 million in 1971 to 1.8 million in 1978. There was record increase in the number of credit and savings societies as well as consumer cooperatives. The SACCOs were to deal with the credit dearth and were mainly formed by the civil servants, salary and wage earners, while the consumer cooperatives were responding to a scarcity of goods. The foreign exchange scarcity had affected imports, and the production of local products to the extent that the few commodities left were distributed by the government using consumer cooperatives hence the latter's proliferation and inorganic growth. When things normalized most of these consumer cooperatives ceased because they were “briefcase” or street societies without premises. The Uganda Cooperative Transport Union was also born in 1973 to relieve the traders from the hurdles of transporting and marketing and the Uganda Cooperative Insurance Society was also birthed in 1975 to pool cooperative risks<sup>35</sup>.

## 1980-1986 Dented Image, Relief and Rehabilitation

The post-1979 liberation war period was short-lived in that the 1980 elections ushered in a new guerrilla warfare whose costs in the Luwero triangle are in some ways similar to those of the 1970s. Amidst the NRA war, the government tried to resuscitate the financial and production capacity of the cooperatives. The government set better prices for the commodities and this wiped out most of the indebtedness. Development partners like USAID, World Bank, SCC, UN, and ADB came in with programs to support farmers with farm inputs, technical assistance and farm credit and the construction and rehabilitation of the coffee factories. These efforts increased knowledge, skill and led to the acquisition of extra equipment and financing for business and in turn boosted confidence in the cooperative movement. The moral of the government staff also got boosted as they had been given vehicles and subsistence allowances. UCA, the apex body was boosted by the long-term partnership with SCC. This push came in the form of computerizing the activities of the unions, training in cooperatives management.

<sup>32</sup> Government of Uganda (1961). The first 5-year development plan 1961/62-1965/55.

Entebbe

<sup>33</sup> Ibid

<sup>34</sup> Key informant Interview former cooperative minister 1980-1985

<sup>35</sup> Kyamulesire op.cit.



### **1986-To date Recovery, Liberalization, Withdrawal of the State Shield, and Dependency**

When the NRA government settled in, more foreign assistance came in largely through UCA and ACDI aimed at supporting the latter, the unions and primary societies with inputs, inventory, stores and office facilities, veterinary drugs, etc. Other Unions like UCSCUs, UCCU and new ones like UCCCU, UCCFCs, and host of other primary cooperatives continue to run their businesses mostly dependent on support from donors like SIDA, CIDA, SNV, USAID, GIZ, DANIDA, Mercy Corps, European Union, IFAD, ILO, UNDP and government though financed by external loans amongst others. Nonetheless, the full success of these projects is also affected by delays, speculation, and misappropriation by “greedy commission agents of donor aid.” Some few agricultural cooperatives like Bugisu Cooperative Union have stood the test of time and remained in business but with room to grow better. This study has established that the bulk of independent striving cooperatives are the institutional financial cooperatives formed in 21st century and a hand full of agricultural marketing cooperatives that are experiencing aided growth and stability because of the partial funding by development partners.

# CHAPTER 3: THE LEGAL STATUS OF COOPERATIVES IN UGANDA

According to the official ICA definition,

***“A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity.”***

In this section, we explore the identity of cooperatives plus how the legal regime and policy environments are supporting the development of the model.

## 3.1 Cooperative Laws and Regulations

Cooperatives in Uganda have been under a series of laws as depicted below: -

**1946 Cooperative Ordinance** - Following the quasi-nature yet influential position of cooperatives in Uganda's socio-economic and political spheres, the colonial government set up the cooperative department and also enacted the 1946 ordinance- to increase regulation, supervision. This law was mostly colonial influenced and therefore received with mixed reactions; the pro-colonial government cooperatives saw it as an opportunity to get trained and have systems in place<sup>36</sup>; while pro-Musazi cooperatives were suspicious and saw it as a trap and a way of domineering the African farmers.

**The 1952 Cooperative Ordinance** – Negotiated by the Musazi partnership group and influenced by Sir Cohen's liberal approach to governance issues, it was mostly cooperative development friendly and contributed the most to exponential and organic cooperative growth.

**The 1963 Cooperative Act** – With the excitement of self-rule and the drive towards African Socialism, this law was in every way designed to deliver Uganda's first 5-year development plan. The critical feature of the law was the return of the previously rejected office of the commissioner for cooperative development. During its implementation the cooperative bank and several unions were birthed, cooperative monopoly was entrenched, and a great deal of monetary, education and infrastructure investment was made by the government to boost the sector. The latter aided the sector's development leap which sadly was short-lived, wrecked by corruption and selfish ambition of board members and the managers who were using the cooperatives as stepping stones to their political ambitions.

**The 1970 Cooperative Act**- Birthed from the recommendations of the Arian Shafiq Commission of inquiry putting a lot of power in the hands of the cooperative minister to the detriment of cooperative independence and autonomy. This was when the government was seen working with the cooperatives more like parastatals. This act birthed several national unions, saw the proliferation of credit and savings, as well as consumer cooperatives in response to the economic war Uganda, was engaged at the time.

**The Cooperative Societies Act Cap 112 (1991)** - Proposed by Uganda Cooperative Alliance on behalf of the cooperative movement; was welcomed by the government. The law is relatively balanced on the roles of government and the cooperative movement but lacking in conflict management and relatively inept in many respects as the times have changed hence the need for amendment and repeal of individual sections. Currently proposed amendments have been laid down by the government in what is mostly known as the Cooperative Societies Amendment bill 2014. This is yet to be consulted on by the government. Nonetheless, UCA ActionAid and Uhuru Institute for Social Development have consulted on it 20 districts reaching out to over 1000 cooperators. The amendments and repeals are still silent on the issue of conflict management.

<sup>36</sup> Fred Ahimbisibwe (2012). The history of the cooperative movement in Uganda [ Abstract]

### **The Tier 4 Microfinance & Money Lenders Act, 2016, and Micro Finance Deposit Taking Act 2003**

Government, cooperators and development partners all recognize the need for strengthening the supervision and regulation of SACCOs and the larger cooperative sector especially after the challenges the Cooperative Bank Ltd went through until its eventual closure. The cooperative movement expected that this agenda would be achieved within the process of amending the cooperative societies Act Cap 112; however, ***it seems the movement's desire remained a wish list, and no concrete action was taken by the latter in pursuit of the desired change in the status quo.*** Borrowing from the saying that nature abhors a vacuum; such was the situation created by the movement when they mostly did not actively participate in process meetings discussing how the financial and other cooperatives could be better regulated. This situation allowed space for interest groups like the World Bank to come in to advise the government on possible steps and content of this laws and regulations. Following the Country Level Savings Assessment-CGAP Initiative conducted by World Bank in 2006, some alternative supervision and regulatory models were recommended amongst which were:

- Bank of Uganda supervising SACCOs itself; At the time direct control seemed unlikely, as BoU had taken to heart the axiom ***“Do not regulate what you cannot supervise.”*** It was understandably reluctant to take on the costly task of supervising several small and scattered institutions with its already stretched resources. The supervision of a limited number of large SACCOs was more attractive to BoU.
- Delegated supervision through a member-owned apex body or a third-party model. Self-supervision by cooperative apexes or federations had accumulated a dismal record around the world and considering the resource and capacity constraints coupled by legitimacy gaps narrowed the chances of either UCA and UCSCU being possible candidates for the regulator. The possibility of a third party model through the cooperatives would have been best if belonging to an apex was mandatory, but in the face of voluntarism, some cooperatives would make it difficult<sup>37</sup>.

It is from these suggestions that the government through the MoFPED and Bank of Uganda formulated the Tier 4 Microfinance & Money Lenders Act, 2016. This law is working alongside the Cooperative

Societies Act Cap 112 (1991) and was established to strengthen regulation and supervision of financial cooperatives. A section of cooperators is asking why the government was steadfast in adopting the World Bank recommendations on how to supervise and regulate the cooperative movement notwithstanding the bank's renown capitalist approach to development.

*“It is no wonder that some of the provisions of the law are a threat to cooperative identity; we will not be surprised if commercial banks and World Bank are behind this conspiracy to bring a stringent regulation that undermines the cooperative business approach. In the 1990s it is the very World Bank that ill-advised our government to fully liberalize at the detriment of the cooperative movement which was emerging from war shocks”*

*Complained a Cooperator.*

Generally, the new laws present a host of opportunities like facilitating efficiency in reporting, professionalism in leadership, the growth of share capital and possibilities of amalgamation of the small cooperatives with large ones for business efficiency. Notwithstanding, the Tier 4 Microfinance & Money Lenders Act, 2016 and the proposed Large SACCO regulations have been received with lots of disgruntlement from money lenders and SACCOs respectively, but for this research, we have focused on the views of the cooperatives and other industry experts who have been involved in the formulation and are now witnessing its implementation. Below are crosscutting issues captured by this research: -

#### **a. Wrong Baptism: The identity crisis**

Opponents of the Tier 4 Microfinance & Money Lenders Act, 2016, argue that the SACCO regulation should have been part of the amendment in the Cooperative Societies Act Cap 112 (1991) and that where necessary a separate regulation would have been developed for SACCOS under the amended Cooperative Act. They further argue that

37 World Bank (2006): Country Level Savings Assessment-CGAP Savings Initiative

the name of the law undermines the uniqueness between Cooperatives and Microfinance Institutions. Therefore, an act specific to all cooperatives would have been most suitable for the movement.

*“Why are we being herded with micro finances, money lenders and self-help groups, cooperatives are value based and deserve laws that preserve their unique identity and model.”*

*A cooperator from Mukono questioned.*

The question that begs is whether the proponents of this law understood cooperatives in detail? Cooperators interviewed argue that the uniqueness in culture and purpose may have been misconstrued by the promulgators of the Tier 4 Act as they doubt the effectiveness in the universal application of some of the law's provisions. Experts worry that complexities may arise on treatments on revenue sharing arrangements since cooperatives are modeled as member service providers and not profit-making businesses like their counterparts in the law. The Tier 4 Microfinance & Money Lenders Act, 2016 has equally drawn the criticism of other East African Cooperative members who argue that the cooperatives in Uganda could have been happier with a law specific to their business type.

*“Comparatively Kenyan cooperatives were faced with a similar proposal for regulation. However, the government and cooperatives listened to each, and the 2008 SACCO Societies Act was enacted taking care of government and the cooperators' interest.”*

*A cooperative expert from Kenya explained.*

## **b. SACCOs, MTIC and MoFPED, the battle for belonging**

- With the Enactment of the Tier 4 Microfinance & Money Lenders Act, 2016, and amendment of the MDI Act 2003, all SACCOs will be regulated and supervised by Uganda Microfinance Regulatory

Authority and Bank of Uganda under MoFPED respectively; *“the Cooperative Societies Act Cap 112 (1991) shall only apply to a SACCO in respect to - governance of a SACCO; investment of funds; dividends or bonus; reserve fund; Shares transfer Fund and Education Fund”*<sup>38</sup>.

Notably, Section 109, (3) of the Tier 4 and Money Lenders Act 2016 relegates the commissioner to only the registration of SACCOs. It states that *“Where the Cooperative Societies Act requires that the registrar does an act, that act shall for subsection (2) be done by the Authority”*.

In interpreting the shift in authority from MTIC to MoFPED, a cooperator in Kitgum had this to say;

*“The MOFPED should have just been honest and fully taken over SACCOs, this law has practically left the department of cooperatives with fish skeletons.”*

While cooperators acknowledge the importance and urgency of regulation and supervision, they argue that leaving other types of cooperatives under MTIC<sup>39</sup>, mixing SACCOs with other Tier 4s and splitting SACCOs under three different regulators is divisive and retrogressive. On the other hand, the MoFPED asserts that having SACCOs under its regulation and supervision should not raise any suspicions as SACCOs by nature are financial and therefore are best placed under their ministry. One cooperative elder from Kabale equated this situation to;

*“a polygamous husband who limits a biological mother to child naming while giving full rights of this new borne to a step-mother.”*

A section of cooperators further argues that moving SACCOs away from MTIC will compromise the expansion and coordination of the integrated triangular enterprise model which is best achieved within the multipurpose cooperative type. Represented by the UCA, they prefer regulation and supervision under MTIC for coordination, integration, and mentorship.

<sup>38</sup> Tier 4 Microfinance & Money Lenders Act, 2016; Section 109- Subsection 2 (a), (b), (c), (d), (e), (f) & Subsection (3)

<sup>39</sup> Tier 4 Microfinance & Money Lenders Act, 2016. Op.cit



*“It is not too late to repeal sections of the Tier 4 Microfinance & Money Lenders Act, 2016 to bring back all SACCO business under MTIC especially now when the Cooperative Societies Act Cap 112 (1991) Cap 112 is being amended”.*

*A SACCO member from Kampala.*

Some industry players have interpreted the cooperators' view on shifting regulation and supervision from MTIC and Finance as dogmatic and lacking because during the formulation process the Cooperative Alliance was mostly absent while the National SACCO Union often sent junior staff who were more of “place-holders” than decision makers. They argue that cooperatives had every opportunity to present their views and guide the formulation process.

### **Multipurpose cooperatives: Caught in the Tier 4 Muddle**

This research has established that UMRA has approached multipurpose cooperatives whose balance sheets have a component of financial services to apply for licensing raising questions on the ambiguity of the law. When interviewed, the representatives from such cooperatives opposed this move arguing that UMRA needs to spell out its mandate on who it is mandated to regulate.

*“A multipurpose cooperative has the right to regularly restructure its capital structure based on the investment priorities of the cooperative; how does UMRA expect us to start running under the authority's set rules for capital and liquidity minimums?”*

*Questioned a cooperator in Kampala.*

In this respect, the cooperators are concerned that the originators of the law and technocrats at the UMRA may not have invested much time in understanding how different types of cooperatives work. It is these loopholes that are emerging now that further dims whatever little faith was left in the cooperators who had considered giving the law a chance.

### **c. The weight of new UMRA fees, funds contributions and transfers on the internal growth of cooperative reserves**

Under UMRA and Bank of Uganda, SACCOs are faced with the following new fees and contributions structures.

- Annual license fees- The exact amount will be stipulated in the regulations
- The SACCO Stabilization Fund - *0.5% of the average total assets of the SACCO and money realized from the purchase of assets of a SACCO in the process of dissolution.* The objective of the Fund is to advance loans to SACCOs that require assistance; supervise, administer and reorganize the affairs of SACCOs that are likely to be insolvent, to purchase the assets of insolvent SACCOs or take over all or any portion of the liabilities of the SACCO and to provide financial assistance to SACCOs that are insolvent or are likely to be insolvent<sup>40</sup>.
- SACCO Savings Protection Fund- This comprises of monies appropriated by Parliament and an annual contribution yet to be defined in the regulations<sup>41</sup>. The fund will protect savings of individual members up to an amount determined by the authority, by a notice in a newspaper of wide circulation in Uganda<sup>42</sup>
- The above funds, unlike the reserve and share transfer funds, are deductions made against the assets while the latter is provided from the surplus that would have been retained by the cooperative. It is clear that the fees and subscriptions will increase the cooperatives' liabilities and a possibility of reducing reserves that rely on surplus generated annually.
- Transfer of Unclaimed balanced to UMRA. The Tier 4 Microfinance & Money Lenders Act, 2016, directs all balances from member accounts that have been dormant for more than five years be transferred to the Authority from where these funds will be administered until the owners claim or until the Authority finally closes the account when the balances are not claimed. These inactive accounts have in a way been providing liquidity to the SACCOs and so having this money with authority unsettles the SACCO liquidity balances.

40 Tier 4 Microfinance & Money Lenders Act, 2016; Section 55

41 Ibid; Section 58

42 Ibid Section 57; Subsection (3)

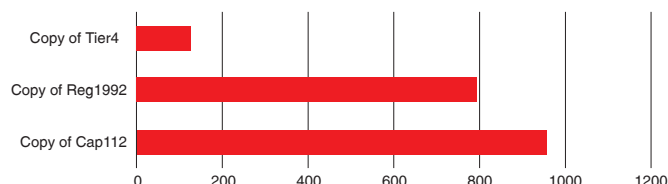
*The question cooperators are asking is why the law didn't advise on how these monies should be kept within the cooperative?*

#### d. Where are cooperators when decisions are being taken on their businesses?

Although several issues have been articulated on the controversies within the Tier 4 Microfinance & Money Lenders Act, 2016, and the proposed Cooperative Societies Amendment Bill 2014, it is worth noting that cooperatives in Uganda were conspicuously absent during the formulation of the new laws.

The study has established that some key cooperative leaders were only approached with the draft law and when they made proposals for changes, none of the issues they raised were taken care of. Yet, they were asked to work with the government in popularizing the law. Some breakthrough seems likely with the regulations after the UCSCU's engagements, these waits to be seen when the regulations are complete.

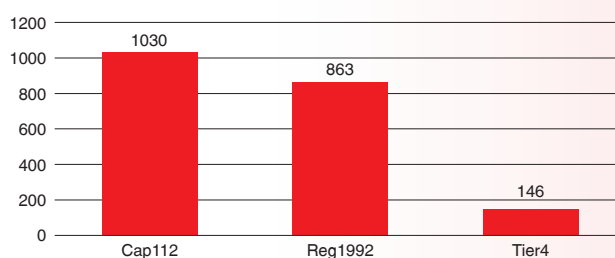
**Figure 2 Cooperative with copies of laws & Regulations**



The research establishes a significant degree of ignorance from cooperators about the matters of their businesses and sector.

According to the research findings, only 128 SACCOs (18%) of the 711 SACCOs profiled had a copy of the Tier 4 Microfinance & Money Lenders Act, 2016. More so only 515 (35.5%) of the total cooperatives profiled mentioned that they were aware of the Cooperative Societies Amendment Act 2014, thanks to the advocacy work undertaken by the Uhuru Institute for Social Development, Actionaid and UCA in the form of regional consultations as well as the radio programmes.

**Figure 3 No. of Cooperatives referring to laws & regulations**



The study further reveals that only 466 (32%) of the total cooperatives profiled were ever involved in cooperative policy and legally related conversations and that only 957(66%) cooperatives had a copy of the Cooperative Societies Act Cap 112 (1991). Interestingly 1032 (71%) cooperatives reported that they refer to the cooperative societies act with those that don't have relying on the District Commercial Officer's copy.

A similar intellectual gap was witnessed when the cooperative bank closed, its shared holders still thought that they were a cooperative. They did not realize that the cooperative bank was a demutualized entity which had become a company and so the Financial Institutions and Companies Acts 1961 were the laws under which most of the decisions for liquidation had been based<sup>43</sup>. Yet 19 years down the road the cooperative movement is still demanding for the liquidation report to uncertain who the right shareholders of the Cooperative Bank were at the time of closure, as many cooperators are oblivion of the shareholder structure the bank assumed after demutualization. The research established that the department of cooperatives and the cooperators have the Cooperative Bank of Uganda on the registry awaiting its liquidation as a cooperative. This state of affairs calls for cooperatives to increase their interest in the matters that pertain to their businesses as well as strategic advocacy and lobbying effort from UCA and the national unions

Despite the fears and challenges highlighted in the law, the regulation for SACCOs if well-structured after addressing the genuine concerns of the cooperators will accelerate the growth of the movement. It is therefore crucial that the different parties listen to each other so that supervision and regulation are fluid otherwise when people are suspicious of the law they find their way under. For example, in 1949 the Uganda African Farmers Union was declared illegal because of non registration, after the groups

<sup>43</sup> The Ogoola Commission of inquiry report into the closure of the Cooperative Bank of Uganda

under the union reestablished themselves under the registration of business names ordinance. The purpose of the ordinance was to inform the public of the name of the person or persons who were trading. These groups pretended to be partnerships, e.g., the Federation of Partnerships by I.K Musazi yet their membership exceeded 20 and therefore disqualified them automatically from being partnerships and more of cooperatives.

## 3.2 Cooperative Registration in Uganda

The registration of cooperatives in Uganda is governed by the Cooperative Societies Act CAP 112, and operationalized by the Cooperative Societies regulations 1992.

*“Registered society” means a Cooperative Society or deemed to be registered under this Act<sup>44</sup>”*

This law provides for registration of societies, rights, and liabilities of members, duties of registered societies, duties of the board and privileges, supervision and inspection of affairs, dissolution, dispute resolution among other issues. However, with the enactment of the Tier 4 Microfinance & Money Lenders Act, 2016, SACCOs are now being regulated and supervised under UMRA and Bank of Uganda respectively depending on the capitalization and savings threshold. The Tier 4 Microfinance and Money Lenders Act, 2016 and Micro Finance Deposit Taking Institutions Act, 2003 govern Savings and Credit Cooperatives Societies (SACCOs) among other institutions. These laws are to be operationalized by SACCO regulations for regular SACCOs and their larger counterparts.

Although the provision for registration is unambiguous in all the laws, some cooperatives have registration certificates from the local government because some commercial officers have gone ahead to register cooperatives knowing well the right place for cooperative registration.

*“Some of these officials will stop at nothing in making “quick bucks,” lamented a key informant in Soroti.*

Moreover, several cooperatives across the country do not have their original registration certificates because the DCOs are retaining them pending the payment of an ever-escalating registration fee. One of the cooperators from Kasese had this to say:

*“Since we registered the DCO only showed us our registration certificate and said until we pay all the money he spent to get it from Kampala, we will not have our certificate. The thing is that he didn’t tell us the cost from the start and now the cost keeps increasing with each passing year.”*

This confusion in registration inhibits cooperative competitiveness because of their inability to undertake business with other corporate entities which may require all the registration documents. The delay in receiving the certificate also demotivates the owners of the cooperative. Worst of all it breaks the law which stipulates that all registered cooperatives should in a conspicuous manner display their cooperative certificates<sup>45</sup>. Something needs to be done by the respective authorities to protect the vulnerable rural cooperatives from exploitation.

## 3.3 The structure of cooperatives in Uganda

The Cooperative Societies Act Cap. 112, provides for a three-tiered system that is:

1. The primary Cooperatives like URA SACCO formed by not less than 30 individual members<sup>46</sup> and other bodies authorized by the registrar<sup>47</sup>.
2. The Secondary cooperatives like Banyankole Kweterana Cooperative Union formed by two or more primary societies
3. Uganda Cooperative Alliance is the only Apex body of all cooperatives in Uganda with a membership comprising of cooperative unions.

### a. Membership Composition

The above structures have been threatened over the years in some ways such as several primary cooperatives having group membership without the consent of the registrar.

<sup>45</sup> Section 7: Ibid

<sup>46</sup> Section 1(o): Cooperative Societies Act CAP112

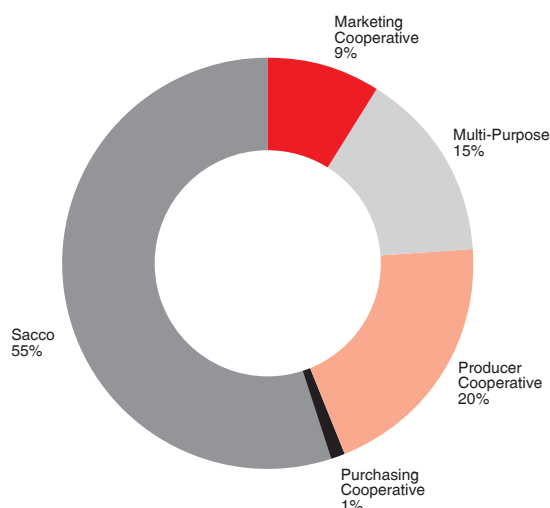
<sup>47</sup> Section 15: Ibid

<sup>44</sup> Section 1(q): Cooperative Societies Act Cap 112, 1991



This research found out that 18.9% of the cooperatives profiled have group membership unsanctioned by the registrar. Of those with group members, the SACCOs were leading with 55%; this is not surprising as group lending has become a popular model for most financial institutions who exploit the structure for loan security.

**Figure 4: Cooperatives with Group Membership**



Despite the opportunities that come with groups, this study has established that the groups' existence within the cooperative brings in cliques that eventually derail cohesion in the cooperative. According to cooperative experts, cooperatives should desist from having groups as members of cooperatives rather groups should be the initial stage of learning how to work together after which it can transform into a cooperative.

#### • What are UCA's chances of remaining Uganda's Cooperative Apex body after the amendment of the Cooperative Act Cap 112?

The proposed cooperative Societies Amendment bill 2014, is conspicuous on the Tertiary, Multipurpose and other cooperative types yet vague on whether UCA will continue to be recognized by law as the only apex body, the amendments propose to substitute Section 3 subsection (2)<sup>48</sup> which currently reads

***“The Uganda Cooperative Alliance shall be the apex body of all registered cooperative societies in Uganda” with 2) “there shall be only one apex society for all registered cooperative societies”.***<sup>49</sup>

<sup>48</sup> CAP 112 Op.cit

<sup>49</sup> Cooperative Societies Amendment Act 2014

On this issue of whether there should be another Apex body other than UCA, almost all of the key informants were for maintaining UCA as the only Apex body of cooperatives in Uganda. Nonetheless, this is no shield as some countries like Kenya witnessed the natural death of Kenya National Federation of Cooperatives in 2000 resulting from mismanagement and poor business performance. UCA stands an excellent chance of staying as the only Apex, and this can be cemented further by aligning itself to its mandate and finding innovative business models to keep itself strong and relevant.

### 3.4 National Cooperative Policy

Uganda has a cooperative policy-themed “Strengthening the cooperative sector for wealth creation, employment, and prosperity.” The policy provides a framework for co-operative development in a dynamic economic environment and aims at realizing a more conducive environment for the co-operatives to expand and diversify their activities by facilitating the improvement of governance, enhancement of production, value addition and marketing capacities of the cooperatives, effective regulation, continuous technical support and resource mobilization. This policy guideline if fast-tracked would go a long way in creating a conducive environment for the cooperative movement. Nonetheless with new changes in the cooperatives legal regime; the policy will have to be amended to respond to the new industry environment.

### 3.5 The Mutating Cooperative Identity

Although the department of cooperatives is reporting 17,886 registered cooperatives as at 10<sup>th</sup> April 2018, it may be intriguing to see how many of these would stand out and justify their originality based on the ICA definition of a cooperative as well as their observance of the four core Rochdale principles, i. e.,

- 1) Voluntary and open membership,
- 2) Democratic membership control
- 3) Member economic participation
- 4) Autonomy and Independence.

A pertinent question arises today; “When is a co-op not a co-op?” There are several answers such as: “When it is a company,,” or “When it is government-controlled,” or “When it is a VSLAs, ROSCA not

registered by MTIC. Undoubtedly, we may no longer consider this question a challenge, albeit the universal cooperative community appears unwilling to face up to the fact that the word cooperative has come to mean all things to all men.

### • The preference for other forms of cooperation in Uganda: Could the formal cooperatives be losing traction?

It is not uncommon to find VSLAs and community groups in every village in Uganda; these groups have a stuck resemblance with the traditional forms of cooperation and have a strong sense of solidarity. Unlike modern forms of cooperation and mutualism, these endogenous systems do not have built-in mechanisms for expansion or growth and are in most cases mobilized on an *ad hoc* or accidental basis<sup>50</sup>. “Modern” cooperative ventures best thrive when the norms and values they rely on are congruent with those inherent in pre-existing or parallel systems even if institutionally they are not congruent or linked. Could it be that the formal cooperatives are too large to provide individual members with the satisfaction of the recognized and participating member? In Kigezi Rukiga SACCO is one of those cooperatives with over 10,000 members yet even with the delegates system not all members are enjoying the space for making decision and having substantive contributions towards the running of the affairs of the society.

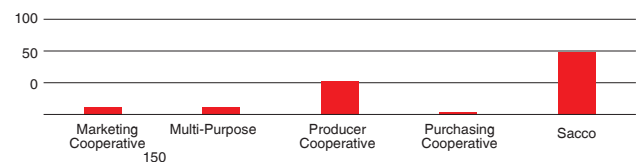
Generally, the changing identity of cooperatives is no longer a rare phenomenon, in the last decades Cooperatives in Europe have diversified from the “classical” co-operative of the Rochdale into several forms like share co-operatives, daughter co-operatives, “New Generation Co-operatives” and limited liability co-operatives., which do not always fully observe all the recognized co-operative principles. More so the individual EU countries, have established various co-operative legal frameworks in an attempt at making the cooperative business model more competitive and accommodative<sup>51</sup>.

In Africa, on the other, there is a consistent rise in other forms of cooperation. This may be evidence that perhaps its time for the ICA members to evaluate the trends and agreed on practical steps to modify the cooperative model in response to the demands in the dynamic cooperative world.

## 3.6 Business Contracts

The study established that many rural cooperatives had limited knowledge on business contracting and this has come with unreparable damages to many. In the case of producer cooperatives, the key informants confirmed that middlemen continue to buy gardens of premature produce whose full value farmers cannot establish. Cooperatives have also fallen prey to some financial institutions that overvalue cooperative properties to increase the pre-arrangement fees, yet others undervalue so that the financial institutions have a chance of attaching more than one property.

Figure 5 Cooperatives that issue contracts to committee members

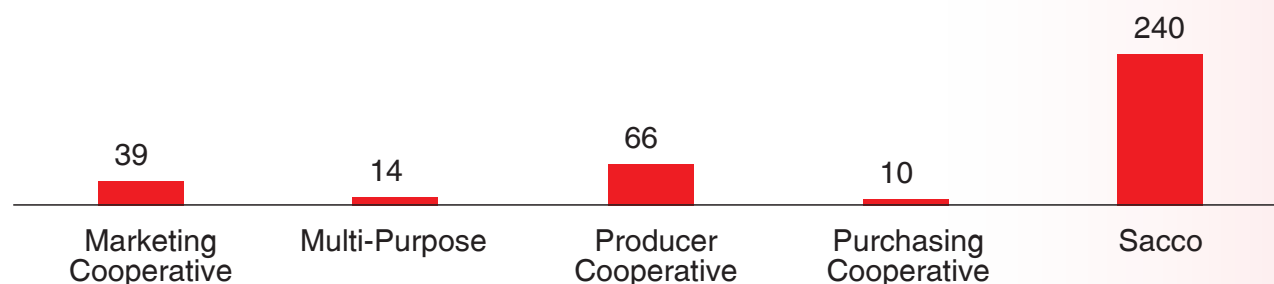


Cooperatives have also found themselves not honoring contracts because of the dishonesty of their leaders who commit on their behalf without their knowledge. This points out to the issue of graft by some of the professionals that cooperatives have to rely on, in this case, valuation firms should exercise maximum prudence in executing their roles because the costs of unethical conduct on the cooperative businesses is huge. In the past, inability to deliver on contract terms significantly changed the operations of UCCU as it had to pay fines time and again<sup>52</sup>.

50 Patrick Devellere, Ignace Pollet & Fredrick Wanyama (2008). Co-operating out of poverty: The renaissance of the African Cooperative Movement. Geneva: ILO.

51 Czech University of Agriculture (2002). Agricultural cooperatives for the 21st Century. Prague

52 Kyamulesire 1988. Op.cit

**Figure 6 Cooperatives issuing contracts to employees**

This research examined human resource contracting in cooperatives, revealing that the concept of contracting is mostly absent. Of the 1449 cooperatives profiled only 369 (25.5%) had contracts for their employees and 178 (12.3%) for the committees. Regarding contracts for employees SACCOs were ahead with 65%, producers at 17.9%, marketing at 10.6%, multipurpose at 3.8% and purchasing at 2.7%. A similar trend was exhibited for committee contracting with SACCOs leading at 55.5%, producers at 29.2%, multipurpose at 6.8%, marketing at 6.2% and purchasing at 2.3%. It is such gaps that expose cooperatives and their members to unresolved conflicts because often the documentation is weak and the courts have no option but to throw out the cases. It is no wonder, many cooperators till now do not know that the defunct cooperative bank was demutualized into a company because many shareholders do not document processes.

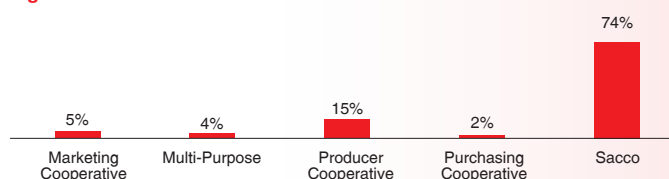
Therefore, the need for legal literacy amongst cooperatives cannot be undermined, investments in this can be made in collaboration with the law council and other service providers like Puliida Developmental Lawyers.

### 3.7 Cooperative Conflict Resolution & Management

The way in which conflicts have been managed within cooperatives is regressing whatever gains the cooperative sector has made. Amidst the vulgarisms of excessive liberalization which have exposed many cooperators to fraud and conflict, there is a lacuna in the conflict resolution and management provisions in the Cooperative Societies Act 1991 Cap 112 and the Tier 4 Microfinance & Money Lenders Act, 2016. The latter mentions nothing about conflict resolution while the Cooperative Societies Act 1991 prescribes

arbitration in sections 73-76, albeit section 73 (subsection 15) of the same act secludes matters pertaining to debt, embezzlement, loss of cash or misappropriation of the cooperative funds as the only ones that can be referred to a competent court.

In agreement with the need for a lasting solution, a representative of UCA confirms the complexities in the arbitration process presented in the form of legal incompetence, a limited human resource capacity, and no resource allocation from government amongst others. Of the cooperative profiled, 131 (9.2%) had unresolved cases for reasons like a dysfunctional arbitration system and going to the courts that have no jurisdiction to hear such a case, hence often referring them back to arbitration. SACCOs topped the ranks of cooperatives with unresolved cases followed by the producer cooperatives. This is not surprising because of the credit businesses that SACCOs predominantly run.

**Figure 7 Unresolved conflicts**

These unresolved issues have resulted in cooperatives splitting with each offshoot preferring to try out on their own. In Rwenzori region, there is Mt. Rwenzori Coffee Farmers Union and Rwenzori Farmers Cooperative Union, while Ankole has Banyankole Kweterana Cooperative and Ankole Coffee Producers Unions. The formation of splinter cooperatives affects membership size in these cooperatives yet in Agriculture the numbers game is a significant factor in ensuring regular and systematic supply of goods to the cooperatives. As the cooperative sector takes shape, a robust

conflict mechanism will have to be instituted for the expeditious disposal of cases.

The proposed amendments to the Cooperative Societies Act Cap 112 (1991), still maintain arbitration with a preference that all the powers initially in the hands of the UCA board is moved to the registrar. Section 24 of the cooperative societies amendment bill 2014 states:

***“Section 73 of the principal Act is amended – a) by substituting for the words “the general secretary of Uganda Cooperative Alliance Ltd” occurring in subsection (5), (7) and (17) the word “registrar.” b) in section (10) (c) by substituting for the words ‘high court’ the words “competent court.”***

The above proposal exposes Ugandan cooperatives to similar challenges the Kenyan Cooperatives faced when the registrar and the provincial cooperative officers were in charge of arbitration. Alternatives that have been proven may need to be explored and adopted.

<sup>53</sup>An analysis of the Kenya Cooperative Tribunal presents a host of opportunities, and its successes could be replicated in this search for a mechanism in place. The tribunal is a specialized court established under section 77 of the Co-operative Societies Act, Chapter 490 of the laws of Kenya. The Co-operative tribunal was first established in 1997 and domiciled in the Ministry of Cooperatives and Marketing but opened doors to the public in 2002. In 2010 the Constitution of Kenya placed all tribunals under the Judiciary. It has exclusive and unlimited geographical and pecuniary jurisdiction in co-operative disputes. Decisions of the Tribunal are appealable to the High Court within 30 days of the ruling/award. The tribunal handles cases between members and members, cooperatives and cooperatives, cooperatives and members as well as cooperatives/ members and their employees.

According to a cooperative industry expert from Kenya, Uganda could do better with a cooperative tribunal in addressing the inadequacies of arbitration and those of the general courts that the plaintiffs are referred to on specific cases. There is no better opportunity for Uganda to consider taking this

step than now when the Cooperative Societies Act Cap 112 is being amended. Cooperatives with the leadership of UCA and other industry players should seize the opportunity and work with parliament and the judicial commission of Uganda towards realizing this goal.

### **3.8 Cooperation amidst insecurity; partial and selective war claims payments**

***“The State shall provide a peaceful, secure and stable political environment which is necessary for economic development<sup>54</sup>”***

Protection of life and property is a constitutional right of every Uganda, yet cooperatives in Uganda have been affected by numerous conflicts with vast uncompensated losses. The 1970, 80s and the NRA insurgencies led to cooperative premises being robbed, and leaders killed based on tribal and religious affiliations and the destruction of relevant documentation on cooperatives. In Acholi, for example, the study discovered 20 cooperatives without registration certificates and previous historical records upon which the cooperatives can plan and implement their business goals. In Bundibugyo and Kasese, tribal conflicts and the recent clashes with government security forces have paused a significant challenge to the growth of the cooperative movement.

***“Here in Bundibugyo we live as a community of brothers and sisters and cooperatives are formed without any tribal segregation, but when a few individuals start drumming tribal crusades, the tension within the cooperative greatly affects our business. It is even worse when the physical fighting starts, as members start being suspicious”***

*A cooperator- Bundibugyo.*

This study established that 398 (27.5%) of the 1449 cooperatives profiled had lost property, yet

<sup>53</sup> <https://www.judiciary.go.ke/5227-2>

<sup>54</sup> Article III section 5, the 2005 Constitution of the Republic of Uganda.



the accountability of government on the issues of security and compensation continues to be tested. To date cooperatives in war-affected regions continue to plead with the government over compensation. Although the government has made payments towards some war claims the commitment is questionable based on the unsystematic way in which these payments are made. Cooperative experts recommend that government comes up with a clear and phased plan that can be implemented to the dot through the subsequent budget allocations until all the cooperatives are compensated. Equity and strategy will be vital in ensuring that every region benefits throughout the years. With the possibilities of the compensation, cooperatives will transform if the leaders at the forefront of the negotiations tame their individual urge for self-reward. This subject of compensation met resentful voices of cooperators in Lango who accuse the leadership of Lango cooperative union of conniving with some elements in government to misappropriate whatever compensation the union got.

*“If that illegal board of Lango cooperative union continues in office, whatever the cooperative gets compensated for will end up only in their “stomachs”*

*Cooperator - Amolatar.*

### 3.9 Emerging Legal & Policy related Issues

#### • No term limits for cooperatives

The political climate in a country can set the pace for many decisions, according to this research, cooperators voiced their displeasure with the provision for term limits in both the 1992 cooperative societies regulations and the proposed cooperative societies amendment bill 2014. Regulation 24 (Sub-regulation 4) states;

***“Members of the committee shall hold office for two years but shall be eligible for reelection: Provided that no member of the tertiary or apex cooperative society may be re-elected for more than***

***two terms.” On the other hand, Section 9 Subsection (10) of the cooperative Societies amendment***

***bill 2014 states that; “Other than qualifications that may be set from time to time with the approval of***

***the Registrar- (a) a person shall be a member of a board if he or she has not served on the board of a society for two consecutive terms of two years each”***

It is notable that the government bill proposes to amend the previous exclusion of primary societies from term limits and now suggests an absolute two term limit for every two years served in office for all types and classes of cooperatives. According to this research, cooperatives are concerned that term limits have often deprived them of good leaders; they also argue that four years may not be sufficient for the cooperative leadership to implement their business' ambition purposely.

*“Just like all political positions of government in Uganda today, we want term limits removed, two years and two terms are too short for any leadership, after all, members are at liberty to vote out leaders based on their service. This two-year thing even affects business; member's politics is too much.”*

*Key informant in Wakiso*

There is an overwhelming preference for an open term system with three years re-election period, cooperators are assured in the power they have to drop a leader that does not meet their expectations.

#### • Should politically elected leaders serve on the boards of cooperatives?

Although this research did not seek an audience to this question, a majority of the key informants raised this as an essential issue for redress. In line with the proposals in section 9 of the cooperative societies amendment bill 2014,

***“Other than qualifications that may be set from time to time with the approval of the Registrar- (a) a person shall be a member of a board if he or she - (v) is not a member of parliament, district council, county council, sub-county council, or city authority except where the society membership is composed of only such membership”***

A majority of cooperators are against having politically elected leaders serving on their cooperative boards except within their institutional cooperatives within which they have equal status and rights as members. They argue that having elected leaders on boards causes the following problems:

- a). Politicians often split membership along political lines and yet the principles of open and voluntary membership as well as autonomy and independence are very core for any cooperative to strive.
- b). Elected politicians equally impede fair competition during elections because their existing political positions give them financial and constituency advantages

*“With the attainment of independence in 1962, cooperative leaders with political ambitions used their positions for rallying support, today several politicians belong to their constituency cooperatives largely to use the societies as mobilization tools”*

*A cooperator from Wakiso.*

- c). The financial demands of political elections have tempted some politicians to use cooperative resources for their campaigns.

If the amendment were to adopt these views, it would be best for the political leaders in cooperatives to be co-opted in the cooperative subcommittees where they can give advice and make substantive contributions for the success of the cooperative.

### • Family cooperatives

Some of today's cooperatives bear similar characteristics that defined the traditional ones that were followed by the Rochdale ones. In Bundibugyo and Ibanda the research discovered cooperatives formed and run exclusively by family members. The members argue that the common bond in the family enhances the discipline and trust that cooperatives require. In Bundibugyo Nyahuka family nurturing SACCO is excelling in providing financial solutions to their members as well as providing training on cooperatives to other SACCOs.

Out of interest, we asked the registrar's office on their stand on this emerging cooperative type, and we were advised that although they may not be illegal the exclusivity in admission compromises the 1<sup>st</sup> cooperative principle, i.e., voluntary entry and exit. This assertion may also be put to test when examined from the point of purpose and impact. The family cooperative model is one that could keenly be considered as it has a high potential to be replicated at clan levels. Its strength lies in the bond, and the preexisting organizational and mobilization attributes that families come with.

*“Ever since this cooperative was formed, our family has developed because each member has a role to play and is forced to work and patronize. Many people are happy about this SACCO because of the training that we offer other SACCOs in the community”*

*Key informant Bundibugyo*

This cooperative type may also need to be examined in respect to some of the prudential provisions on the percentage shareholding by family members as well as representation on boards because naturally, this cooperative will compromise anything that suggests that family members should not have a majority share in a business or representation on a committee.

Generally, Uganda's cooperative policies, laws, and support institutions are still not wholly conducive for the proper functioning of genuine, democratically controlled and economically viable cooperatives. The progress made in policy formulation, the enactment

of the Tier 4 Microfinance & Money Lenders Act , 2016 and the proposed amendments to the cooperative Act Cap 112 will need to be boosted by building consensus between government's interest and that of the cooperative.



# CHAPTER 4: THE BUSINESS STATUS OF COOPERATIVES IN UGANDA

This section presents the types of cooperative businesses, business performance, financing for cooperatives, trade and marketing, human resource outlay of the cooperatives, compliance to industry standards, record keeping, the use of ICT and internal risk management.

## 4.1: Cooperatives in Uganda: Are the numbers adding up?

According to data from the cooperative registry, Uganda had 17,886 cooperatives as at April 2018, after a data cleaning exercise that saw 758 cooperatives struck off the register for non-activity<sup>55</sup>. Having reached out to 1449 cooperatives in 50 of Uganda's 126 districts after combing every corner for cooperatives, it remains to confirm the actual number of cooperatives in Uganda after the countrywide profiling is complete.

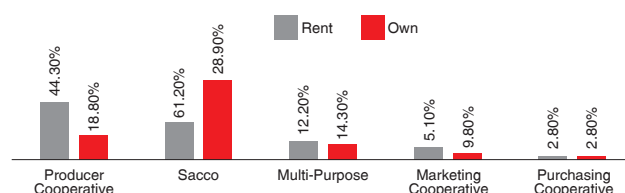
Table 2: Number of cooperatives registered by business type <sup>56</sup>

Business Type	Numbers
SACCOs	8131
Agricultural marketing	6878
Transport	565
Dairy	337
Housing	91
Energy	22
Fishing	127
Area Cooperative Enterprises	97
Unions	133
Multipurpose	896
Others	609
Total	17886

Although the research did not complete profiling in Kampala, Wakiso, Mukono, Hoima, and Kasese, there is a chance that the exact number of cooperatives in Uganda may be far below the numbers in the cooperative registry. The department of cooperatives says these numbers may change after the data cleaning exercise is complete; what is not clear is how and when this data cleaning exercise will be

completed. This implies that whoever is currently planning for the movement is not sure about the numbers and the situation of the cooperatives.

Figure 8 Premises owned and rented by cooperatives



This ambiguity in numbers is not helped by the fact that up to 54% of the cooperatives rent while 39.6% own their office premises and 6.4% have no offices at all. Other than the cooperatives that own their premises, those that rent and don't have offices can be hard to track in the absence of a real-time mechanism that updates the changes in physical location.

Whereas growth in numbers of cooperative has been associated with the success of the sector, a section of technocrats warns Ugandans against forming too many small and scattered cooperatives doing practically the same business and instead focus on amalgamating into large well serviced businesses with branch networks across the country. They argue that competitiveness within the sector can only be leveraged when cooperatives harness the power of economies of scale which may be a far-fetched dream for Uganda, a country where cooperatives are being created every day for dependency reasons. This is what a key informant from Kampala had to say:

***“Cooperatives in Uganda should learn some lessons from their Kenyan counterparts who have mastered the art of purpose and membership satisfaction, no wonder Mwalimu SACCO is now the largest financial cooperative in Africa with branch networks spanning every corner of Kenya, on the contrary Ugandans understand***

55 Statistical Summary, Cooperative Registry obtained on the 14th April 2018  
56 Ibid

***cooperation as every small group forming a new entity especially when they think the president is likely to give them free money. Today you find shoe shiners cooperatives, toilet cleaners cooperatives, and even beggars cooperatives in every market.”***

Indeed, the rate of starting new cooperatives must be tamed if the movement is to make a valuable contribution to the development of its members and the country. The growth of the cooperative sector is not only about the number of members, but an equilibrium in quantity and quality will present the best results. In 1957 it became apparent that some primary producer and marketing cooperatives were too small to be economically viable, so the department of cooperative development postponed their registration in favor of amalgamation, or until they met specific requirements like having a management structure in place, bookkeeping and the regular stores which equally acted as their offices. On the contrary, cooperatives today register with no physical office as well as no management plan in place; it's not too late for the department of cooperatives to have a guided expansion of the sector.

Whatever the final results turn out to be, what is most desirable is a strong cooperative movement commanded by entities that make business sense to their members and the nation. The strength and confidence will be reinforced if cooperatives invest in knowing the individual needs of their members through profiling membership at entry and continuously updating the changes in the cooperatives.

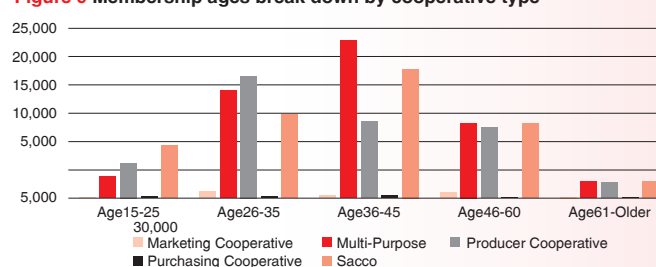
#### • Gender & Demographic distribution in cooperatives

Of the 1449 cooperatives profiled only 997 were able to disintegrate their data sets for males and females. From the 997, the study established membership of 859,465 individuals of which 663,297 (77%) were male, and 196,168 (23%) were female. Despite the affirmative provision in the cooperative policy on 1/3 representation of women, the cooperative movement in Uganda is still male-dominated. Although women are fewer than men, they are continuously most sought after as better leaders of cooperatives

because comparatively, they are deemed more trustworthy with members' assets.

For the cooperative movement to realize its milestones, women involvement will have to be nudged; it is alongside this that most of the development partners have put gender equity as one of the criteria for cooperatives to become a partner. Some cooperatives whose members have been trained on gender have also put in place gender mainstreaming policies.

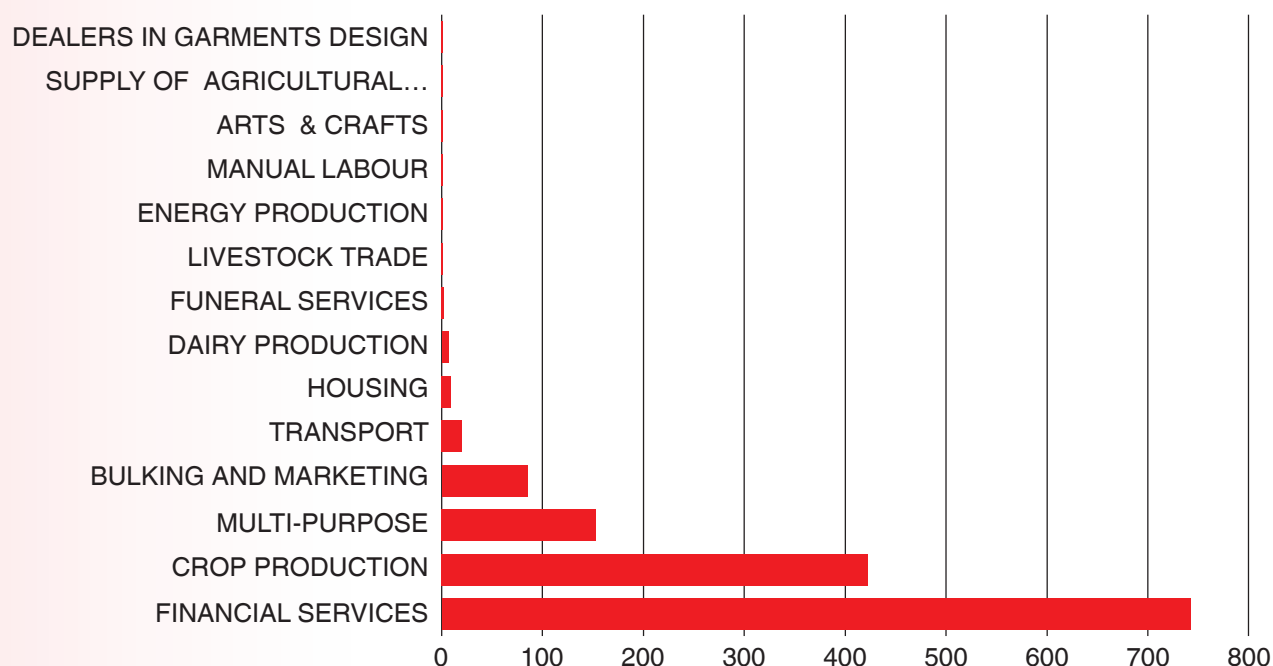
**Figure 9 Membership ages break down by cooperative type**



The study further reveals that only 10.4% of the cooperative members are youth aged 18 to 35. This study identifies the negative branding of the cooperatives over these years as one of the key reasons young people have disengaged. This is a sad state of affairs because a sector that is not youthful is less productive and innovative. Deliberate efforts including initiating youth businesses must be put in to attract them to cooperatives. Cooperatives should equally invest in publicizing their great works to lure those that have biased perceptions into appreciating the cooperative model.

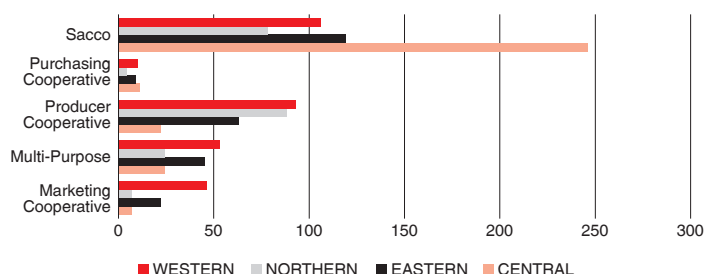
## 4.2 Cooperative business types & regional distribution

The cooperative movement in Uganda is engaged in virtually every sector of the economy. Unlike at the beginning when cooperatives were mostly in Agribusiness, the model presents a range of opportunities that are being harnessed for holistic development. Accordingly, to this research 52% of the cooperatives profiled are engaged in financial services followed by 31 % in the production of various items, 8% in marketing, 6% multipurpose and 3% in purchasing.

**Figure 10 Cooperatives by primary business activities**

It is not surprising that Uganda has this composition of cooperative as a large number of SACCOs were formed before and after 2001, 2006 and 2011 general elections. In 2001 the Government announced plans to inject USD 5,000 into each of Uganda's 5,000 parishes to support Tier 4 institutions. Many have now ceased operating or never became active because the funding was not forthcoming<sup>57</sup>.

The economic pressures and the limited accessibility of commercial banking services amongst the rural and peri-urban populations are also contributing to the proliferation of financial cooperatives. The growth of producer cooperatives is supported by Uganda's massive reliance on the agricultural activities employing approximately 80% of the population. With a young population and unemployment rates at about 65%, most of them are finding room in this sector. Other sectors in which cooperatives are doing business include -processing, marketing, mining, energy, art and crafts, housing, education

**Figure 11 Active Cooperative types by region**

and health and funeral services<sup>58</sup>.

The study further indicated that the central region had the most number of SACCOs, followed by the East, West, and North respectively. On the other hand, the West leads on producer and marketing cooperatives followed by the north because these regions are predominantly in agricultural production and marketing. Western Uganda presented the most balanced distribution of cooperative types which is an indicator of a sustainable cooperative sector. The balance between production, marketing and financing needs to be promoted to exploit the triangular model being promoted by UCA. By having cooperatives engaging in productive ventures, they have the advantage of retaining their finances within a system that supports its members holistically.

<sup>57</sup> Kohler, Wolfgang. Winter 2005. "Big Plans, Small Sums" in Akzente Special. Eischborn: GTZ.

<sup>58</sup> Hadijah Nakakande (2016). How the cooperative movement is very much alive in Uganda (article); the New Vision: 8th February 2016

In the Western part of Uganda, producer and marketing cooperatives have been demonized by some sections of the politicians as a failed system leaving scores of the population especially the young with disregard in the model. This could explain why most cooperatives in Toro region are registered as SACCOs but are engaged in agricultural production and marketing.

*“SACCOs on their own can not drive Uganda to economic sustenance; Ugandans must appreciate that services need money generated from production and industry; in Mbarara politicians have been quoted saying, they saved the people from cooperatives and that SACCOs are better than cooperatives. Is it a way of confusing the population? SACCOs are financial cooperatives period!”*

*A cooperator from Ankole.*

Political economists have viewed this as a strategy to keep Ugandans impoverished and divided. This anomaly calls for membership education on the cooperative business model, less this lot of uninformed cooperators may remain with a bias on cooperatives and may equally never appreciate that SACCOs are a class of cooperatives.

#### • Enterprise selection: Are cooperative businesses designed to meet member needs?

The business dynamics today are incredibly complex yet providing an array of innovative spaces for business owners. Cooperatives have the room to virtually do business in all sectors right from primary production to building infrastructure that generates energy and distributes water to communities. The lack of knowledge on the potential of the cooperative business model limits people's minds to agricultural production, marketing, and financial services with a small number venturing into the non-traditional sectors.

Besides, the study established that lack of business autonomy in cooperatives is affecting enterprise selection to a great extent. As already discussed in previous sections, different donors are supporting various business initiatives of which many do not meet

the immediate needs of the members. Government is also seen to be investing big in financial cooperatives with some new efforts seen in boosting agriculture yet most cooperatives are stuck in what they know. Amongst the security agencies like the army and police, there is an opportunity for them to venture into infrastructural cooperatives because of their organized form; this would keep the force busy and productive. They could convert their SACCOs into multipurpose cooperatives to enable them invest in such largescale businesses which would also contribute to increased GDP and improved standards of living. With the restriction on individual business ownership, the multipurpose business option for the army would facilitate collective entrepreneurship.

There is need to take advantage of new opportunities in social services delivery, energy, horticulture, where young people can be attracted. Tailored value chain training will inspire farmers that are on the fence to embrace some of the non-traditional value chains like cocoa, vanilla, gum, forestry and social services provision amongst others. With the existence of UIRI, the Microenterprise department in MTIC and donor supported incubation centers, cooperatives are in a better position to choose businesses that do not only meet their members' needs but those that make business sense to the nation.

## 4.3 Business performance & the contribution of cooperatives to Uganda's GDP

Using the total cumulative turnover of UGX 252,883,377,705 from 1449 cooperatives, we extrapolated the potential contribution of the 17,886 cooperatives, and we realized that cooperatives are currently contributing about UGX 2,326,527,074,886 of the UGX 86,756,000,000,000<sup>59</sup> Country GDP reported for the financial year 2016/17 translating to about 2.68% contribution to GDP. While this contribution is noteworthy, the potential of the cooperative sector is yet to be fully exploited for a more impactful role in Uganda's socioeconomic development. Comparatively the contribution of the Kenyan Cooperatives to national GDP is 43% the highest proportion in percentage points of GDP attributed to cooperatives in the world. New Zealand comes in a distant second at 22 percent<sup>60</sup>.

59 Uganda National Bureau of Standards (2017). Statistical Abstract. Kampala  
60 Soko Directory (2016). Cooperative movement shifting economic potential (article; 24/5/2016). <http://sokodirectory.com/2016/05/cooperative-movement-shifting-economic-potential/>



Using the annual turnover of the 10 top cooperatives per sector the study reveals that financial services are the best performer, followed by agriculture as depicted in the table below.

*Table 3: Turnover of top 10 Sector leaders from the 50 districts*

Key Cooperative Business Sectors	Turnover(Top 10 Coops)	Top 3 Performers ( Turnover)
SACCOs	67,617,22286	Wazalendo Y-SAVE UN SACCO
Tobacco	57,260,450,000	West Nile Cooperative Union Emve Tobacco Growers society Wandi Tobacco & Wood Fuel Growers Society
Coffee	20,814,500,000	Banyankole Kweterana Bugisu Cooperative Union Nyamiriro Imuka Growers Society
Irish Potatoes	17,874,200,000	Katasya Growers Cooperative Society Bugaki SIDA SACCO Kiweeka Farmers Cooperative Society
Cocoa	14,749,264,999	Semuliki Cooperative Union Bundinyama Cooperative Society Bubukwanga farmers Cooperative Society
Cotton	10,035,000,000	Bunyoro Growers (2 billion) Nyakatonzi Union (2 billion) East Acholi Union (2 billion)
Dairy	5,396,111,500	Nyamarebe dairy farmers Cooperative Ishongororo Dairy Farmers Cooperative Society Kigezi Dairy farmers cooperative

Within the financial cooperatives segment, the institutional SACCOs emerged as most productive mainly because of natural benefits like checked off payments, consistency in numbers and a common bond. The tobacco subsector is beating the coffee one which is Uganda's 3<sup>rd</sup> largest revenue earner; this could be because tobacco is higher valued compared to coffee; as at 28<sup>th</sup> May, a kg of tobacco was going for UGX 8,250 compared to Arabica coffee whose average price was UGX 4300. It is interesting to see that food crops like Irish potatoes provide a great opportunity for cooperatives to invest in both cash and food security.

### • Are cooperatives bridging the unemployment gap?

The cooperative movement has been praised as a sector that provides vast employment opportunities in the form of investors and the management team. Cooperatives allow members to own their businesses, but it also gives employment to the public. In the 1449 cooperatives profiled, the employment level is recorded at 863,917 comprising of the direct employees at 4452 and members at 859,465. This study established that 63% of the cooperatives profiled had a managerial team while 37% of the cooperatives do not have. The composition of the managerial team includes hired employees and members who give their time to managing the cooperative. On the other hand, the study reveals that 46% of the cooperatives have hired employees and 54% did not have.

On the question of the hiring the cooperative college graduates many cooperatives expressed their lack of keenness on employing the latter mainly because they believe they can not afford their services while others see them as underqualified because the colleges' highest qualification is a diploma which in many ways is below the current qualification requirements. Despite the small number of college graduates being hired, the employment opportunities in the cooperative movement cannot be overlooked, and all stakeholders could consider harnessing what lies within.

## 4.4 Financing for cooperatives

Cooperative financing is comprised of share capital, fees, subscriptions, loans, and grants; however, for business stability and sustainability, the ideal capital structure is one in which the cooperative is 100% self-sustaining. An examination of most cooperative societies presents a mixed picture of 72% cooperatives relying on their internal finances and the 12% benefiting from external financing and 16% using loans. These figures are not depictive of sustenance but rather symptomatic of the many that may not be bankable to obtain other financing types. This assertion is backed by the fact that lack of capital came third on the cooperatives' most pressing challenges after a lacking legal regime and poor governance respectively.

### • Share Capital

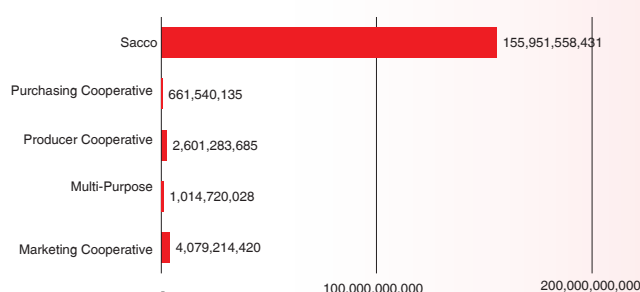
A Cross-Examination of the value of share capital further leaves a lot to be desired, amongst the cooperatives profiled, the one with the largest capitalization stood at the UGX 117 billion while the lowest stood at 0 wiped out by lack of activity and misappropriation. Cooperatives have not done enough in emphasizing the long-term nature of the cooperative business. Members have tended to scavenge cooperatives and lack in many ways the commitment to grow strong businesses. According to experts, most members stop with the first shares they bought at registration. Such was the challenge with the Cooperative Bank of Uganda; at closure. Richard Obura in the report of the Commission of inquiry into the closing of the cooperative bank explained that the bank had been undercapitalized throughout its existence and insolvent from the very beginning.

***“According to the Ernest & Young’s 2000 report on the Cooperative Bank’s financial position, BOU’s December 1998 onsite inspection report found that as at 31<sup>st</sup> / August/1998 Cooperative Bank was insolvent to the tune of UGX 3.4 billion, requiring UGX 5.4 billion to comply with BOU requirements. The insolvency had increased to UGX 4.8 billion as at 31<sup>st</sup> / December/1998, an injection of 6.6***

***billion was required to comply with the statute<sup>61</sup>”***

On analyzing the 100 cooperatives with the highest share portfolios, Wazalendo emerged the most capitalized with over 100 billion, followed by URA and Uganda Prisons SACCOs with over 11 billion and 2.4 billion respectively. Bugisu Cooperative Union led the agricultural marketing segment with slightly over 1.2 billion, followed closely by Nyamahasa United Area Cooperative and Rwenzori Farmers Cooperative Union at over 960 and 950 million respectively.

**Figure 12 100 top Cooperatives Capitalisation by type**

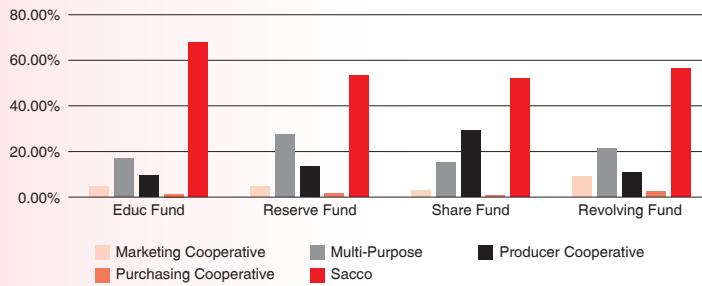


Cooperatives need to increase the frequency of share buys; and strategies like bonus issues and membership reward programmes would encourage the members to buy shares. This will require the cooperatives to deliberately offer financial literacy sessions to the members as most of the members are often ignorant because of the complexities of investment engineering. In one of the cooperatives profiled, members were required to buy shares every quarter in line with share capital requirements agreed in the AGM. This is a strategy that can be replicated by other cooperatives because it supports long-term investments and increases members interest in the cooperative.

### • Reserves

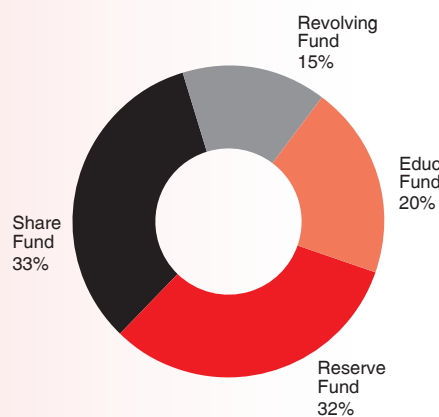
The unique business structure of cooperatives presents enormous opportunities for the cooperatives to grow their core and institutional capital if they purposed to. Despite the provisions<sup>62</sup> of the Cooperative Act, many cooperatives are hardly keeping reserves.

<sup>61</sup> Report of the commission of inquiry into the sale of the Cooperative Bank of Uganda  
<sup>62</sup> Sections 47 and 49 Cap 112. Op.cit

**Figure 13 Reserves kept by cooperative type**

According to this study, only 591 (40.9%) of the 1449 profiled keep reserves. SACCOs lead in maintaining reserves because of the liquidity requirements of lending as well as the demands of their creditors who often use balance sheet figures to determine the capacity of a cooperative to pay back. The producer cooperatives followed at 26%; because of the nature of their business, many have not had a surplus from which most of the reserves are derived.

Pro-reserve legislation can further play a big role in ensuring stability in cooperatives. Both the Cooperative Societies Act Cap 112 (1991) and the Tier 4 Microfinance & Money Lenders Act, 2016 require cooperatives to keep reserves, but due to various reasons like lack of knowledge by the cooperatives and no surplus, many are not complying.

**Figure 14 Reserves held by cooperatives**

Although the chart above shows more cooperatives with the share transfer fund, there are several complaints about cooperatives not compensating exiting members who have transferred their shares successfully. The urban and rural members have the same cry against the cooperatives not releasing their funds.

*“I exited a SACCO I belonged to 4 years ago after completing all share transfer as well as the exit procedures, to date I have never received anything from my cooperative. If an institutional SACCO run by the apex body can behave this way how then are other cooperatives treating their exited members”*

*Key informant in Wakiso*

This issue will have to be looked into by the regulators because it has the potential to discourage membership and share growth in cooperatives with more people turning to shareholding in companies due to the efficiency offered in disposing of equity portfolios held.

The closure of the cooperative bank has also been sighted as the other reason for cooperatives not keeping reserves, first because many cooperatives lost their money in the bank at the time. Nonetheless, the latter may not be reason enough for cooperatives not deliberately maintaining reserves.

The Education Fund is one of those that should be prioritised because a cooperative whose members are uninformed have slim chances to grow. However, the subject of sharing reserves with the secondary and apex cooperatives has equally permeated the debates on their obligations. This research established that most of the members of secondary and the apex cooperatives are uncomfortable about sharing half of their education fund. Section 49 subsection (2) of Cooperative Societies Act Cap 112 (1991) states,

*“Fifty percent of the education fund set aside under subsection (1) shall be sent to the secondary society to which the society is affiliated, while the remaining 50% of the shall be used by the secondary society or primary society to carry out its educational programmes.”*

There is contention on why the cooperative should send money to the secondary or apex body yet most of the staff of the latter organizations have capacity gaps that equally need filling.

*“In our recent AGM members did not see any reason to give 0.5 % of our education reserves to our secondary cooperative because we are not assured of value. Members are happy to source experts now and then”*

*SACCO member – Kumi district*

SACCOs that have emerged from the VSLA model tend to share all the incomes made in the year, and many have not understood the long-term nature of the cooperative business. Ishongororo SACCO in Ibanda explained that their members often look forward to year ends because that is when they get rewarded for the efforts. It is this simple situation that invokes the need for cooperative education and training; the absence of which will render conversations on issues like reserves irrelevant to many.

### • Prospering beyond the project periods; cut the hands that feed you: Are cooperatives ready to have this conversation?

This study picked keen interest on the impact of grant financing on cooperatives because the open “floodgates” of the donors has been sighted as one of the causes of undercapitalization in cooperatives. According to the World Bank, there are large sums of funds that donors and government give to cooperatives for interventions like capacity building, and paying of recurrent costs. This research reveals that several cooperatives that have previously been supported by the various donors have very little to show for the money that has been sunk in the industry. Many cooperatives in Teso, Busoga, and Buganda are stuck with idle equipment and storage facilities because the cooperatives are failing to maintain their equipment as well as pay their staff salaries.

*The question here is how cooperatives that are 80% donor dependent are expected to meet their business goals while operating under nonprofit rules? The so-called double bottom line can quickly become an impossible double predicament!*

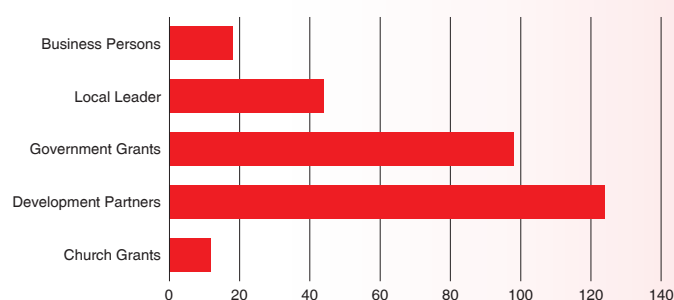
This study has found out that most of the cooperatives that are receiving donor funds have had to align

their missions to that of the donor. The perplexity is that every time the cooperative embarks on new project proposals to different donors who may have completely different objectives from the previous. In essence, the cooperative may never settle down to implement their strategies if any. It was stunning when one of the recently formed cooperatives in Lira mentioned that they had they had no plan in place and that every season it's members plant what they think can be supported.

*“We started with chia and bird eyes chili, but when we heard that there is money from VOPD we started planting sunflower this year; we hope that we can get support so that more farmers can join us”*

*A farmer from Lira.*

Figure 15 Grant sources for cooperatives



The study further established that donations whose beneficiaries are identified through the district community development and commercial offices had in some cases been abused. According to cooperators from mainly Kasese, Hoima, Kyegegwa, and Bundibugyo, the above local government offices see project money for cooperatives as their personal income sources. Cooperators complained that when they are invited for workshops through the district, some of the local government officials only select them on the promise of shared benefit. This could explain why some cooperators and local government officials are often not excited by meetings that have no per diems and transport allowances.

*“The district which should be helping us has turned us into money making tools, and one cannot be recommended for any project or training if you don't agree to share half of your allowance”*

*Cooperator-Hoima*





*Donor Funded and Dormant facility in Arapai*

Photo by Uhuru Institute

It is clear that excessive donations without performance benchmarks impede accountability, hard work, vision, innovation, and autonomy. Could it be the time that the donors remodeled their facilitation mechanisms? Notwithstanding the financial challenges that some cooperative members have, provision of facilitation may need to be tamed for the beneficiaries of projects to make a contribution as well as value their participation. Indeed, partners like Agriterra and Trias reported the use of performance indicators and frequent evaluations on the impact of the cooperatives on communities and individual members. Other partners will have to embrace cost-sharing models and the use of performance measures to guarantee a return on investment.

One of the everyday frustrations of donors is the gross lack of accountability by cooperative leaders. According to one of the donors, some individuals have positioned themselves as agents of donor money; they are not necessarily cooperators but have mastered the art of proposal writing and syndicating for jobs in cooperative development projects. There is also concern that long term support of a cooperative without any exit plans has increased governance problems. According to one of the donor representatives, leaders are not willing

to relinquish their roles at the expense of comforts like 4x4 wheeled vehicles, transport allowance, and relatively sizeable salaries.

*“We have had scenarios where board members that have not impressed members during their tenure deploy delaying tactics like sending invitations late or to wrong addresses or only call the most recent members to the cooperatives who have no history of their performance. Eventually, during the AGM, the new members automatically elect the old guards”*

*A representative from a donor agency.*

There are also challenges between boards and management where the latter has an upper hand in proposal writing or introducing donors to the institution. In the rural settings where most members are farmers and have not had exposure, the donors have had to recruit persons with the capacity to run the projects. This gives the staff a form of superiority that sometimes overrides the supremacy of the AGM and the committees.

In the aftermath of the 2006 elections, the government through the LC3s, DCOs and CAOs lured the constituencies to form cooperatives at sub-county level with the supposed aim of “increasing financial inclusion.” Just like the mirage of spontaneous cheques issued by the president’s office in recent times, some of the cooperatives which were formed at the time received money from the politicians while some did not receive anything and therefore remained in the registry or collapsed after the “gift” was divided amongst the “brokers”<sup>63</sup>.

This research has established that most teachers have a *laissez faire* attitude towards paying back the money they borrowed from the teachers’ fund being run by the national teachers’ union, Walimu. The union worries that if this trend continues it may fail to achieve the growth and self-sustenance projections it has in place. Therefore, the foundation upon which the cooperatives are built needs to be protected and the time is now for the cooperatives that have had aided establishment and growth to be independent or perish.

## • High borrowing rates in the absence of a local cooperative bank

### Cooperative Banking: what next?

The absence of the cooperative bank is sighted as one of the industry’s most significant financing challenges. Cooperators reminisce the low-interest rates and the pride the defunct cooperative bank gave them. Their desire for a new cooperative bank is so profound; that 99.8% of the cooperators interviewed expressed their interest in a new bank. They see a new cooperative bank as an opportunity to have reduced credit interest, local content, and building reserves amongst others. However, what is worrying is the way most cooperatives see the bank as a government project and not a challenge for the cooperators.



*Photo adopted from WhatsApp posts*

Most of the money in the cooperative movement is coming from external partners. Some Pan African cooperators view donations as a tool by developed countries to keep Africa behind; just like they see presidential handouts as a mechanism to disorganize the growth path of the cooperative movement. How valid this argument is may be left to the interpretation of the concerned and the events that are yet to unfold in the movement.

***The research observed that many cooperators were asking the government to bring back their cooperative bank; they seem to have learned and forgotten nothing from the events that led to the closure of the cooperative bank.***

<sup>63</sup> ActionAid; TUI; & CBR (2013). The cooperative movement and the challenge of development: A search for alternative wealth creation and citizen vitality approaches in Uganda.



Experts recommend that a cooperative bank will be one whose members are majority owners and have a defined path on where the bank should go. Ownership gap of the cooperative movement at the time of the bank's closure compromised the cooperators' ability to follow, guide, control and comprehend the events that occurred to the bank. To date heaps of assumptions, linger these cooperative minds breeding suspicion and blame on the government for having closed the bank deliberately. For the success of the new bank, cooperators more than anything want a copy of the liquidation report of the defunct bank so that they do not repeat the mistakes of the defunct bank.

*“It all happened so fast, one afternoon of May 1999, we heard on TV and radio that the cooperative bank had been closed; we were confused and helpless because some of us had all our monies in this bank, 19 years after, we have never been given a report on what happened to the cooperative bank assets or what remained of the sales?”*

*lamented a cooperator from Kitgum*

This research also captured some rare non-nostalgic voices,

*“Why would we need the cooperative bank when our SACCO can grow to provide all our financial needs?”*

*A cooperator from Kigezi*

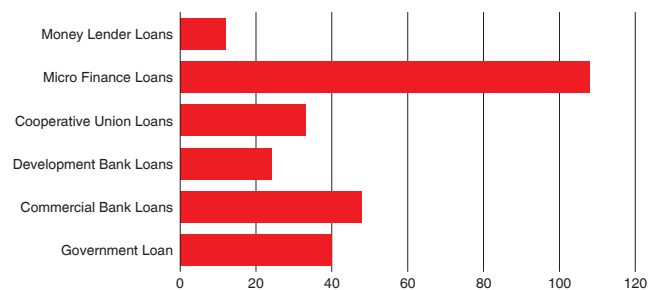
Although this is an unusual position in the cooperative movement; this voice may need to be contextualized. Could this cooperator have meant that Uganda could have several cooperative banks springing from the various SACCOs dotted across the country? If so it may be an idea the cooperative movement can explore in pursuit of financial inclusion. The defunct cooperative bank faced competition from other banks as cooperatives continued to borrow and transact with others. In fact, one of the reasons for the bank's poor performance was the banks struggle to mobilize sufficient liquidity from its many members. The commission of inquiry's<sup>64</sup> report points to shareholder apathy. This could be one of the

reasons some sections of the cooperative movement are pushing for many more cooperative banks.

### Lending rates: Who is benefiting?

As the conversation on the establishing a new cooperative bank rages, the study takes a close examination into the interest rates on the loans cooperatives are taking out as well as what the SACCOs are lending to their members. Of the SACCOs profiled only one reported their self-sufficiency, all others expressed their inability to sufficiently meet member borrowing needs. This has caused them to run to all forms of lenders including the self-styled street money lenders.

**Figure 16 Source of Loans for cooperatives**



The average equivalent borrowing rate from commercial banks is 24% per annum, administered loans like the Agricultural Credit Facility are 12%, Microfinance Support Centre 14%, and the Youth Livelihood Funds at 16% per annum. Although the administered loans have fair rates, the conditions set for most of the cooperatives are too strict that many cooperatives have given up benefiting from them while those that have tried have staked a considerable portion of their assets as collateral.

### • Internal SACCO lending rates

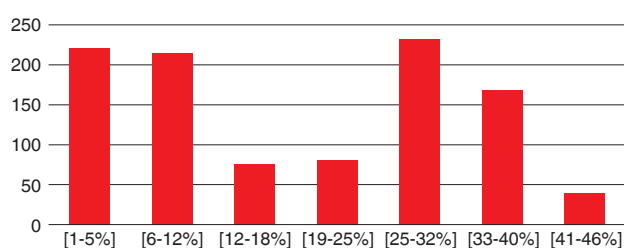
This research also found out that while cooperatives are social businesses which should not focus on profit-making 42.67% of the cooperatives were giving loans at over 25% pa while 15.2% and 41.9% were giving out at 25- 12% pa and below 12% pa respectively. Cooperatives should invest in structuring loans in a manner that supports their members; but because some lack cooperative identity, they are more profit driven and less concerned about member welfare.

It's no wonder that cooperatives declare high surplus and attract the tax body to share a portion of this. Cooperatives in Uganda should draw lessons from

64 Commission of inquiry report on the closure of the cooperative bank

the credit unions in the United States of America and Western Europe. Most of these unions lend at less than 5% pa, and this has contributed to the satisfaction of the members as well as the growth of their cooperatives who are now suffering from excess liquidity.

**Figure 17 Internal lending interest rates by cooperatives**



### • Loan Default

Across the institutional SACCOs whose members are public servants, the study established that default on internal and external loans is high resulting from delayed salary payments by the government. At the time of this research, some public servants had taken three months without receiving their payments because of the change in payment systems.

*“Our SACCO would be doing well, but every time the government changes their payment system almost all our members default, and so the checking off system is sometimes not the best. The unfortunate thing about this is that government never comes in to compensate for the delays”*

*Teacher union leader from Mukono.*

The delay in payment of civil servant salaries fronts a toxic risk because when the cooperative is unable to recover from its members; the former will be late on its payments which attract penalties and cancellation in extreme cases.

This study has also established that the teacher cooperators have the worst loan track record coupled with multiple borrowing and late repayments. The numerous transfers also cause multiple borrowing in that the members often get transferred when some of their loans are not completely repaid. Unfortunately, many SACCOs are not part of the Credit Reference Bureau, and so the loan defaulters are often not easy to track.

### • Loan structures that break!

The research established that some lenders do not understand the workings of cooperatives so they fear to engage with them or they make blunders on structuring; cooperatives have reported that some of the loan agreements require that the board members stake their personal property on behalf of the cooperative. Some of these arrangements cost members their property when the loans go bad. This arrangement is legally challengeable and runs the risk of being abused by some of the loan officers who have been reported to be self-seeking. This situation points to the urgency of legal literacy and the establishment of a new cooperative bank where cooperative solutions could be designed.

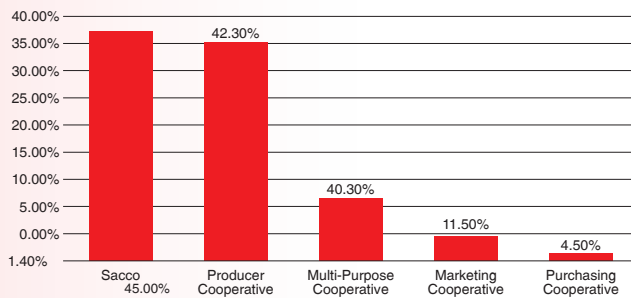
Some SACCOs are unhappy with the Microfinance Support Centre because of their model of lending. This research has established that where the cooperative cannot borrow, MSC uses the cooperative structure to lend directly to their members, however, in the process, the SACCO loses business. MSC may have to find agency models that allow for the cooperative to benefit from such arrangements and with time have an exit plan when the cooperatives' business capacity has been bolstered.

## 4.5 Membership Activity, are cooperatives at crossroads?

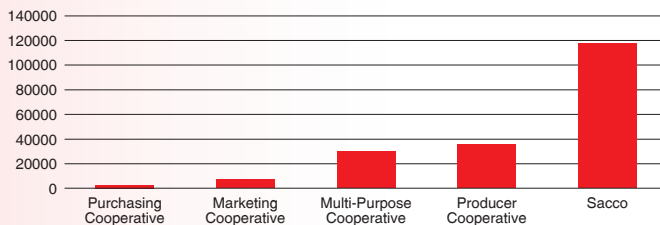
According to this research, the general business mood in cooperatives is murky, with a few strong cooperatives doing their best amidst various hurdles and a vast majority indulged in what resembles a business. 25% of the cooperatives profiled were dormant due to multiple reasons including the death of members, poor leadership, waiting for the “Godfathers<sup>65</sup>” to finance and give direction and low membership participation and interest. Of the 363 dormant cooperatives discovered, SACCOs and producer cooperatives took the lead; the likelihood that the picture depicted by the 1449 cooperatives profiled has a resemblance with the national one is high, perhaps the status quo will get more evident when the second phase is complete.

<sup>65</sup> Government and development partners



**Figure 18: Membership Activity**

The issue of dormancy of owners is one that should not be ignored as membership patronage is the cornerstone of every cooperative. Cooperatives should individually find out what is causing this somewhat derailing pattern.

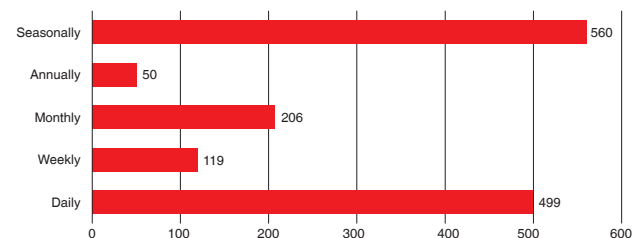
**Figure 19 Dormant Membership By Cooperative Type**

This research reveals that SACCOs have the most dormant members followed by the producer and multipurpose cooperatives; this trend could be explained by the stiff competition from commercial banks as well as the market provided by private commodities buyers that have rendered these cooperatives less attractive. Cooperatives must be conscious of the demands of the market and run their businesses in a people-centric manner.

The frequent transfers of teachers, medical personnel, and other public servants have been reported as the other reason for dormancy in many SACCOs; many cooperatives established within these facilities have high member turnover. Each time a person gets transferred they ask for all their money. When a member of a cooperative is not settled, common bond seizes because such a member is always ready to pack their bags and start a new life elsewhere. While the Cooperative Societies Act Cap 112 (1991) discourages belonging to many cooperatives, many public servants belong to a number of cooperatives a majority of whose membership is dormant.

***“No person shall be a member of more than one registered society with unlimited liability, and except with the written consent of the registrar, no person shall be a member of more than one registered society having the same or similar objects”<sup>66</sup>***

This research also examined the frequency with which cooperatives do business and discovered that only 30% conduct business daily, 14% monthly, 8% weekly and 38% seasonally.

**Figure 20 Frequency of sales by cooperatives**

Amidst the various value chains the cooperatives are engaged in it is arguable that businesses may not trade daily. However, it is vital that cooperatives consider manufacturing so that during the off pick seasons they continue with business.

This in many ways will keep the members busy enough not to think of being anywhere else. The cooperatives further need to examine the member retention strategies they have in place. This study has established that many cooperatives do not value members; in some respects, they have been equated to providers of raw materials. One of those strategies would be rewarding patronage; in Italy, Kenya, Canada, and Netherlands surplus is distributed on the basis of how much a member uses their cooperative and less on the amount of capital that they have invested. This mechanism deals with the excesses of the shareholder syndrome.

## 4.6 Cooperative nostalgia for protectionism and monopoly in key sectors

One of the pleas the cooperators have made to government is a degree of protection. The agriculture producing and marketing cooperatives are concerned that the market in its free fall capitalist nature will not deliver equitable growth for the country. Cooperators have compared Uganda to countries like the United States of America and Kenya and have argued that the farmers there have ring-fenced markets for what is locally produced while the government has secured the “matatu” businesses for cooperatives respectively.

*“In neighboring Kenya, the passenger transport has been allocated to cooperatives why not here, we farmers go through several risks that need to be cushioned through assured markets and a price stabilization mechanism.”*

*Cooperator- Kamuli*

Arguments for cooperative monopoly are:

- 1) The ease with which to mobilize capital and erect physical capital structures like stores and manufacturing equipment
- 2) Reduction in the duplication of overheads as management is controlled by the farmer
- 3) Stronger bargaining power
- 4) Ease in quality control
- 5) profits are returned to the primary producer either as final payments or bonus
- 6) Ease with training and educating masses.

The cooperators have started a meaningful conversation that should move to the national decision-making platform; Uganda’s speedy transformation may benefit more from a social market economy, and this means that government will have to increase its share of investment and in a way indulge in public-private partnerships with cooperatives who may pool resources to fasten their growth.

## 4.7 Cooperative Trade: Are the fundamental drivers in check?

Cooperatives continue to play an instrumental role in contributing to the local and external trade share domineered by raw cash crops like cocoa, coffee, tobacco, vanilla amongst others. For them to thrive, certain trade fundamentals need to be in place. In this study, we select a few that will provide an overview of the status quo.

### • Price Stability: Will the Warehouse Receipt System Authority deliver?

In the face of untamed capitalism, cooperators are faced with substantial price fluctuations, and the private market is currently flooded with foreign middlemen that use significant monies to lure the public. Cooperators have equally fallen prey abandoning the cooperative model for quick cash. The desperation exhibited by the private buyers accentuates steep price movements for commodity products.

In light of this, the government initiated the Warehouse Receipt System Authority to bridge the gap created by the closure of the Commodity Marketing Boards. The Warehouse Receipt Systems Authority was established and is now working in partnership with the Uganda Commodity Exchange to prepare the trading floors that will see the trading commence.

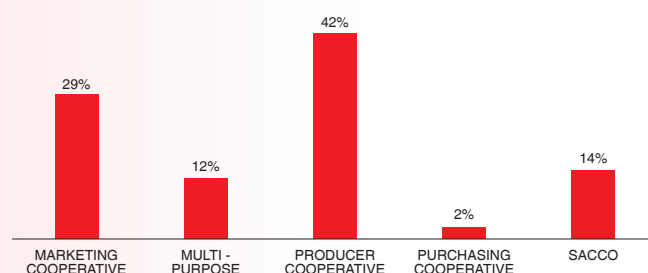
According to some cooperators, there is fear of too much interference by government in private businesses. It has taken the staff of UW RSA several months of training and convincing to onboard the first clients onto the system. Some cooperatives that have stores have also been approached and trained and are making preparations to join. However, this research has established that the concept of warehouse receipting is alien to cooperatives and it will take government a lot of investment in training, ICT development and standardization for the cooperatives to fully benefit.

### • Value Addition

In the broader context, all cooperatives both in product and service provision should invest in value addition because everyone is looking for customer-centric solutions that motivate one to return. The UW RSA may not be the cooperatives’ silver bullet to price stability, rather an investment in value addition will create a large multiplier effect including the

improvement of post-harvest handling mechanisms, value chain specialization; accelerating the growth of industry, manufacturing, and employment; promote standardization; price increment and stabilization; increasing local content and leveraging Uganda's balance of payment position which has of late posted deficits sending the shilling towards the UGX 4000 mark.

**Figure 21 Value Addition**

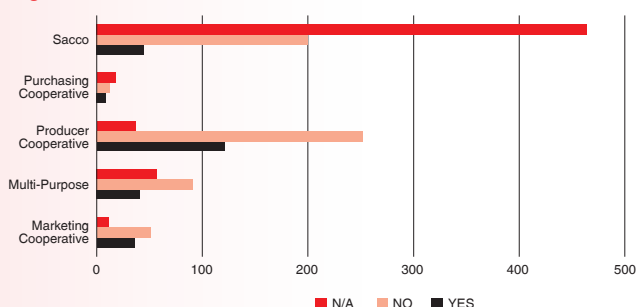


At every level of value addition, there is a set of people and skills required, and this would relieve the market of the many unemployed youths. According to this research 14% of the cooperatives add value while 84% do not. Of the different types of cooperatives, producer and marketing cooperatives take the lead followed by the rest. The financial cooperatives appear to lag behind; yet the few that are adding value by offering extra services like training, the invitation of members to meetings organized by other stakeholders at no additional fee are reaping out of creativity.

## Standardization

The demands for quality standards from the final consumers, Warehouse Receipt Systems Authority, Fair Trade and other organized buyers have prompted cooperatives to be mindful of product standards. A majority of cooperatives still lag behind; it is noteworthy that the financial cooperatives have not paid attention to standardization at all.

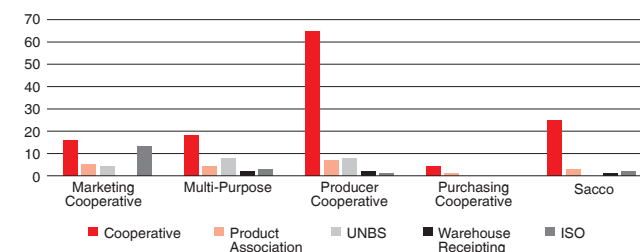
**Figure 22 Product Standardization**



In other markets like Kenya SACCOs like Police and Mwalimu are ISO certified and yet most of the SACCOs profiled mentioned that they didn't see how standardization applied to their businesses. The agricultural producer and marketing cooperatives, on the other hand, were found to be keener because of the nature of their products.

Of the 1449 cooperatives profiled only 252 cooperatives had standardized products. Of these 121(48%) are producer cooperatives and 86 (34%) marketing cooperatives respectively trailed by SACCOs at 17.9%. For agricultural cooperatives, substandard inputs and inferior quality products emerged as critical challenges affecting agricultural cooperatives. Members of financial cooperatives equally complained of poor services presented in the form of limited communication, high-interest rates, and late payments. The cooperators also questioned the methodology OWC was using in ensuring that the products they supplied the population met the standard. This brings upfront the reality that standardization is a prerequisite for all business types and stakeholders.

**Figure 23 Standardization**



This research has established that the realities of the market have tamed the cooperatives towards self-standardizing mainly amongst producer cooperatives. UNBS comes second after self-standardizing probably because the acquisition of their quality mark is still voluntary. Value Chain authorities and associations like the Dairy and Coffee Development Authorities come third to bridge the vast standards gap. The warehouse receipt system and ISO were notably making inroads within the producer and financial cooperatives respectively. From the key informants, the services emerged as least standardized epitomized by quack accounting, audit, banking, veterinary, training services offered by non-certified professionals with little or no recourse whatsoever.

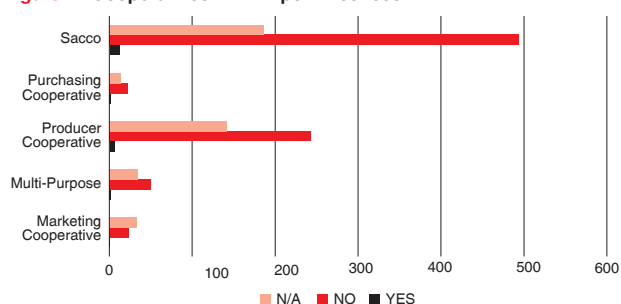
The emphasis of standards requirements and social audits in the proposed cooperative societies

amendment bill 2014 and the Tier 4 Microfinance & Money Lenders Act, 2016 as well as plans by Uganda National Bureau of Standards to make standardization a statutory requirement may bring sanity into the market. More so the continuous demand by the market for quality products will force cooperatives and their suppliers to step up their game towards quality standards. Wherever the pressure comes from, cooperatives should lead in self-standardizing by complying with the most basic quality standards.

### Export licensing

According to this research, only 23 cooperatives had export licenses representing 3.3% of 703 which expressed interest in licensing. Some of the challenges affecting their attempt at licensing include; substandard products, high quotas yet low quantities, the lengthy processes and limited knowledge and skill in international trade arrangements.

**Figure 24 Cooperatives with Export Licences**



The graphics impression above may send mixed signals on why SACCOs still emerge the bearers of the most licenses, and the answer lies in the fact that several SACCOs in the Rwenzori and Kigezi regions are engaged in agricultural production and marketing reasons for which have already been explained in previous sections of this report. Their border locations enable them to transact between Uganda and Rwanda hence their keenness on meeting export requirements.

The Warehouse Receipt Systems Authority and the Uganda Commodity Exchange could reduce some of the barriers to accessing export licenses. Nonetheless, the latter need to look into competition from markets like Fairtrade that have been working directly with the cooperatives for a while now. The incentives given by such buyers may hang the receipt system in the balance as many cooperatives are satisfied with the social impact approach by

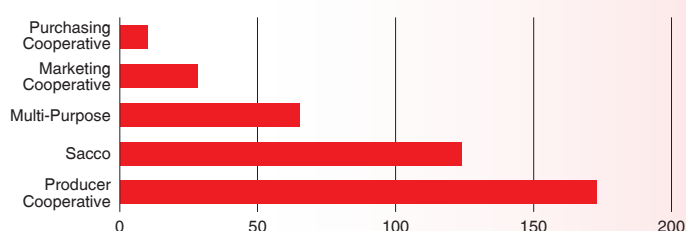
Fairtrade and yet the pure commodity markets may not tailor their premiums to some of the social needs of the cooperators.

## 4.8 Land ownership, usage, grabbing

One of the reasons people cooperate is to share resources including but not limited to land, storage, processing equipment, etc. Today many cooperatives are grappling with the lack of or poor condition of these facilities. The study observed that several cooperatives in North and Eastern Uganda have vast land that is not fully utilized but was not able to establish the total size of the land because some of the data sets received were not backed with evidence. The producer cooperatives reported the most land compared to the rest; land under SACCO possession is mostly for individual members though some SACCOs have had challenges with the management of the land as the money that was used for the purchase in many cases is not rationed according to investment standards.

Albeit the study established that 64% (400) of the 600 cooperatives with land had titles and 36% did not have titles.

**Figure 25 Cooperatives with Land titles**



Land for commercial use is continuously being threatened by the growing population and a mixed ownership regime. Scores of cooperatives also reported land grabbing by persons that are connected to the state.

*“The strategy has been to have hired squatters to use one’s land, and after some time it becomes difficult for the cooperative to compensate all these people. The long court procedures have put a strain on the cooperative’s*



*resources. “After the NRA had just come to power, I received unknown visitors who demanded that I hand over the land title of the cooperative, when I tried to resist my life was threatened, and so I feared and gave in, am still scared that they will one day come back for me”*

*A cooperator from Kigezi*

While experts argue that cooperation in land usage will accelerate agricultural growth, hardly any practical steps have yet been taken as several society members are farming on their fragmented lands. The old unions that have preserved their land can cultivate jointly and also lease out some of the farmland to the public. Cooperative farming on land is a possibility if communities adopt drastic changes in existing practices and norms around land use and ownership. In Uganda, the murkiness in the land law and the experience of land grabbing has caused suspicion amongst the public, and this has affected cooperatives a great deal. The promotion of land leasing amongst the communities with community land could enhance the availability of land for farming.

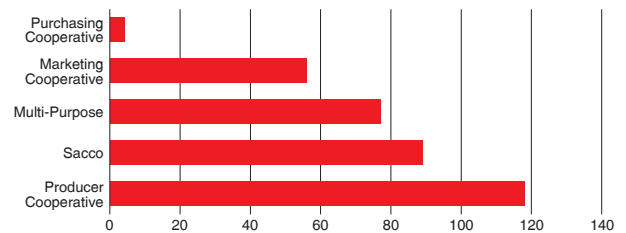
## 4.9 Business Infrastructure

### Stores

Cooperative agricultural marketing in Uganda has a big potential because of the market’s unmet demand for her organic products, cognizant of this, and the government introduced the Warehouse Receipt Systems Authority as a mechanism to improve marketing and stabilize commodity prices. For the UWRS to work, there is a need for secure and moisture controlled stores, yet colossal challenges lie in having them in place or revamping the old ones to meet the expected standards.

This research indicates a gap in storage with only 334 (22.8%) of the 1449 cooperatives having stores. Many stores were vandalized and destroyed by the wars while others are constructed with old materials that can not support the quality requirements of the receipt system.

**Figure 26 Cooperatives with stores**



With financing options like the Agricultural Credit Facility, cooperatives still have a chance to revamp their stores on their own, or they could engage in PPPs as they earn some money and time to be fully operational on their own. Additionally, some of the funds that the government has recently been seen dishing out to nonexistent cooperatives could be placed in a Cooperative Development Fund and provided at zero interest for infrastructural development.

### Transport Infrastructure

For any development agenda to be realized, investment in robust transport infrastructure is critical; cooperative’s like many businesses have voiced their desire for a seamless transport system that bolsters their business stability and growth. This research sought to establish the average cost of transport to the nearest market; however, the data obtained is largely incoherent and unable to provide an accurate picture. Nonetheless, the information from key informants and secondary points to the unmet met goods and passenger transport needs for the cooperatives. The poor state of the roads in remote mountainous places like Bukwo, Bugisu, Kanungu as well as these in swampy ears like Budaka, Amolatar, Teso has born considerable costs to the cooperatives in these regions.

Fortunately, the government has embarked on large transport infrastructural development projects in response to these challenges.

*“A 40ft container costs US\$ 3500 from Mombasa to Kampala by road compared to USD 1500 by rail when the standard gauge railway is ready and will only take one day. A similar container on the Peking(Beijing)-Shanghai railway line would cost USD 1500 for transport. That is why we are working for the standard gauge railway. It is to lower the cost of doing*

*business in our economy so that we attract businesses-*

*H.E Yoweri Museveni<sup>67</sup>.*

Uganda's 2017/18 budget allocated (20.8%) 4.587 trillion<sup>68</sup> of the budget towards works and transport to finance works on the standard gauge railway, upgrades of bitumen on several road tracks, refurbish and increase water transport services for inland use and upgrade the Entebbe International Airport's capacity to accommodate bigger business. Notwithstanding these investments, cooperators are concerned that some of the roads that were recently constructed are already falling apart like the Mbale-Tirinyi Road as well as many of the murum roads in parts of Karamoja, Teso, and Lango that have been washed away by floods. Some of the ferries have also broken down after only a few weeks of operation. The Zengebe-Namasale's second ferry has been breaking down intermittently leaving the cooperatives in the region with limitations.

*“The second ferry that has not even worked for one year has been such a disappointment, and it has failed twice in the middle of the lake. I worry about my safety and that of our fish”*

*Key Informant Amolatar*

While the cooperatives wait for the transport projects to be completed, it will be an investment waste if they do not increase their levels of productivity and product quality. Road transport and market without the right quantities and quality is a total mismatch. Whereas Uganda's Public debt as a ratio of GDP was reported at 28.1% by December 2017 lower than the PDMF benchmark of 50 percent, after including committed but undisbursed loans, the ratio of total public debt to GDP is closer to the threshold<sup>69</sup>. With this state of the economy Cooperatives will have to work extraordinarily smart to increase their contribution to GDP and tax revenues so that the return on investments in works and transport are realized.

<sup>67</sup> <http://www.sgr.go.ug/>

<sup>68</sup> MoFPED. Uganda's National Budget F/Y 2017/18

<sup>69</sup> Bank of Uganda. State of the economy report March 2018

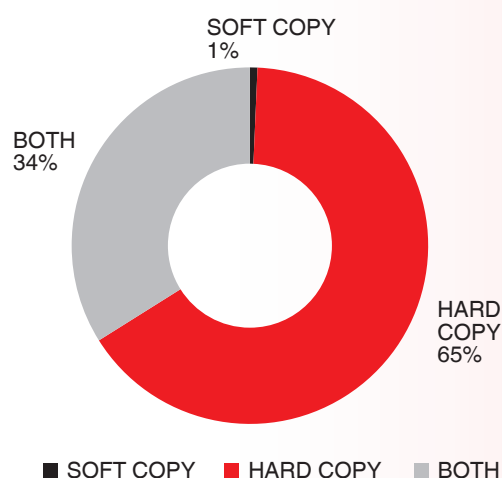
## 4.10 Cooperative Business Development

Planning and organizing a cooperative business is vital for its long-term success. Unfortunately, many cooperatives like the other companies in Uganda have not given attention to these aspects. The latter is partly what explains the mortality rates amidst high business births. This research has examined record keeping, ICT use and management, business planning and policy development aspects of cooperatives

### • Record keeping & ICT systems.

Cooperative businesses should invest in documenting their life journeys to provide primary data for planning, monitoring, and evaluation. However, the situation of records keeping and management in Ugandan cooperatives needs to improve considerably. According to this research, 41.2% of the cooperatives we profiled did not keep records. Of the 58.8% who keep records only 25% have computers translating to a small number of cooperatives with the ability to keep records in hard and soft copies. Notable is that the culture of electronic record keeping is most prevalent in the financial sector with the other sectors trailing. The research also observed that only a few cooperatives practice data disintegration and this is one of the weaknesses in some of the data sets that this research has had to analyze.

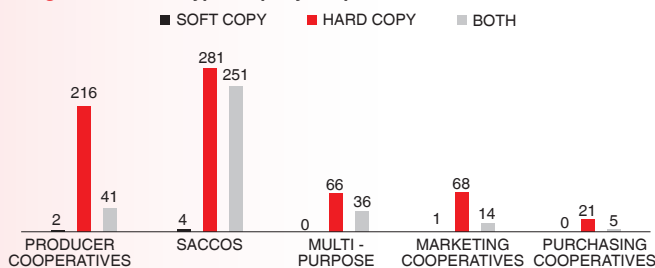
Figure 27 Type of records held by cooperatives



The other cooperative types keep mainly hard copies but also in very sorry states. Even those cooperatives with computers are faced with limited skills for hardware and software use. Moreover, the

penetration of software used in the cooperative movement is also dismal increasing the complexities of data capture, analysis, and reporting. This research reports that on 277 of the cooperatives profiled had accounting software domineered by SACCOs at 63.5%, Multipurpose at 15.5%, producer at 13.7%, marketing at 4.7% trailed by producer cooperatives at 2.5%. This trend is explained by the fact that SACCOs undergo stricter prudential reporting requirements that often require them to be more organized compared to their peers. Although a few cooperatives have accounting software, most expressed frustration that much of this software is expensive and often breaks down increasing the maintenance costs. Other than accounting there are efforts towards developing more integrated software that can be customized to the clients' need.

**Figure 28 Record types kept by cooperatives**



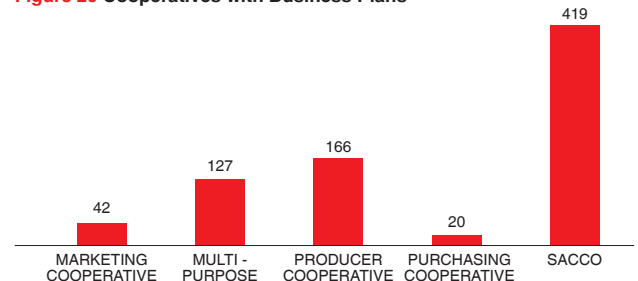
The cooperative MIS related software applications available in the market include Payment solutions, Savings plus, Musoni, Loan Performer, Ensibuuko, Luboremus, and Splendor amongst others. Investments have been made in software for financial cooperatives and less on those that integrate the solutions for other cooperatives types. A few software like Splendor and MUISS have been developed to meet broader needs beyond finance. MUISS is a project initiative run under the consortium market led user owned ICT 4AG information Service project implemented under a consortium of CTA, Green Revolution in Africa, aWhere, EAFF, Earth Environment Movement, eLeaf Competence Centre and Mercy Corps Uganda. The software provides market, agronomic and financial information to farmers. After the projects end in 2018, UCA and UNFFE are expected to own it and serve their members adequately.

#### • Business planning:

This research reveals that 53% of cooperatives have business plans while 47% do not; of those with business plans, 54% are SACCOs, 21% producer

cooperatives, 15.4% multipurpose cooperatives, 5.6% marketing cooperatives trailed by purchasing cooperatives at 2.6%. This trend is explained by three factors, for the SACCOs, business plans are one of the requirements for borrowing. The low number of business plans with the marketing and purchasing plans is brought about by the informal way some of these cooperatives run their business. Usually, they are driven by short-term revenue needs and less the long-term business prospects, no wonder some of these cooperatives change their products depending on demand and season.

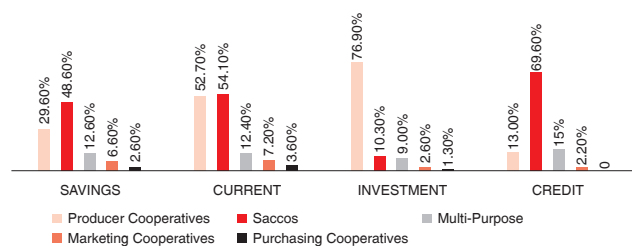
**Figure 29 Cooperatives with Business Plans**



The study further shows that in cooperatives where plans exist membership participation in formulating these plans is somewhat wanting with 17.7% of the cooperatives having their members' full participation, 32.4% having some basic involvement and 49.9% of the cooperatives not involving their members at all.

There was a tendency for the young societies to embark on premature ill-defined business aspirations which assumed prominent places in the objective of the society championed by the promoters and committee members who mainly came from the wealthier and better-educated sections of the community. Members participation in the business planning process will need to be increased to boost member patronage and efficiency in decision making.

In examining Organizational Development in cooperatives, the study observed what bank account types the latter have; we assumed the existence of a correlation between financial planning and the choice of bank accounts bearing in mind costs and return on investment.

**Figure 30** Bank account types by cooperative type

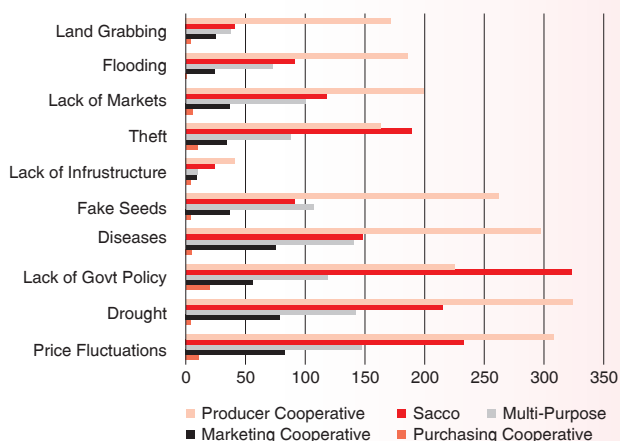
The study reveals that 64% of the cooperatives held savings, 28 currents, 5% investment and 3% credit accounts respectively. This account structure mirrors the possibility of higher bank charges depending on the frequency of savings account use. A busy cooperative society would have the current account as the critical account to manage transaction costs. This kind of scenario points to the need for financial literacy and financial management training for cooperatives. Training in these disciplines can be embedded within a bigger business development support framework.

## 4.11 Cooperative Risk Management

Mutually owned businesses like cooperatives often have a multiplicity of functions ranging from membership and business data capture; inventory and asset management; accounting and finance; security; human resource management; procurement; governance; meetings; transport; sales and marketing; communications; and Corporate Social responsibility amongst others.

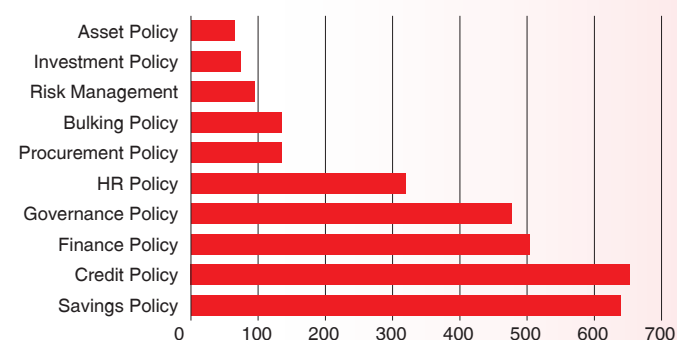
### Organizational Policies

The dynamic nature of business operations and management often requires that internal policies or guidelines are developed to direct what, who, where, when, how these functions will be executed in ways that promote organizations growth while interacting harmoniously with the external environment of clients and partners.

**Figure 31** External Risks faced by cooperatives

The absence of these guidelines catalyzes the occurrence of internal and external risks like theft, team conflict, health and safety hazards, and a bad reputation among others. This research indicates that 21.3% of the 45 with policies had all the ten policies that were asked about; SACCOs emerged with the most policies, followed by marketing and producer cooperatives. This further indicates that the stringency in borrowing requirements and the sensitivity of financial services is a push factor for having internal policies.

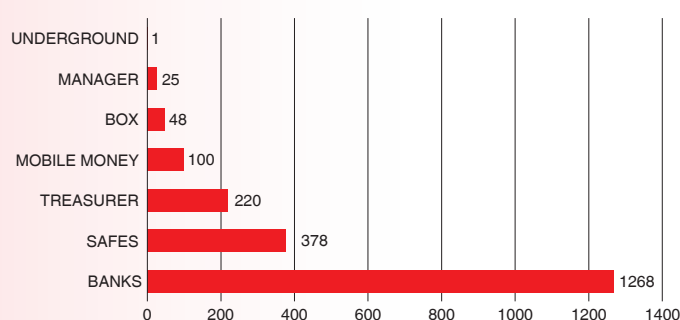
It is noticeable that asset management, risk and investment policies were the least developed for all SACCOs. This is an indicator that many cooperatives are not paying attention to these aspects yet they play fundamental roles in business stability. Therefore, cooperatives must place deliberate efforts towards having skills in asset, risk and investment management. No matter their type of business, it's crucial that the cooperatives embrace the development and use of policy guidelines as tools critical to business success.

**Figure 32** Internal policies affecting cooperatives



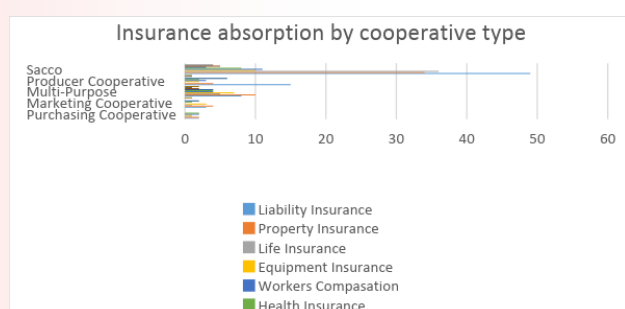
Regarding the safety of cash, it is notable that cooperatives had a fairly positive outlook with 87.5% keeping their money in banks. However, with only 26% of the cooperatives having safes, there are higher chances that money is being kept by employees and this increases the theft exposure levels in cooperatives. Generally, the lower percentage use of boxes and other persons shows that the financial literacy programmes run by GIZ, Bank of Uganda and other partners have played a critical role in shaping mindsets and decisions on money.

**Figure 33** Places where cooperatives keep their money



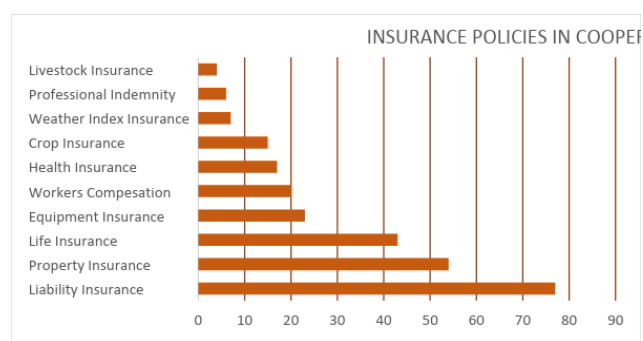
## Insurance

Another element of risk management that this study examined was insurance. Generally, insurance penetration in Uganda still stands at about 0.76 %<sup>70</sup> with mainly formal businesses and high net worth individuals being the consumers of the services.



**Figure 34** Insurance absorption by cooperative type

Like the national outlook insurance penetration in cooperatives stands at 17%, of which a majority have liability and property insurance.



**Figure 35** Insurance policies in cooperatives

This research attributes this trend to the compulsory nature of third-party insurance in vehicles and the requirements for property insurance in the case of secured loans. The opportunity in the subsidized agricultural insurance through Uganda Agricultural Insurance Scheme (UAIS) a 5 year public-private partnership that started in July 2016 between the Uganda Insurers Association, and the government of Uganda has equally been a push for insurance penetration<sup>71</sup>. Although some publicity has been done on the existence of this subsidy the lack of knowledge, low literacy levels of the farmer population in insurance, as well as myths around insurance, has undermined its fast uptake. Like Bank of Uganda and the Capital Markets Authority that have embarked on national literacy campaigns, the Insurance Regulatory Authority will have to follow suit so that the potential insurance consumers are equipped with sufficient knowledge on the subject.

## Audit

Audit is one of the statutory functions that must be performed annually by cooperatives; its non performance is cited in the Cooperative Societies Act Cap 112 (1991) as an indicator of poor leadership and is cause for the registrar to call for the election of a new committee that can carry out this function; section 22(7) of the cooperative act, states

***“Where a registered society fails to cause its accounts to be audited in accordance with subsections 1,2, & 5, the committee of that society shall be deemed to have relinquished its office; and the registrar shall convene a special general meeting to elect a new***

70 <http://uia.co.ug/overview-of-the-insurance-industry-august-2017>

71 <http://aic.ug/uganda-agriculture-insurance-scheme/>

***committee unless the registrar is satisfied that the failure was due to circumstances beyond the committees control”***

On a positive note, this research found out 72% of the cooperatives are performing audits in line with the requirement in Section 22 (1) of Cap 112<sup>72</sup> which states;

***“Every registered society shall cause its accounts to be audited at least once in every year by an auditor appointed by the annual general meeting and approved by the registrar, and the society shall bear the cost of the audit; except for that-(a) no auditor chosen by a registered society to audit its books shall perform that function for more than 3 annual audits in succession unless authorized by the registrar, (b) where the registered society is unable to appoint its auditors, the registrar may appoint the auditors”***

While this is a positive trend, this study has established discrediting evidence on the misconduct and disqualification of some of the auditors.

### **The DCO: The Alpha and Omega?**

This study indicates that the District Commercial Officers comprise 79% of the external auditors while qualified audit firms trail at 21%. The dominant position of the DCOs is hardly ideal due to the questionable level of accounting qualification, knowledge, the experience of a majority. Experts have cast doubt on legitimacy and integrity of the audits done by DCOs as many are not certified accountants and are therefore contravening the provisions of Section 23 of the Cap 122<sup>73</sup> which states that;

***“No person, not being a registrar or deputy or assistant registrar of cooperative societies as defined in section 2, shall be appointed or approved as an auditor for the audit***

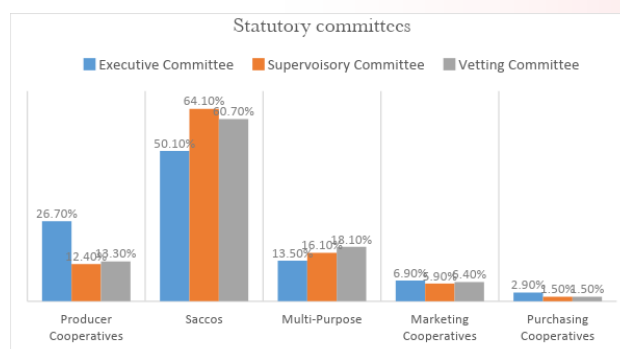
***of the accounts of a registered society unless that person, or in the case of a firm, every partner of that firm is a member of a recognized accounting body”***

Moreover, Section 35. (1) of the Accountants Act, 2013 equally states that: -

***“A person, shall not practice accountancy in Uganda without a certificate of practice issued under section 28 or 29.”***

The study established that it is highly risky for the DCO to play the audit function because they have many roles including facilitating the initial cooperative registration process, training, the accounting and auditing. The DCO is overwhelmed and easily compromised in the face of an underfunded office. In an account of several cooperatives in the districts of Kasese and Hoima DCOs were reported to be conniving with the committee to produce audit reports that only they understood. This makes it complicated for the cooperative to obtain redress because the first point of contact to the MTIC is the DCOs office.

When approached about the matter, the department of cooperatives recommended the member-based audit function as well as the reinstatement of assistant cooperative officers and full cooperative officers with accounting skills at the Village, Sub-County and District levels. With the requirement of regular reporting to the members and monitoring the implementation of the policies the supervisory committee which is the internal audit function of a cooperative would fill in the gap.



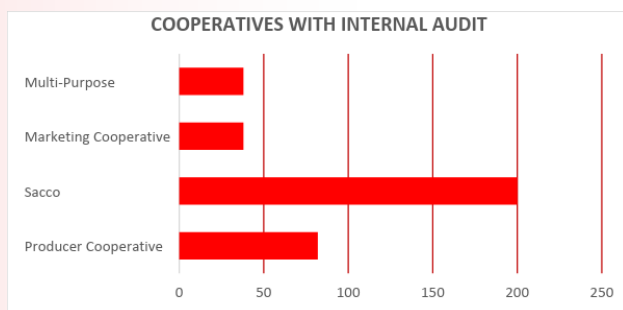
**Figure 36 Statutory Committees**

72 Cooperative Societies Act 1991 Cap 112

73 Ibid

However not many cooperatives have supervisory committees; this study reveals that of the ones profiled only 30% had supervisory committees, 52% had board committees while 19% had vetting committees. One of the established reasons for fewer cooperatives with the supervisory committees is that they are only provided for in SACCOs model bylaw sold in MTIC. This study also provides evidence that the supervisory committees have members with little or no skills in accounting, legal, human sources and business development to enable them to perform their function as corroborated by the key informants who expressed their doubt on the knowledge and skills capacities of the supervisory committees.

Regarding the internal audit function of the cooperative assistants and officers, the department of cooperatives argues from their previous experience where these officers regularly provided audit assistance to cooperatives at all levels. Despite efforts by the government to have more cooperative officers appointed to fill this gap, faster steps towards this will deliver the cooperatives from some of the unscrupulous persons.



**Figure 37** Cooperatives with internal audit

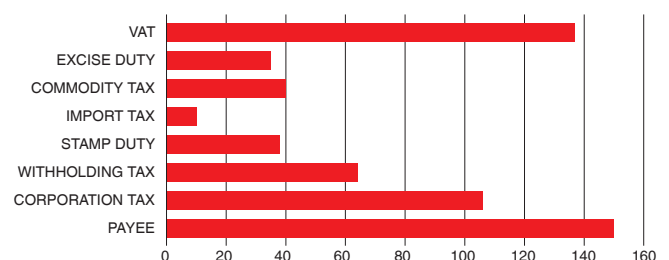
Cooperatives with comfortable revenue figures could invest in having internal auditors; this would increase accountability to the members by ensuring that members receive quarterly reports as mandated by the laws. This study indicates that 24.5% of the cooperatives profiled had internal auditors with SACCOs leading at 50%, producers at 31% followed by marketing at 11 and producers at 8% respectively. Although the chart above portrays SACCOs as having the most internal auditors, the best outlook would be if all cooperatives invested in internal audits.

## Taxation

For their accentuated role in socio-economic development, cooperatives are expected to be

an infrastructure through which government can reach out to citizens and businesses of all manner. Statistics indicate that Uganda's tax to GDP ratio was 12% by the end of the financial year 2016/17<sup>74</sup> lower than the 16% average ratio for East Africa. Due to some of the challenges experienced at the national level, the number of cooperatives paying taxes is equally small. This research reveals that 28% of the cooperative pay taxes. Of the taxes paid, PAYE tops the ranks followed by VAT; corporation and withholding tax come in third and fourth respectively. While the amount of PAYE increases every year, experts worry that the actual incomes earned by the taxpayers are too small to make substantial contributions to growing the tax base. Similarly, the PAYE amounts in cooperatives may increase if these organizations grow their revenue base enough to provide salaried jobs to their members and the public. More cooperatives are also paying input VAT because of its indirect nature, yet many cooperatives are not well positioned to generate turnovers that enable them to benefit from output VAT.

**Figure 38** Taxes paid by cooperatives



Cooperatives are losing out in many ways as about 72% are not conscious of their tax obligation and are not sure whether they are being taxed or not yet with indirect taxes like excise and VAT no person or business is spared for as long as there is consumption if these taxable goods.

Of the various cooperative types, SACCOs are seen to be paying the most tax, followed by the multipurpose and producer cooperatives. This finding corroborates with indications that SACCOs operate their businesses on a daily basis increasing the chance for tax application compared to their producer and marketing counterparts who often depend on the weather. It is no wonder that the SACCO cooperative fraternity was awarded a 10-year tax holiday<sup>75</sup> during which period government expects them to embark on expansion work, using their tax savings.

<sup>74</sup> UBOS statistical abstract 2017. Op.cit

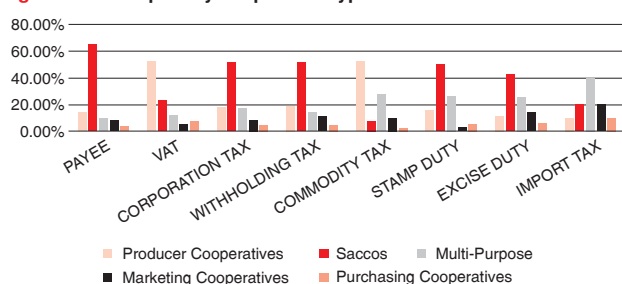
<sup>75</sup> MoFPED (2017). National Budget of the Republic of Uganda for the FY 2017/18

Notably, other cooperatives view the 10-year SACCO tax holiday as discriminatory and urge the government to consider a blanket holiday for the entire sector. The agricultural cooperatives argue that the risks involved in their business warrant an open architecture tax regime that subsidizes their business risks, yet the government seems to be caught between rocks following its poor tax performance. Uganda could borrow some strategies from Kenya where cooperatives are zero rated on withholding tax and some of them that occupy different market positions in the various sectors qualify for tax exemptions based on the industry incentives and their contribution to GDP and Rwanda, where cooperatives benefit from tax incentives based on their contribution to employment and national development.<sup>76</sup>

are ironically declaring significant surpluses to the tax man yearly yet their focus as social businesses should be serving the members.

Cooperatives in Uganda are looking towards an equitable tax regime; they have sited unguided yet selective tax holiday awards to businesses owned by foreign individuals as a discouraging approach since many cooperatives that have the potential to undertake similar enterprises have not benefited from such incentive. The question for the cooperators is whether not the foreign investor may have mastered the art of negotiating their positions with the investment authority and that cooperatives have similar chances to strategically bid for similar incentives?

**Figure 39 Taxes paid by cooperative types**



A breakthrough for a cooperative special tax regime may arrive faster if cooperatives invest in social impact ventures that uplift the rural poor. In the meantime, tax planning and management amongst cooperatives is an immediate factor. This research has established that many cooperators and employees from a few cooperatives complain of little and poor services from their cooperatives which

76 PWC (2015). A guide to taxation in Rwanda; 2015 tax facts and figures. Rwanda



# CHAPTER 5: THE KNOWLEDGE STATUS OF COOPERATIVES IN UGANDA

Knowledge is by definition:

***“facts, information, and skills acquired through experience or education; the theoretical or practical understanding of a subject”<sup>77</sup>.***

This chapter elaborates on the extent to which cooperatives profiled had facts, information, and skills in advancing the cooperative movement ideals. This section assesses research and the availability of documentation on the sector; literacy levels of members and utility of college and non-college training of members and staff of cooperatives and knowledge on principles of cooperatives, the law and business management as well as professional and soft skills required to drive the cooperative movement.

***“Education was and remains the lifeblood of all co-operatives. It is a driver of co-operative development, and is important across all areas of co-operation.”<sup>78</sup>***

The value of cooperative education cannot be underestimated as it plays a prominent role in the development of the sector. Education must provide avenues for cooperative members to learn about co-operative identity and values and equally offer industry knowledge to make their businesses competitive. Cooperative education must also be packaged in a way that furthers their rights and responsibilities including their need to exercise their democratic rights. Educated members can share vision and aspirations for the success of their co-operative ensure that leaders and managers have the

necessary skills to carry out their responsibilities.<sup>79</sup> Member education produces an active and informed membership.

Cooperative education is linked with building good governance systems, yet good governance in cooperatives is equally dependent on active and well-informed membership. Thus, it is critical that elected representatives are equipped with the skills, knowledge, and understanding to enable them to make decisions in fulfillment of the long-term interests of the co-operative and its members<sup>80</sup>.

Cooperative education and training programmes provide opportunities to enable managers and employees in cooperative organizations to understand the distinct nature of the organization and the needs of their members. Cooperatives from the public and private sector require induction training that covers the specific nature of co-operatives and their values.<sup>81</sup>

## 5.1 The role of non- scholastic programmes in cooperatives education.

Like any business, cooperatives require an informed membership equipped with the right skills to drive its business. Section 3(1) of the EAC Cooperative Societies bill, 2014 also compels cooperatives to develop the social and economic culture of the cooperative members, through education and training. The Uganda National Cooperative Policy 2011<sup>82</sup> equally attributes lack of knowledge of members on the fundamentals of cooperatives as the reason for low patronage and weak accountability. In fact, section 49(1) of cooperative societies act 1991 states that;

77 <https://www.google.com/search?rct=j&q=Definition%20of%20Knowledge> accessed on 24th May 2018 at 12:09 pm

78 <http://www.open.edu/openlearncreate/mod/oucontent/view.php?id=51738&printable=1> accessed on 18th May 2018

79 Ibid

80 Ibid

81 Ibid

82 Ministry of Trade, Industry, and Cooperatives. National Cooperative Policy (2011).

***“There shall be a national Cooperative Education Fund to which every registered society shall contribute 1% per year of its turnover.”***

Whereas pronouncements have been made on the importance of members’ education, many have not been keen on actualizing it, no wonder only 20% of the cooperatives profiled were keeping the education reserve. This research corroborates that lack of cooperative education and knowledge is indeed the root of most of the problems that cooperatives are facing today.

*“Some of the delegates elected in the board of our cooperative belong to cooperatives that are not fully paid-up members; we are waiting for the registrar to help us deal with this connivance between management and the elected board”*

*Cooperative member Arua*

From the narration above, it is clear that many members join cooperatives without understanding their rights and obligations because cooperatives are not being deliberate about it, sometimes the lack of effort is a design frame by some leaders who are most comfortable with ignorant members.

Until recently when Profira, provided money for the training of Cooperative and District Commercial Officers, cooperative education was only an added advantage for recruitment into the job yet before 1998, cooperative officers were hired after they had been trained at the department headquarters but subsequently got refresher courses on a regular basis. New assistants underwent a mentorship within the department through being attached to more experienced colleagues.

### **Are the various non-scholastic initiatives in sync with cooperative needs?**

Until the 1980s, governments investment in cooperative capacity building was not donor-supported, in the absence of formal cooperative colleges in East Africa, training for department staff took place within their office premises, and for

the cooperative employees at the provincial Rural Welfare Centre Bukalasa, the Public Relations and Social Welfare office in Kampala as well as Bugisu Coffee scheme in Bubulo<sup>83</sup>.

*“Non-scholastic education had been structured to cater for the everyday need of a cooperative and its members; a range of facilities like the District Farm Institutes with demonstration farms, breeding centres and training rooms; Rural Training and Information Centres in which practical lessons on cooperatives, farm practice, business, audit, health, etc. were offered; there was even a mechanization training unit in Namalere where tractors and other equipment were tested and then the users trained to ensure efficiency”*

*Key Informant Kampala*

The existence of these facilities promoted coordinated efforts between different government ministries like Agriculture, Cooperatives, and marketing as well as culture and community development.

This study observes that the governance and the subsequent liquidity challenges that emerged after the many civil strifes led to the deterioration and closure of many of these facilities. Today government has come to bridge the gap through new outfits like PIBID, UIRI, with plans to transform some of the DFIs into industrial parks.

Generally, access to non-scholastic training is ad-hoc, informal, often inconsistent and project-based; development partners have each invested large sums of money through NGOs, UCA, UCSCU and cooperatives with sizable membership with the hope that those trained would pass on the knowledge and skills of the members. Although the investment amounts are significant, industry players report that a “vaccination” approach is typical, with funders exposing as many cooperatives as possible to training. This tends to spread resources evenly, but thinly. Parceling out capacity building in small packets also begs the question of whether donors and government programs have the resources needed to build up many small institutions or would

<sup>83</sup> Kyamulesire (1998). Op.cit

be better advised to concentrate on developing fewer, stronger ones<sup>84</sup>. Some stakeholders also noted the duplication of effort and sub-optimal usage of resources among capacity-building service providers.

Notably, project training is often aligned with the objectives of the donor and not necessarily the needs of the members. For example, the 30 million-dollar Profira project under the MoFPED with support from IFAD is targeting financial inclusion and is exclusive to about 502 progressive SACCOs. The targeted co-operatives cover topics on credit and default management, financial literacy, governance, financial management, business development, and strategic planning and little on the fundamentals of cooperatives. Notwithstanding the benefits realized through Profira the auditor generals report 2016 sights low funds absorption, and by June 2016 only a two year MOU between MoFPED and the Kigumba cooperative college had been signed which in his view are standing in the way of the attainment of financial inclusion through cooperatives. The same report notes governments commitment to extend the MOU as well as fast track the sourcing of consultants for the training in the 112 districts to be completed<sup>85</sup>.

The lack of follow up mechanisms further puts these efforts to test, with many of the cooperators and leaders positioning themselves for similar training motivated by the per-diems and the allowances that come with such opportunities.

*“The problem with implementing this Profira training is that the beneficiaries are not committed to the training but more to the allowances; when you don’t promise them money they do not come”*

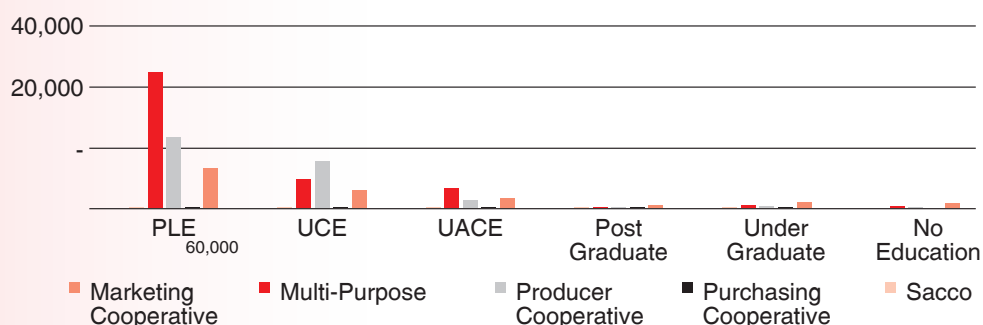
*Profira Trainer- Kampala*

Beyond the physical interactive sessions, development partners, UCA, UCSCU, and government also educate masses during AGMs and inspection visits alongside radio shows, meetings and other media engagements. FAO, EAFF, USAID projects, Caritas, GOAL, ActionAid, Mercy Corps, Oxfam, LWF, ILO amongst others have equally organized specialized value chain trainings, just like Cotton Unions organized practical gin fitters’ training to boost knowledge on cotton ginning in the days that cotton was a booming commodity.

*“The setback with these training is the limited period within which they take place such that when new cooperatives are formed, they tend not to have the same. A system that allows for passing on information needs to be designed to benefit new cooperatives”*

*Cooperator- Nebbi*

**Figure 40 Cooperators Education levels by cooperative type**



From the 242 cooperatives that had readily disintegrated data on membership education level, the study established that 49.7% were PLE, 22.4% UCE, 11.9% UACE, 3.7% Diploma, 7.2% Undergraduate and 5.1% had no formal education. With the low level of education of cooperative

<sup>84</sup> World Bank (2006). Country Level Savings Assessment. Op.cit

<sup>85</sup> Auditor Generals Office. Report of the Auditor General on the financial statements of MoFPED for the F/Y ended 30th June 2016. MoFPED

member's non-classroom type capacity building programmes would go a long way in elevating their level of knowledge and ability to make informed decisions.

This study, however, indicates that the current structure of capacity-building efforts almost exclusively targets managers and leaders yet in membership-based institutions, capacity building for managers without corresponding education for members serves to increase the "capacity distance" between the two. This makes it harder for members to monitor and hold managers accountable, rendering them susceptible to fraud and mismanagement. Even when the leaders are to use the education reserve, they tend to focus more on building their capacity by allocating all or most of the resources to themselves.

*"Our managers advise us on most of the things because he is always attending all the training that the cooperative is invited to"*

*Cooperator- Ntoroko*

Amidst scarcity, those with the opportunity to be trained are taking it for granted, according to one of the Profira trainers interviewed, the attendance of the training under the project is low and allowances only attract many of the participants who come. This is similar to the apathy exhibited between 1951- 54 when basic training schools had been set up in Busoga, Bugisu, and Bukedi. The Busoga school closed due to apathy in attendance, the one in Bukedi was closed because the physical structures collapsed while the one in Bududa attracted no participants at all<sup>86</sup>. A few development partners like TRIAS and Agriterria have addressed the challenge of member lack of seriousness by providing customized capacity building programmes based on the cooperatives needs with notable successes. This has promoted value for resources as the cooperatives are evaluated for progress. Other capacity builders could replicate this model to improve value in the investment.

### Exchange visits & consultative meetings

Exchange visits and consultative meetings were reported as the preferred methods of short-term co-operative education. To the beneficiaries, exchange visits and consultative meetings appeared

most preferred because they imparted practical cooperative learning and that exposed the co-operators to knowledge and skills vital for the management and board members of the targeted cooperatives.

## 5.2 The state of cooperative academic education in Uganda

While the government of Uganda is mandated to ensure that training in all respects is relevant, impactful and continuous, cooperative education is equally the responsibility of the cooperatives. As we examine the status of formal Cooperative education, we shall feature the role of government and cooperatives alike.

### Governments' role in formal cooperative education

There are remarkable changes in government aided cooperative education compared to what it was in the past. In 1946 the colonial government started official registration of cooperatives to streamline cooperative education; it was packaged in a manner that theory met practice because at that time it was essential to reinforce propaganda and appeal more people towards the cooperative movement. It is no wonder that the old cooperators who benefited from such training are more grounded in the cooperative philosophy, culture, and values. The research observes that some of the surviving cooperatives have benefited from members and management who were well trained and grounded in the principles, values, and ethics of cooperatives and have a sense of belonging and understanding"<sup>87</sup> They also have a sense of ownership- you hear them say 'our society.'

With the establishment of the East African School of Cooperation in 1952 and the Local Government and Community Development Training Centre in Nsamizi, Entebbe in 1954, cooperative department staff, cooperative employees and members had the opportunity to get trained. The cooperative movement started taking a professional shape. With sponsorship from government, Cooperative Ministry staff benefited from scholarships for correspondence courses with the Loughborough Cooperative College in the UK, University of Nova Scotia Canada, University of Wisconsin, Madison USA and the University of New Delhi in India. Promotion within the department was closely linked to cooperative

<sup>86</sup> Kyamulesire (1998). Op.cit

<sup>87</sup> Field observation- Arua



education and training obtained from Loughborough.

Table 4 Courses offered in Uganda Cooperative Colleges Kigumba and Tororo & Others

#	Diploma	Certificate	Others
1	Diploma in Co-operative and Business Administration	Certificate in Co-operative and Business Administration	Professional Financial Cooperative management Programme <sup>1</sup> (PFCMP)
2	Diploma in SACCO & Microfinance Management	Certificate in SACCO and Microfinance Management	Leadership For Change <sup>2</sup>
3	□Diploma in Project Planning and Entrepreneurship Development	Certificate in Project Planning and Management	
		Certificate in records and information management <sup>3</sup>	
		Certificate stores management <sup>4</sup>	
		Certificate in Customs clearing and Forwarding <sup>5</sup>	

Today government still sponsors and recommends its staff for scholarships to improve on their seniority in providing services to the cooperatives.

In 1960 Nsamizi was closed because the primary cooperatives complained that their experienced staff was always away in school. But it was opened again in 1961 when the economy commission failed to find accommodation for trainees in Kampala<sup>88</sup>. In 1963 a cooperative unit was opened in Bukalasa alongside Agriculture which started issuing the intermediate Cooperative Diploma in 1965, but this was also stopped after one year in preference for the three years Uganda Diploma in Cooperation whose entry-level requirements were different, and this would reduce on the number of cooperative assistants that would be studying at the same time. In Bukalasa the college suffered from a lack of qualified teachers as well as accommodation for the students.

In 1970 the Cooperative College in Kigumba was mainly opened to train department staff with limited accommodation for only 176 students making it a necessity to preserve the other education centers in Bukalasa and other ad-hoc training centers. The college suffered a set back during the 1978-79 liberation war when it was ransacked and damaged. Nonetheless, the government has rehabilitated the college<sup>89</sup>.

*“Before 1998, cooperative education was under the Ministry of Cooperatives and Marketing, after which it was moved to the Ministry of Education and is currently under the Department of Business, Technical, Vocational Education, and Training (BTVET. Until 2012, Kigumba was the only licensed cooperative institution, but with the introduction of the Petroleum Institute within Kigumba College in 2009, government hatched plans to move the college to Tororo however when the Bunyoro Kingdom lobbied government, the cooperative college stayed in Kigumba occupying smaller space and Tororo Cooperative College which had already been set up remained a branch until 2017 when it was declared a fully fledged college with its vote from the Ministry of Education”.*

*Key Informant- Tororo.*

88 Kyamulesire A R (1988). A history of the Cooperative Movement- 1913-1988: Uganda Cooperative Alliance

89 *ibid*

Attendance to Uganda's Cooperative colleges is non-exclusive to those with cooperative interest as the courses offered are broad and accommodative of the general learning needs of the student population; a situation that differs from cooperative education when it was still under the former Ministry of Cooperatives and Marketing. It is this kind of supply-driven training that may explain the low absorption of the cooperative college graduates. According to this research only 16.9% of the cooperatives profiled considered hiring cooperative college graduates. The graduates are not favored in many cooperatives for reasons like - their qualifications being generic with the limited grounding in cooperatives and generally being lower in ranking compared to the many degree holders in the market.

*“Before cooperative education moved to the MoES, cooperative colleges were strictly attended by those who were to be hired in the Ministry of Cooperatives and Marketing, members and leaders of cooperatives sponsored by their cooperatives. This ensured that the course content was frequently updated to meet industry needs. Practical courses like cooperative audit and extension services were emphasized as the assistant and cooperative officers were using these skills on the cooperatives they were charged with nurturing. Today audit is taught as a course unit and carries limited cooperative DNA while the extension course disappeared with the deterioration of the unions”*

*Cooperative College Alumni- Masindi*

Other universities like Ndejje and Uganda Martyrs Nkozi have recently developed courses with a component of cooperatives. Nonetheless, the expansion of formal cooperative education is plagued by lack of professors, limited financial investment, a limited syllabus for colleges.

Unlike in the past when the cooperative college graduates were placed in cooperatives for internship programmes, today they are free to go anywhere else. The lack of professional accreditation in the

cooperative education sector in Uganda also dims chances of the cooperative college graduates being more competitive compared to the other college graduates.

Several cooperators lamented over the high costs of training and education with many requesting for subsidized programs that would be afforded by more members

*“We have been left behind when seminars/workshops are arranged. They are arranged at a high cost ranging from UGX 50,000 to 500,000 mostly away from the cooperative, yet I/my society cannot afford. This is why our members and our society remained uninformed.”*

*Key informant, Kotido*

Rural cooperatives further expressed their frustration with the predominant use of the English language for the training and capacity building programmes. Sometimes interpreters are used, but the message often arrives fairly altered. Because the training sessions last for a short term, it becomes hard to internalize a load of information within that time.

Overall, the study concludes that co-operative education is somewhat disjointed, inconsistent, haphazard and retrogressively institutionalized and short-term yet small doses that have been equated to “immunization pricks.”

### 5.3 Research & Information Resources

*“Our society needs more heroes who are scientists, researchers, and engineers. We need to celebrate and reward the people who cure diseases, expand our understanding of humanity and work to improve peoples lives”.*

*Mark Zuckerberg*

#### Research

The need for research in cooperatives cannot be overstated; ICA offers several reasons why data should be gathered on co-operatives, highlighting

the need to obtain data to promote the role of these organizations both nationally and internationally. The Alliance argues that understanding the exact quantitative and qualitative volume of the global co-operative economy is essential to their advocacy efforts. For this reason, high-quality data are vital. Therefore, co-operatives need to build on whatever progress, by transforming research into effective learning programmes and providing advice to policymakers. Co-operatives need to stimulate debate to help generate opportunities for further co-operative development.

Except for a few countries like Italy, Netherlands and Canada which this study has examined, the state of cooperatives' driven research in Uganda like the rest of the world leaves a lot to be desired. Whether basic or applied or experimental research nothing has been reported from MTIC or the national apex cooperatives for the last two decades. This may not come as a surprise because the Gross Domestic Expenditure on Research and Development (GERD) one of the most commonly quoted R&D indicators, shows that in 2012 Uganda's GERD was 0.5% .

For an industry whose members must often make decision, this statistic is worrying. It is also reported that the business enterprise sector in which cooperatives belongs devoted Ushs. 67.7 billion to R&D activities in 2010. This accounted for 34.8% of the GERD making it the second largest contributor to R&D expenditure in the reference period. In the same year government devoted 75.1billion to research taking the lead position in investment. This study has established that cooperatives generally rely on other sectoral research documents and products from other government ministries, development partners, and the accredited research institutions. Some of the most beneficial research areas for the cooperatives are agriculture and ICT which is equally heavily donor-funded. Agricultural research has focused on breeding for better yields and disease control with some little investment in mechanization. More has to be done and below are some of the recommendations captured by this study: -

- Cooperatives will have to lead the way by capturing data regularly and documenting stories for them to have a point of appraisal. The data collected by cooperatives facilitates comparative analysis between different areas without losing the holistic spirit. The International Cooperative Alliance and the regional and national alliances/

confederations blocks will need to steer the movement into having a seamless and well-synchronized research framework that meets cooperatives everyday data needs as well as produce publications that can be used across the cooperative divide. Some of the already existing initiatives like the World Cooperative Monitor, the Global Cooperative Census, several studies and this Uhuru Institute initiated cooperative profiling exercise can be built on for the future growth of the movement.

- The government in collaboration with cooperatives, research institutions, media houses and development partners could jointly design universally applicable data collection tools and methods that are aligned with international standards, providing comparative opportunities, and analysis of critical parameters of study like the number of members & employees, turnover, capitalization, financial ratios and others. A regulatory framework would facilitate reliability and validity of the primary sources of data on co-operatives. This framework would also help in linking the micro and macro data sets on cooperatives.

### Information Resources

To understand the dearth of information on the cooperative movement, a visit to the MTIC library brings the reality closer, at the time of our visit in February 2018, there were only three newsletters on cooperatives and the rest of the books were on trade. Even more revealing is that the public library that once existed in UCA is now more as space has been turned into a commercial rental space. Observations during the field visits likened the situation of the other cooperatives to that of the parent ministry and the apex body except for a few cooperatives that had some bookshelves with annual reports and newspapers. It is no wonder that cooperators have to trek from different parts of the country or send money to someone in Kampala to buy the model cooperative bylaws from MTIC and the cooperative laws and regulations from UCA.

It is for some of the reasons pointed above that this study found only 65.9% of the cooperatives with the Cooperative Societies Act Cap 112, 54.9% with the Cooperatives Societies Regulation 1992 and 8.8% with the Tier 4 Microfinance & Money Lenders Act 2016.

In reviewing the adequacy of training material, the study observed that cooperatives are using content generated through programmes run by Swiss Contact, Canadian Cooperative Centre, ACIDI-VOCA, Mercy Corps, The Uhuru Institute for Social Development, PLAN international, CARE amongst others as well as UCSCU and UCA's model policy guidelines and unpublished training materials. The department of cooperatives equally relies on training content generated by consultants that have implemented courses under projects like Profira. This state is indicative of the unfiltered state of cooperative education content. In all, this research did not find any accredited training material in the market. Even the cooperative colleges were referring to those mostly donor-funded pamphlets and manuals. This situation raises the question of what the cooperative professionals in the cooperative colleges and elsewhere are doing. How will cooperative education and publicity be effected when hardly anyone is writing?

Aware of the above situation, the government has proposed in the draft cooperative societies amendment bill 2014 to verify the providers and content of trainers that interact with cooperatives. The question that begs this proposal is how the department of cooperatives that has not a single published training manual will ensure that the ones in the market meet standards; or rather what benchmarks will they use in verification? In Section 21A of the same draft law, the government also proposes that records management in cooperatives should be done in accordance with the National Records and Archives Act, 2001, Act No.12 of 2001. Subsection 21A (2) states

*“There shall be a cooperative archive in the ministry responsible for cooperatives.”*

When these proposals have been considered, information resources may be better organized and easily accessible compared to the situation today.

This research established that several cooperatives do not provide documentation or information to their members as required of them. To appreciate the situation better, we examined whether cooperatives share audit reports and other documents two weeks before the AGM only 357(24.6%) mentioned that they tried to do this. While some cooperatives had fairly genuine reasons for not complying with this requirement, the majority did not know about this

requirement. In disregard of the members right to information, instances of committees deliberately withholding reports from the members were also recorded. Some cooperators attribute this to the fear that the irregularities could be unearthed.

## 5.4 Cooperative Reading Culture

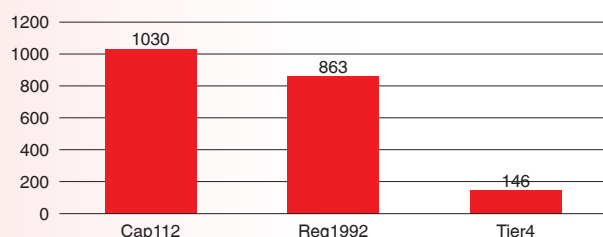
*“A reading culture is a set of behavior where reading is not only part of people’s way of life but is also constantly used by a good number of the population to read in order to search for information, seek the truth, look for intellectual pleasure and for the sake of reading as a hobby”*

*Prof Abdul Kasozi*

A poor reading culture, where people do not value or do not do any reading except to look for a few necessary items, is harmful to the development of the individual and nation, it limits innovative and entrepreneurial minds from accessing cutting age information which they need to realize their ambitions. Some analyst attribute the poor reading culture in Uganda to the quality of education

To explain the knowledge and skills gap, this study examined the reading culture of cooperators; while industry-specific literature may be lacking cooperatives have a broad range of literature that could inform their planning and decision-making processes, however, the situation is alarming. This study picked the aspect of referring to the cooperative laws and regulations; the research indicates that an amazing 1030 cooperatives of the 1449 profiled were referring to the Coop Act 112 yet only 956 recorded having copies, those that did not have were using the DCOs' copies. A similar trend was documented for the cooperative regulations where 863 were referring to it yet only 795 reported that they had copies, on the other hand, the readership of the Tier 4 Microfinance & Money Lenders Act , 2016 was generally low.



**Figure 41** No. of Cooperatives referring to laws & regulations

The interest in reading the Cooperative Societies Act Cap 112 (1991) is explained by the fact that it has been the primary law for cooperatives for almost 2 and half decades, and the regulations equally have a set of guidelines that the cooperatives must follow. On the other hand, the Tier 4 is more recent and less publicized. Although the trend is promising readership needs to come at 100% because every member of a cooperative has a responsibility of making decisions which need to be informed.

To improve the reading culture, some cooperators have proposed simplification and translation of the materials especially those with complex language like the laws in ways that ordinary people can engage and interact with. The use of other interactive learning tools like posters, charts, and video aides may go a long way in increasing knowledge of the cooperators. This study observed that many development partners like Plan, GIZ, USAID, DFID have invested in alternative knowledge sources like performance arts, skits, brain buzzers and quizzes which are widely considered edutainment. Cooperatives could adopt these interactive learning methodologies which beyond learning also enhances bonding in cooperatives.

## 5.5 Publicity

Promotion of co-operative education has been rejuvenated in recent years. The adoption of the Statement on Co-operative Identity in 1995 and the ILO Recommendation 193 on the Promotion of Co-operatives have provided opportunities that have significantly influenced broader policy agenda on co-operatives. The UN declaration of 2012 as the year for cooperatives equally offered a boost for publicizing the cooperative movement and its achievements. These milestones are reasonable but not enough to place the sector in the eyes of everyone. Little is known about cooperatives, and this has earned the sector negatively skewed perceptions that

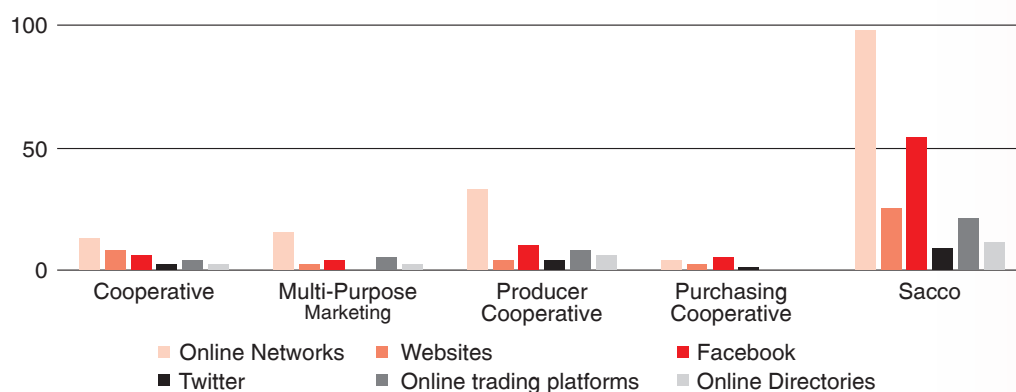
have only gone to hamper its growth amongst young people. According to Gabriela Buffa, a youth committee chairperson of the ICA some youth in Europe consider the cooperative movement as *"outdated, conservative, formal, and unable to breathe change at the global level"*. It is these realities that should awaken the cooperative movement to engage with the market.

The study has observed that the local publicity efforts are equally dismal with many of the cooperative usually meeting amongst themselves in AGMs, seminars and meetings. Limited efforts like the celebration of the international day of cooperatives; one of the lonely times the movement has met, and until recently the day was a general government function with plentiful of speeches and promises from government greeted by lamentations and reminders of unfulfilled promises.

From 2016, Uhuru Institute for Social Development initiated the cooperative week series which was welcomed by government and the cooperative movement headed by Uganda Cooperative Alliance. The week of activities provides an opportunity for the movement to engage with the public through various activities like health camps, tree planting, sanitation camps, advocacy meetings, press engagements; exhibitions, symposiums, and finally climaxes into the international day of cooperatives every 1<sup>st</sup> Saturday of July. The week's activities will keep varying every year to include sports gala, drama and music competitions amongst others.

The cooperative week is certainly not enough, cooperatives still need to make known to the public where the sector is and what it can offer to those that have not yet joined the sector.

The opportunity for publicity using media is greater than ever before. Beyond the traditional channels like radio and TV, social media has taken over the marketing and advertising space, and cooperatives need to embrace this space now more than ever. Marketing practitioners have argued that ignoring social media is like opening a business and not telling anyone about it. Sadly, the findings from this research indicate that cooperatives are lagging behind in exploiting these publicity space. Of the 1449 cooperatives profiled only 293 (20.2%) were using either Facebook, Twitter, Online trading platforms and directories, and websites.

**Figure 42** Online Marketing Platforms used by Cooperatives

The attraction of faith and culturally based role models in the cooperative movement have recorded success in many respects. Through the cooperative week prayer activities, many believers and cultural loyalists are embracing the model as one that will spur the growth. In the past, cultural and religious leaders were invited to officiate sports events organized by cooperatives, and in the process, they would attract their followers to the movement especially because cooperatives helped them advance their development agendas.

Whereas cooperatives have made media appearances, this study observes that the frequency of reporting and the content has been less about what cooperatives are doing but more about what has gone wrong and what needs to be done. Experts urge the sector to engage their promotional gear by being in the face of the public with what the sector has got to offer. In the past glorious cooperative days, Uganda Growers' Cooperative Union especially was seen very instrumental in publishing information on cooperatives in vernacular. In the recent past, this study observes that most of the media publicity stance has primarily been around international cooperative day and the national cooperative week.

happening within their cooperatives. There is still room in the publicity stage, which if well exploited will be one of the turning points for the cooperative movement and investments towards this will have to be prioritized.

On the global scene, ICA has registered several strides in promoting the unique cooperative identity. A global cooperative Marque (.coop) is available for all cooperatives in the world to use for free. ICA sees this as one of the critical pillars of a new blueprint for the cooperative decade and as a sign that cooperatives are professional, contemporary and business-like. Th marque is intended to become the new global cooperative visual identity, used to provide a promotional umbrella and the unity of purpose for the global cooperative movement

*“Visual marketing does not sell a product or service- it sells an experience around your business”*

*Rebekah Radi*

This study has established that previous attempts by UCA to run a cooperative newsletter were short-lived because the project funding ran out; however individual cooperatives have tried to initiate their newsletters to showcase to the public what is

# CHAPTER 6: THE ETHICAL STATUS OF COOPERATIVES IN UGANDA

## 6.1 Unpacking cooperative ethics

*“Ethics is to know the difference between what you have the right to do and what is right to do.”*

Potter Stewart

Cooperatives by nature are value based and ethically run entities; thus the glue that holds these organizations is derived in the principles, values and the people-centeredness that is usually missing in other business models.

### What are ethics?

Ethics deals with the study and justification of moral beliefs. It is a branch of philosophy which examines what is right and what is wrong. Ethics and Morality are regarded as identical concepts, but actually, they are not. The term ethics is derived from the Greek word (ethos) meaning moral character while morality comes from the Latin word (mos) meaning custom or manner. Morals, from which the term morality is derived, are social rules or inhibitions from the society. In present times this is, in a way, reverted, i.e., ethics is the science, and morals refer to one's conduct or character. The character is an inner-driven view of what constitutes morality, whereas conduct is an outer-driven view. Philosophers regard ethics as moral philosophy and morals as societal beliefs. Thus it might happen that some society's morals are not ethical because they represent merely the opinion of the majority. However, some philosophers argue that ethics has a relativistic nature, in the sense that what is right is determined by what the majority believe.

### The universal cooperative principles, values and ethical values

Co-operatives are businesses owned and run by and for their members. Whether the members are the customers, employees or residents, they have an equal say in what the company does and a share in the profits. As value based, not just profit drive businesses, cooperatives share internationally agreed principles and act together to build a better world through cooperation.

It is along the above philosophical opinions that the Rochdale Pioneers (1884) crafted the first cooperative principles to bring humanity and cooperation into the art of business. They had undergone inhuman conditions and treatment under the industrial revolutionist. In 1995, ICA adopted the revised Statement on the Cooperative Identity which contains the definition of a cooperative, the values of cooperatives, and the seven cooperative principles.

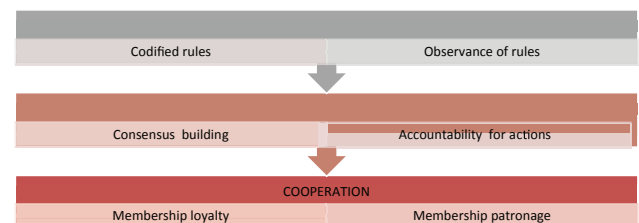


Figure 43: Ethical conduct as a unique feature of Cooperatives

Cooperative values include self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

ICA lists the universal cooperative principles as follows<sup>90</sup>

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

This section examines the extent to which cooperatives are observing the 7 Cooperative principles as well as the ethical values upon which the Rochdale pioneers started the formal organizations.

90 Ibid

## 6.2 Voluntary and Open Membership

As prescribed in the universal principles, cooperative members must join voluntarily and be open to all persons who have accepted the responsibilities of membership, without gender, social, racial, political or religious discrimination. This study observes that a vast majority of cooperatives have observed this principle with the exemption of some institutional cooperatives. Depending on the fusion in the leadership of the parent institution and that of the institutionalized cooperative, there have been reports that some SACCOs conscript membership by virtue of someone's employment in the same institution. This study observes a unique trend in Uganda's police and army SACCOs where by virtue of their employment the members are more like conscripted. While the cooperative may be for the benefit of the employees, involuntary membership comes with limited commitment and a tattered sense of ownership.

*"I have never imagined that joining a cooperative was a voluntary decision that I had to make; maybe because I have no room to consider voluntarism as an option"*

*Key Informant- Kampala*

Uganda's security institutionalized SACCOs could learn from their Kenyan counterparts; this study learned that the Police SACCO of Kenya is a model which initially suffered from the vulgarisms of "report and command" but is now a wholly functional cooperative with the right identity

Involuntary membership was also examined from the point of members forming a cooperative to target a 'bounty' from a 'convener'; the sense of purpose that comes with voluntarism is tested when the convener is retired. This study sights cases of politicians and NGOs conveniently herding people into cooperatives to implement short-term projects. Such cooperatives have been observed to die with the end of the projects because of lacking that fabric that bonds members with a purpose. Very few of this nature have survived and in those rare cases the members have been trained or often woken up to the realities of cooperation.

*"We used to meet as groups, we were doing different things, and in one of those meetings, the donor-advised that we form a cooperative. Now the project is coming to an end I wonder how the cooperative will run?"*

*Key Informant Kumi*

In non-institutional cooperatives, involuntary membership has also been associated with high dormancy rates; albeit some institutionalized SACCOs have recorded success through this subtle coercion of members. This study observes that in some cases even the decisions on monthly savings are involuntary. In Wazalendo, for example, every member saves a minimum of 10% of their salaries as provided for by their bylaw. Membership patronage in the SACCO is one of the parameters used for recommending promotions in the army. The unique context of some institutions and their nature of work is sighted as the reason for aided action for the fear that the members on their own may not commit.

*"In the beginning, the leadership of the army had to ensure everyone is in the cooperative because the soldiers were having complex financial problems the worst being exploitation by commercial banks. Many were also not saving at all". Today our members are better off. The nature of our command has, therefore, meant that we place some subtly coercive provisions in our bylaws; soldiers are trained to obey orders and observe ranks, and that is precisely what our cooperative is like"*

*Key Informant- Kampala*

The case of Wazalendo ushers in a new debate on whether or not cooperatives should not readjust some of the expectations inscribed within the international principles to accommodate the changing nature of cooperative members and types.



The issue of open membership is also one that this study has observed as complex; many cooperatives have members that are brought together by a common bond which could be anything including religion, clan, family, profession, etc. With the growth of clan-based and faith-based cooperatives, it may be challenging to have cooperatives admitting persons who do not subscribe their unique values. The research has observed that several faith-based cooperatives restrict membership because they use the cooperative institutional space to deliver some of their missions. The kind of rigorous scrutiny that someone goes through before joining the cooperative also weeds out unserious people and enables the cooperative to take on people with a purpose. It is no wonder that Y-SAVE a Christian based cooperative is one of the most stable cooperatives with not a single external loan financing mechanism. ICA may have to examine the notion of open membership taking care of the emerging trends in cooperatives.

### 6.3 Are cooperatives in Uganda the democratic entities they are meant to be?

Cooperatives are by design democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized democratically. Most cooperatives that reported governance challenges pointed to undemocratic practices as the cause.

This study examines the level of democratic practice by assessing if the cooperatives that were profiled had independent observers (Senior Cooperative Officer/DCO) from Ministry of Trade, Industry and Cooperatives, submitted audit reports two weeks to AGM, observed the statutory election requirements and held AGMs annually in observance of the quorum stipulated in the bylaws.

#### Founder Member Syndrome

First many societies lack the appreciation of the democratic structure and the duty of every member to take an active part in the affairs of the community. Many cooperatives owe their origins

either to government or the wealthy and educated farmers, landowners or people in business who were actuated by their desire to mobilize national revenue or get richer in the case of individuals. In each case, there is a core league of decision makers and a vague mass of ordinary members whose function is to provide stability and assist in providing capital and incomes for the “cooperative.” Having elected their most progressive fellows to the board initially, or having been invited to join a society by a self-appointed committee, ordinary members tend to resign all their authority to their board and to regard it as irremovable and irreproachable.

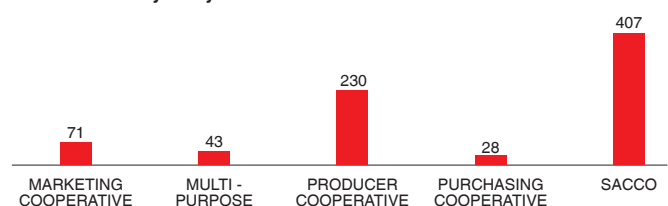
*“Do you know how hard it is to start a cooperative from scratch? We founder members can not just hand over the cooperative to people who do not know where we came from”.*

*Key Informant-Kampala*

#### Cooperatives holding AGMs annually

The Annual General Meeting (AGM) is the supreme organ of any registered society. The AGM confers equal rights to all members who attend and vote<sup>91</sup>. Thus the AGM is the supreme governing body whose roles and functions, as prescribed in law, is to guide decisions that ensure financial health and transactional relations between other cooperatives and the relevant state organs. This study indicates that 78% of the cooperatives were holding AGMs annually while 22% were not. By not holding the AGMs annually those in this category undermine the cooperative legal ethics and set precedence for indecision, apathy and eventual cooperative collapse.

**Figure 44 Cooperatives holding statutory committee elections every two years**



This study observes greed of management and board members as one of the critical causes of AGM

<sup>91</sup> Cooperatives Societies Regulations, 1992

non-observance. They usurp powers of AGM for their benefit yet this state of affairs affects the general health of the cooperative in some cases leading to their eventual collapse.

### Holding elections every two years

The findings show that 53.8% of the cooperatives profiled were holding elections every two years as prescribed in the cooperative laws. It's no wonder that members get disoriented and do business with middlemen; these members eventually have bad cooperative publicity because of their bad experiences.

<sup>92</sup> A Key Informant reported thus:

***“We have taken long without having an AGM because most members lost hope and today they sell Coffee to middlemen who give them cash even if it is very little.”<sup>93</sup>***

Table 5 Number having elections every 2 years

Cooperative Type	Number having elections every 2 years
Marketing Cooperative	71
Multi-Purpose	43
Producer Cooperative	230
Purchasing Cooperative	28
SACCO	407

In cases where AGMs were held and all parameters observed, AGMs were reported to have contributed dramatically to transparency and promoted the rights of members to make all decisions pertaining to the cooperative. In such circumstances, meritorious candidates were recruited for the managerial jobs and interpersonal relations of membership as well as inter-statutory committee working relations were improved. This reaffirmed that ethical conduct empowers membership to participate in the affairs of the cooperative actively.

A key Informant was quoted thus:

***“We do have our AGM every year, and members determine how to use their money.”<sup>94</sup>***

### Sending Audit reports two weeks before the AGM

This study further observes that only 24.6% of the cooperative profiled shared the audit reports and other essential documents with the members. Some of the reasons for this incoherence were: - that management and some members of the board deliberately withhold audited accounts to avoid scrutiny of any financial mismanagement practices often occasioned by them. Secondly, audited accounts are presented in a technical language, and their interpretation was not easy for many members especially those primary societies with low literacy.

Ironically cooperatives with fairly literate members had similar complaints on the complexities of audit reports. MTIC, ICPAU, and cooperators may have to look at simplifying cooperative audits for the benefit of all the members. It was also noted by those who received the audit reports that the discussion of audit reports often came at a time when members are tired and hungry that most members end up approving anything to get done with the meeting. Cooperatives should also look to developing accounting and reporting standards for cooperative; ICA could champion the cause at the global level.

***“One of the requirements for membership to our boards is the level of a members’ patronage, and we realized that we could not just have anyone on the board because we have previously had people who have nothing to lose who come and disorganized our cooperative”***

Key informant Kampala.

The value of equality in leadership is one of those that some cooperatives are struggling to observe. This study finds that security institutionalized cooperatives in Uganda are guided by their command structure which has to be accommodated for the cooperative to have a degree of cohesion. The study again examined the Wazalendo model and found out that specific board roles like that Chairman are reserved for the rank of Colonel and above; this is not just because of the command structure but also because the demands of the office require higher education and experience. The other board roles are open

<sup>92</sup> Observations made by Field Assistants in Acholi, Teso and West Nile Sub-regions

<sup>93</sup> Key Informant Interview-Mbarara

<sup>94</sup> Key Informant Interview-SACCO-Mbarara

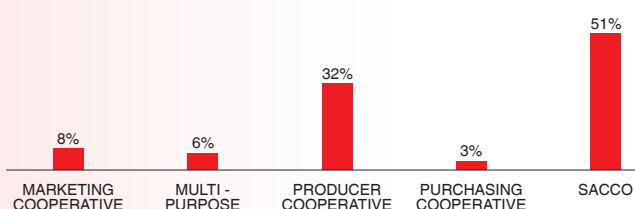
to everyone including privates. The level of the compromise is negligible but also communicates the desire for the institution to have the best for their members.

The issue of equality should indeed be examined further because it is in trying to comply that cooperatives end up with space fillers instead of capable leaders. This study observes that many cooperatives have guarded against these excesses by placing some critical parameters like education level, age, and experience in the cooperative bylaws.

### Observing Quorum during AGMs and Elections

This study also examined whether cooperatives are observing quorum during their AGMs. Every cooperative is expected to set their quorum in their bylaws, and a few provisions have also been made in the cooperative regulations to protect the cooperative from making hasty decisions. For example, the law restricts quorum on the resolution for a cooperative that intends to break into two or more societies; Section 27 (2c) states: *"A division of a society referred to under subsection 1 shall not take place unless a resolution has been passed by 2/3 majority of the members present at the meeting providing for the division"*.

**Figure 45** Quorum observance by cooperative type



Whereas quorum is provided for many cooperatives struggle with getting the quorum for the meetings, and many unsupervised meetings, have ended up making decisions without the required majority. This research shows that only 43% of the cooperatives profiled were observing quorum during their AGMs a situation that cooperators have also considered a symptom of the dysfunction of governance structures among cooperatives in Uganda.

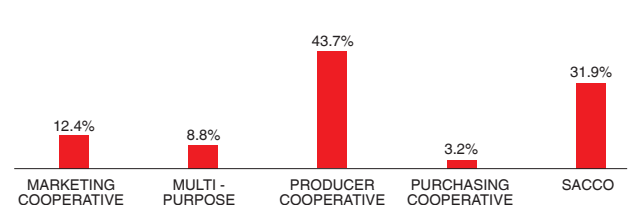
Inversely where the quorum is being observed some members have complained of insufficient representation and therefore a compromise of their democratic rights. In primary cooperatives where the membership is too large representation by delegates has been raised as a concern. Experts argue that the large size of some cooperative membership is

not only creating an identity crisis but also making cooperatives ungovernable along cooperative lines.<sup>95</sup> Sections argue for the Mondragon cooperative group model which accommodates more decentralized cooperatives each contributing for the bigger pie.

## 6.4 Is member economic participation still a deal?

Economic Participation is one of the critical pillars of cooperative identity, within its realm members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative, and supporting other activities approved by the membership. However, over time economic participation has come under great test for various reasons most of which have been covered within different sections of this report.

**Figure 46** Cooperatives serving nonmembers by cooperative type



Even though cooperatives are expected to be member-owned, governed and used, today cooperatives are doing business with non-members. This research has established that 34.6% of the cooperatives are doing business with non-members contrary to the Rochdale principles. Comparatively the producer cooperatives are recorded as leading in this outfit, followed by the SACCOs. This research observes that lack of economic participation is linked to how the cooperative was initialized as well as the members' feeling on the leadership of the cooperative. Many cooperators pointed out that their lack of participation was largely a result of lack of accountability, sluggishness, bureaucracy, delay in payments.

<sup>95</sup> FAO (1996). Cooperatives: Has their time come or gone. Rural Development Division. Rome, Italy 127 FAO (1996). Cooperatives: Has their time come or gone. Rural Development Division. Rome, Italy

When economic participation by members is not achieved the business will often find alternatives ways of bridging the gaps created. Cooperatives doing business with non-members argue that its a strategy for expansion but also that members do not meet the required market or supply quotas that the business needs. While this may have found justification, this trend is discouraging some members, especially where the cooperative is not offering any extra services like premiums, end of year parties and dividends to their members.

*“Sometimes I see no use in belonging to this cooperative where every often I am asked to pay a subscription, and buy shares, yet some cotton farmers who do not belong to the cooperative are getting the same payment. Doing business with the Muyindi may even be better because I get my money there and then”*

*A cooperative farmer in Kitgum*

## 6.5 Cooperative Autonomy in Uganda: A reality or a fallacy?

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

In the 1952 Cooperative Commission of Inquiry<sup>96</sup>, the 2<sup>nd</sup> recommendation was that certain supervisory powers be taken away from the registrar to give more responsibility to the cooperative societies hence preserve the autonomy of cooperatives; however, history has repeated itself presenting a similar dilemma between compliance and autonomy. Today all the laws governing cooperatives allocate a lot of authority in the hands of the supervisors and regulators.

Autonomy has also been compromised at the point of institutional birthing. It is notable that many of the renown cooperatives like Uganda Cooperative Alliance, The Cooperative Bank of Uganda, Uganda

Cooperative Central Union, Uganda Wholesale Consumer Cooperative Union, Uganda Transport Cooperative Union, Cooperative Insurance of Uganda, Uganda Cooperative Saving and Credit Union amongst others that boomed in the 1950s, 60s and to some extent 70s and 80s were formed with a semblance of parastatals. And although they were registered under the cooperative laws, the idea initiation rested fundamentally with the colonial and post-colonial governments who were principally looking for synergy within the population to produce raw materials and boost economic development in their countries and locally for colonies. Most of the first societies were initially farming groups as well as savings and credit clubs that were aided by the government to become primary societies.

The governments sanctioned the creation of many district and national unions as well as the apex body at the time in response to the need for training, marketing, financing, subsidized input, production, processing, regulation, and representation<sup>97</sup>. This automatic self-initialization is what has kept many cooperatives apathetic with unconscious irresponsibility about the cooperative. Autonomy for such cooperatives is still far-fetched, with only a handful of such cooperatives understanding why they exist. Much of the dependence is monetary and in some ways political in a few instances.

*“The Uganda Credit and Savings Cooperative Union has never been independent; government is tired of supporting it year in year out; if they can’t stand on their own they will have to close because there’s little cooperative about it”*

*a government official*

Today several NGOs are facilitating the conversion of community groups into cooperatives and aiding these organizations with everything, but the moment they jump ship, these cooperatives stagnate waiting for the next donor. This study has established that some cooperatives are baptized in ways that the make the cooperative continue waiting for support for eternity.

While MTIC is often in a compromising situation in trying to balance between government needs and that of the cooperatives especially in the areas of

<sup>96</sup> Report of the commission of inquiry into the progress of the cooperative movement in Mengo, Masaka, and Busoga.

<sup>97</sup> Kyamulesire (1988) Op.cit

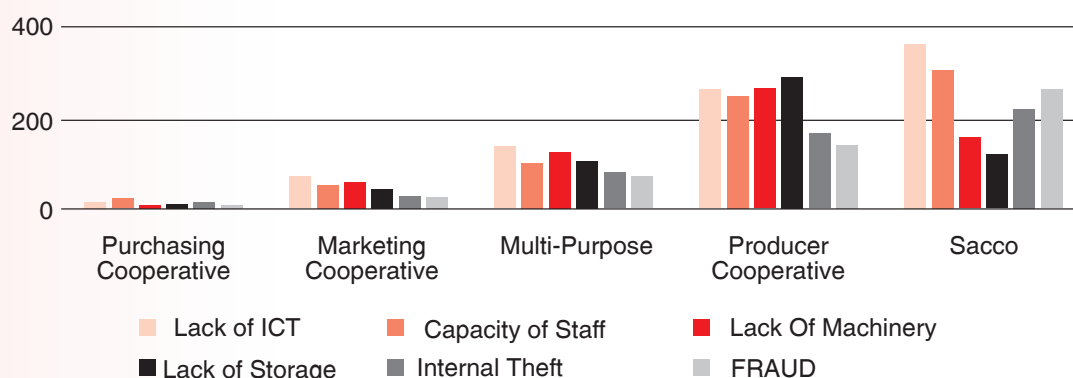


tax and licensing, subtle autonomy can best be achieved when the cooperative confederation and the department of cooperatives are working closely together.

## 6.6 Cooperation and a valueless system: The incompatible match?

The observance of many of the ethical values like openness, honesty, transparency, and accountability has equally come to great test. This study observes that most of the internal theft and fraud emerged as the top five challenges that the profiled cooperatives listed.

**Figure 47** Internal Risks faced by cooperatives



Observing values will require a combination of strategies including training, the establishment of policies and the implementation of the regulations supported by a functioning conflict resolution mechanism.

## 6.7 Education and Ethical conduct

*“Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operative. They inform the general public, particularly young people, and opinion leaders, about the nature and benefits of cooperation.”<sup>98</sup>*

This study observes a healthy relationship between education and the observance of ethics.

<sup>98</sup> <https://www.thenews.coop/84160/sector/education-important-co-operatives/> accessed on 18th May 2018 at 9:34 am

The qualitative information confirms that many cooperators have made mistakes or taken unethical decisions because of lack of knowledge. And where morality guides education, members have benefitted from having educated members.

Conversely, findings also indicate that education has in many instances been used to manipulate the illiterates. Information from the key informants suggests that the educated leaders often dictate on the decisions or direction that the cooperative should take. It is no wonder some cooperatives preferred not to have a professional management team because they associate education with corruption.

Some cooperators also expressed the trust in the informal cooperatives whose members are mainly rural based. This study concludes by arguing that cooperative education will promote ethics if the members bring their best characters to the society.

## 6.8 Cooperation among Cooperatives

*“Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures”<sup>99</sup>.*

While the values in the above quote are what may be ideal, many cooperatives have fallen short of this. This study examines the extent to which the current cooperative structure has promoted cooperation and amongst cooperatives.

<sup>99</sup> Ibid

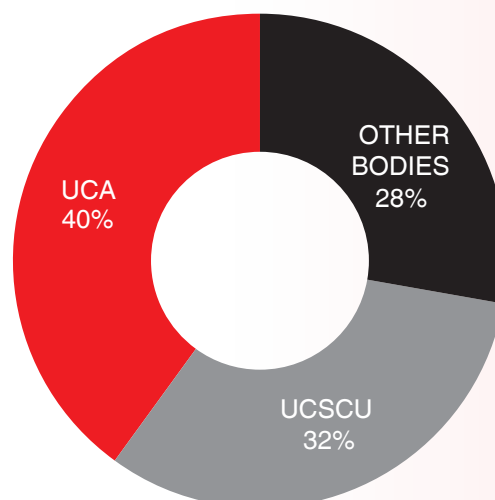
Although UCA was from the inception formed as the only national Apex body of cooperatives, its existence and membership constitution has been questioned in two recorded instances; in 1965 the Uganda Cooperative Central Union which was vibrant and diverse in business outlay resisted the idea of having UCA as the apex body because it felt that UCA's mandate of training, policy and advocacy did not necessitate its full establishment, UCCU preferred that UCA became a department under its armpit<sup>100</sup>.

Today several unions and UCA have had a tense relationship because of UCA's admission of primary societies as associate members. Secondary cooperatives have argued that UCA is overstepping its mandate and competing with its members. UCA explains that it had to salvage several primary societies whose members were either too weak or had collapsed in the face of the several challenges that the movement went through and that it did this by amending its bylaws to accommodate the cooperatives that were primarily stranded. This kind of feud has stifled coordination in the execution of cooperative business and equally increased the vulnerability of the cooperative movement. A cooperator from Kampala expressed his frustration by saying:

*“Sometimes I think the cooperative movement is cursed, the most annoying being the cat and mouse fight between UCA and UCSCU’, If UCA and UCSCU do not accept responsibility and listen to each other, the cooperative movement will continue drifting from within”*

Because of these disagreements, there have been meeting boycotts with each organizing or calling separate meetings on the same agenda.

**Figure 48 Cooperatives by affiliation**



You can see from the above illustration that of the 1449 cooperatives profiled, UCA has 544 cooperatives under its armpit yet the cooperative registry reports only 133 unions which would have been the members of UCA. With the amendment of the UCA bylaw, primary societies including SACCOs are associate members. No wonder, only 437 cooperatives of the total number profiled reported to be affiliated to UCSCU.

#### • National Vs. National Unions

The Cooperatives Act Cap 122 classified the tertiary and the secondary cooperatives as unions, without putting restrictions on how many national cooperatives doing the same business can exist. This lacuna has resulted in the formation of national unions whose roles are duplicated, for example, the emergence of Walimu SACCO Union has meant that all primary teachers' cooperatives that would like to benefit from the teachers' fund that was awarded by the government must join Walimu. The result has been some UCSCU members registering with Walimu and not patronizing UCSCU. Kenya is equally suffering a similar challenge in that the Kenya Union of Savings and Credit Cooperatives (KUSCO) and Kenya Rural Savings and Credit Cooperative Union (KERUSSU) are all national unions. Although they serve different constituencies, some of the primary societies under KUSCO have a membership with branches in the rural areas. The draft Kenya national cooperative policy 2017 identifies amalgamation and restriction in new registration as a way of dealing with this duplication<sup>101</sup>. It is questionable whether the limitation in new registration will work as market forces demand free entry and exit of players.

<sup>100</sup> Kyamulesire (1988) Op.cit

<sup>101</sup> Draft Kenya National Cooperative Policy (2017). Op.cit

In Uganda's case, cooperation amongst cooperatives will be realized when cooperatives go back to the core principles of their business, but also when they open their mind to the networking opportunities that the structures bring.

## 6.9 Concern for Community: Are cooperatives creating social impact?

Cooperatives work for the sustainable development of their communities through policies approved by their members. Beyond sharing surplus within themselves, cooperatives are equally expected to undertake initiatives that touch lives beyond their cooperatives. This section examines the extent to which cooperatives are creating social impact and relating with the communities within which they work.

Ideally, co-operatives by their existence are intended to serve as fundamental building blocks for addressing community needs such as service delivery, business as well as social responsibility. This study observes that indeed cooperatives are running initiatives like providing bursaries, constructing social services facilities that are not only used by their members but the broader community. Bugisu cooperative union offers scholarships to the sons and daughters of the members of the society. Kibinge coffee has also initiated a football league for their members and the community. This study observes that the football league is a source of entertainment and an attraction for youth membership in the cooperative.

Recent initiatives like blood donation and tree planting are some of ways in which cooperatives are showing their concern for the community. According to the 2016 and 2017 cooperative week reports from the Uhuru Institute for Social Development, cooperatives collected over 2200 units of blood in the two years. At the height of the blood scarcity in Uganda, the movement was counted as one of the partners that had saved lives.

The sector has a lot of room for more activities that could benefit the broader population, and its time the movement invested in businesses that touch lives of the community because through this, more people will get to appreciate the model but also bring hope to those that may have been disappointed in the

past. Indeed, after having nationwide prayers during the two last cooperative weeks, Church of Uganda in their 10 year strategic plan have adopted the cooperative business model as a viable vehicle of increasing household income amongst its folk.

## 6.10 Will supervision deliver adherence to ethical practice?

The mandate of the MTIC's department of cooperatives is to register, supervise and nurture cooperatives. This requires a robust resource capacity of humans, finance, and equipment. However, this research has established that the department receives the least vote in the MTIC budget which is itself underfunded. According to the 2017/18, national budget MTIC was allocated 117 billion of which the department of cooperatives was also given 2 billion<sup>102</sup>. According to the office of the permanent secretary, the department of cooperatives at the time of interview in February had a total of 23 employees at the headquarters who were relying on about 135 District Commercial Officers. This is a mean fit given the massive responsibility that the department is charged with. It's perhaps the right time for the government to consider employing more cooperative assistants in all subcounties and officers in all districts to relieve the secretariat of the current pressure. With nearly 18,000 cooperatives with approximately 8 million members, budget priority will have to be given to MTIC and the cooperative department. The DCO must also be relieved of the work pressure as they are currently torn between too many things and equally have two reporting lines notably the Ministry of Local Government and MTIC with which it does not have a direct tie.

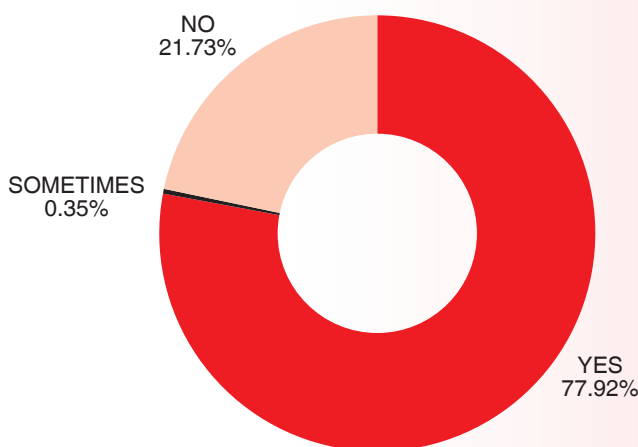
Notwithstanding some of the challenges mentioned above, 77.9% of the cooperatives profiled had representation from MTIC during their AGMs.

<sup>102</sup> Information from the office of the permanent secretary MTIC

The high representation is because cooperatives have had to provide allowances for the DCOs to attend their meetings. While there is a need to facilitate the DCOs, cooperatives argue that government should be in a position to facilitate their employees to avoid conflict of interest. Many fear that the allowances compromise the ability to the government representative to point out any unethical issues that the cooperative may be experiencing.

This study concludes this chapter with a question; Could it be that the changing environment is testing the cooperative principles and values fundamentally? Or is it time for the cooperatives to rethink their identity? Whatever the answer, what is certain is that many cooperatives in Uganda do not observe all the cooperative principles and values, and this is affecting the realization of governance and business. It is, therefore, time that the cooperatives to check their characters as the state of the cooperatives is a reflection of the members. Membership education and the establishment of laws, policies will reinforce adherence to ethical practice.

**Figure 49** MTIC Representation at AGMs





# CHAPTER 7: LESSONS AND RECOMMENDATIONS

Numerous lessons for reshaping Uganda's cooperatives have been picked through this research. Recommendations have also been made to cooperatives, government and development partners.

## **Lesson 1:**

**Inconsistencies and incompleteness in the provisions of the laws and regulations that are unsettling cooperatives from trusting their sector as one that can deliver their businesses and social aspirations.**

The cooperative societies act Cap 112 in its current form together with the Cooperative Societies Amendment Bill 2014 as well as the Tier 4 Microfinance & Money Lenders Act , 2016 do not provide a reliable conflict management mechanism.

The existence of three different laws directly governing cooperative businesses may be a straight bullet to the cooperative movement. SACCOs are also faced with a tripartite legal regime just as the Cooperative Bank of Uganda at the time of licensing as a commercial bank was faced with a dual legal regime<sup>103</sup>. The proposed large SACCO regulation equally has a distinct resemblance with the regulations for MDIs most of which are registered under the company act. The unique attributes of the cooperative business model will need to be considered in designing and amending some sections of the laws otherwise these laws may shape cooperatives into other entities.

## **Recommendations:**

### **Government of Uganda**

Collaborate with the cooperatives, listen to their interest, communicate and explain your proposals and together agree on laws and policies that take care of both interests. For the case of the Tier 4 Microfinance & Money Lenders Act , 2016 2016, there is room for amendments and if resources allow for the SACCO section to be moved back to under MTIC where all other cooperatives are being supervised and regulated. Experiences elsewhere indicate that laws that have not benefitted from Cooperative need to work with the government to agree on the best possible ways of ensuring supervision of cooperatives.

### **Cooperative Movement**

Approach government with detailed alternatives that speak to your industry needs. In the case of the cooperative societies amendment bill 2014, now is the time to put forward what you would like to see in the law. Seek to understand why the government has made specific proposals and engage them for further understanding to avoid unnecessary tensions that strain both efforts

### **Development Partners**

Partner with government and the cooperatives by bringing in expertise, financing to support education and advocacy efforts geared towards reducing the literacy and knowledge gaps that inhibit the full engagement of the members of the movement.

<sup>103</sup> Commission of inquiry report into the closure and sale of Cooperative Bank of Uganda.

**Lesson 2:****The Mandate of the Uganda Microfinance Regulatory Authority is extensive**

Regulation and supervision of the cooperative movement is timely and will go along way in ensuring that the movement grows, except the laws need to be user-friendly and accommodative of every party's need. However, the role of UMRA in regulating Money Lenders, SACCOs, Microfinance Institutions, Self Help Groups is enormous and complex. While the common denominator is the business of finance, the uniqueness in organization and practice will require vast sums of funds, and human resource with unique skills. This law has come at a time when no one knows what the total numbers are. Just like the self-help groups and SACCOs, it may be speculation to state how many are truly operational. The money lender's previous law was enacted in 1952, and so over the years, there has not been any strict regulation. The sector, therefore, attracted loads of persons and companies whose operations are not clear yet people will not care where the money is coming from for as long as they get the money. So regulating this mix of institutions under one authority may prove inefficient.

**Recommendations:**

The government should explore a Cooperative Development Authority under the Ministry of Trade, Industry and Cooperatives under which different directorates including that of SACCOs could be established to harmonize the supervision of the cooperative movement. With the cooperative sector moving towards the integrated model it is counterproductive to have the financial counterparts under a different ministry. The Kenyan cooperative sector has been kept together making it easy for the government to supervise and regulate. Then the rest of the institutions can further be regulated in a phased approach to enable the regulators time to grow.

**Lesson 3:****Financial dependence a long-term burden**

The cooperative model is meant to teach self-responsibility and independence; however, a majority in Uganda are still stuck with the waiting mentality. Cooperative business registration is not strict enough to access purpose, mission, and viability. During the cooperative hey days, the government was deliberate on registering cooperatives which met undoubtedly prescribed criteria to avoid duplication and resource wastage. Although MTIC monitors registration, the parameters are not those that deter premature business ideas with non-committed members. Hence the "large numbers" generating "small sums."

**Recommendations**

The cooperatives should go back to the core principles of the cooperative model and ensure that by the time they register they will be able to live within every purpose that is engrained in each of those principles.

For government, education on cooperative identity is a crucial component that should be emphasized through the cooperative assistants and officers if designated. The finalization of a cooperative centric law will further ensure independence and autonomy.

Meanwhile, the development partners must provide support based on business plans that promote the needs of the members. This support should target ICT infrastructure and value addition equipment. There should be a reduction in paying recurrent cooperative costs because this breeds commission agents of donor money.

#### **Lesson 4:**

##### **Absence of a competent, cooperative conflict management mechanism a big deal for cooperative growth**

The absence of a cooperative conflict management mechanism cannot be overstated. Cooperatives are grappling with unresolved cases while others are stuck with new issues that neither the arbitration nor the court system has helped with.

##### **Recommendations**

Both government and cooperatives under UCA should find a lasting solution for conflict management. As already discussed in detail under the legal section, Uganda could replicate the cooperative tribunal model which is currently working well in Kenya.

#### **Lesson 5:**

##### **Cooperative Education a spring board for cooperative development**

The moving of cooperative education from MTIC to MoES compromised its quality by creating gaps in curriculum development, undermining industry linkages. The absence of cooperative education experts further weakens the quality of course content and methodology of delivery and the quality of the graduates thereof.

##### **Recommendations**

- Reinstating cooperative education back to the Ministry of Trade Industry and Cooperatives.
- Government increasing investment for educating cooperative officers and department staff
- Cooperatives expanding the education reserve fund from 1% to 3% percent to enable them engage in bigger education programmes for members and staff. This will be one of the ways of promoting the service's role that cooperatives ought to provide their members

- Uganda Cooperative Colleges should increase and strengthen collaboration with existing local, regional and international accredited training institutions. This would increase the number of local cooperative professors who eventually would work on curriculums and syllabi that would upgrade the colleges to university level.
- A revival of the District Farms Institutes as well as the Trade and Training Centres at the district level could enhance linkages between the various government, donor and private sector programmes as well bring closer the training and capacity building programmes to the ordinary people.
- Developing simple material for adult learners in the local language, the practical nature of cooperative business makes it convenient to use less worded materials.

## Lesson 6:

### **Robust record-keeping infrastructure and skills boost for continuous research and analysis**

Records, information, and reporting about cooperatives is a challenge, however, the investment in infrastructure and expertise to improve on data capture, analysis and reporting are negligible with many cooperatives complaining of the expense that comes with it. And yet if cooperatives do not invest in information, innovation and research technology, other private sector players may out-compete them as was the case with the cooperative bank which lacked the ICT skills and infrastructure and was outcompeted by foreign banks.

### **Recommendations**

Like their counterparts in other parts of the world, joint ownership of ICT solutions will bridge the gap. In Kenya, there is a Cooperative Communications holding whose core mandate is delivering ICT solutions for the market. This is an initiative which is promoting the ownership of seamless information solutions. The solutions are developed in tandem with the data and reporting requirements of the industry.

Regarding research, collaborations between government, private research institutions and the cooperatives will enable the development of a universally accepted set of tools for data capture, analyses, and reporting. Countries like Canada, Italy can offer good case studies on how collaborations are working in ensuring robust information and research infrastructure.



## 7.2 Areas for futures research

- Examining how large membership numbers in primary cooperatives is affecting the promotion of democratic virtues in cooperatives
- Exploring the potential of public, private partnerships in propelling the growth of cooperatives in Uganda
- Comparative study on the efficiency of the cooperative model versus the VSLA model for rural development.
- Exploring what is unique about Ugandan cooperatives? Are there any locally originated intellectual properties that can be preserved and promoted?

Conclusively, despite efforts by all stakeholders in the cooperative movement, the research has established that the absence of cooperative identity in the work of government, that of cooperatives and development partners is the reason for all the challenges facing the movement today. All initiatives must, therefore, be aligned to the cooperative identity and Uganda will have the most vibrant cooperative sector ever. Cooperatives have reached a decisive moment, to either keep to the cooperative identity and prosper or waiver around in all forms of character, lacking integrity and as sense of purpose and perish. A fork in the road!

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