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PRODUCE AND MARKETING COOPERATIVES ARE BETTER
VEHICLES FOR POVERTY ALLEVIATION

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The views expressed in this publication are neither for the Centre for Policy Analysis nor its partners

Abstract

Over the years, the number of SACCOs that have proliferated both in rural and urban parts of the country has been impressive mainly as a result of the self-desire by the masses to save for personal development. The same can be attributed to the promotion of SACCOs by the current regime as a strategy for achieving socio-economic development especially in the rural areas which are ridden with poverty. However, cognizant of the fact that Uganda's economy is largely agrarian and of a subsistence nature, low productivity is inevitable. Consequently, the population hasn't been able to ably save and reduce the levels of poverty.

The policy paper attributes the aforementioned predicament of a number of rural farmers, *ceteris paribus* to the stagnation and collapse of the vehicles; produce and marketing cooperatives that offered the necessary agricultural support. Cooperatives offered a certainty of markets to farmers, thus encouraging productivity but most importantly offered a higher bargaining stance for their members among other things.

This paper will argue for the importance and the role of both produce and marketing cooperatives and SACCOs in advancing socio economic development especially in rural areas. It further juxtaposes both strategies' pros and cons and whether it is feasible for the government to advance one of the two or both of them concurrently.

Introduction

The 1995 Constitution of the Republic of Uganda provides for freedom of association under Article 29 (1) (e). For the cooperative sector, the Constitutional provision is effected by the Cooperative Societies Act 1993 and the Tier IV Act and Money lenders Act 2016. The legal provisions empowers citizens to freely form any such associations of their choice, inclusive but not limited to those of an economic nature. The extent to which several cooperative unions and credit societies have been formulated throughout the country to better organize the members for economic growth is premised on this provisions.

Cooperative unions are defined differently in distinct economies and societies. However, the International Cooperative alliance defines the notion as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a

jointly-owned and democratically-controlled venture¹. The above definition can therefore be deduced to mean that a cooperative union can be agricultural, banking, saving and credit cooperative organization among others.

The first cooperative unions to be formed in Uganda were produce and marketing unions in 1913. They were formed by coffee and cotton farmers who sought to fight against exploitation by the European and Asian traders who controlled both the domestic and export markets². The institutionalization of the initial cooperatives however catapulted the creation of other cooperatives in transport, finance among others country wide

As much as the advent of the produce cooperative movement was reactionary to exploitation, the initiation of Savings and Credit Co-operative Societies (SACCOs), was more of the role of the foreign missionaries. SACCOs first emerged in Uganda in 1946 and were mainly a reserve of civil servants³. The first SACCO established in Uganda was the African Civil Servants Co-operatives Thrift and Loan Society Limited of Kampala with the idea of establishing a lasting socio-economic structure that promoted self- help and reliance among civil servants⁴.

Current state of SACCOs and Produce Cooperatives

The Second National Development Plan (NDP II) which runs from the financial year 2015/16 to 2019/2020, assigns equal importance to both the produce and marketing unions and SACCOs in promoting economic development.⁵ It is cognizant of the fact that the produce and marketing cooperative unions emerged earlier than the SACCOs, although the later seems to be more active than the former. According to the Cooperative Societies (Amendment) Bill (2016), there are 12,615 registered cooperatives in the country, of which 47% are SACCOs. The evident rapid growth of SACCOs can be attributed to the political favor and support they enjoy compared to their counterparts (produce unions).

Historically, Produce and Marketing Cooperative unions have significantly suffered because they were cauldrons of political dissent. During the National Resistance Army war of 1981-1985 that was led by

¹International Cooperative alliance (See <http://www.newworldencyclopedia.org/entry/Cooperative>)

²<http://www.uns-sacco.org/forms/History%20of%20Cooperatives.pdf>

³Kabuga, C and Batarinyebwa, P.K. (1995). Co-operatives: Past, Present and Future. Uganda Co-operative Alliance Ltd, Kampala.

⁴Ibid

⁵ National Development Plan, Pg. 173, para. 532

the current president of Uganda H.E Y.K Museveni against the Dr. Apollo Milton Obote administration, many produce and marketing cooperatives like West Mengo, Wamala and East Mengo, Banyankole Kweterana and Masaka Co-operatives lost their properties⁶. Some of them like Banyankole Kweterana have received assistance from government after a long time but limited to guaranteeing loans⁷. Others are yet to receive their compensation. The liberalization of the economy that started in 1987 was almost the last blow to these cooperatives. Many of them had already lost property and capital, they couldn't afford to compete with both domestic and foreign businessmen and finally collapsed.

For a number of years, government has been planning to compensate cooperatives that lost their property. In the 2016/17 financial year, government provided compensation of UGX 5 billion for the assets lost by the Masaba Cooperative Union.⁸ The Ministry of Trade and Cooperatives hopes that clearance of the remaining UGX 45 billion in war debts that the government owes to produce and marketing cooperatives will pave way for the reestablishment of the cooperative bank to ease financing of agricultural production and marketing⁹.

SACCOS on the other hand have immensely benefited from both political and economic policies of the government. Government programs such as having a SACCO in every sub county, as indicated in the Rural Financial Service Strategy of 2006, has equally facilitated their growth. Additionally, in 2014, Parliament approved a government request to borrow USD 29.3m to invest in SACCOs.¹⁰ This was followed by the consequent passing of the Tier IV bill to regulate the SACCOs in 2016. The political and economic favor for SACCOs was sealed recently after the Income Tax Amendment Bill 2017 was passed by Parliament. The Bill exempts SACCOs from paying taxes for the next 10 years. The above notwithstanding, SACCOs have enjoyed donations from the head of state¹¹.

Gaps in the current legal framework

⁶<http://www.uns-sacco.org/forms/History%20of%20Cooperatives.pdf>

⁷<http://www.monitor.co.ug/Magazines/Farming/Marking-100-years-of-cooperatives-in-Uganda/689860-2015428-q9b56bz/index.html>

⁸ Ministry of Trade, Industry and Cooperatives Ministerial Policy Statement for FY2017/18.

⁹Ibid

¹⁰<http://parliamentwatch.ug/is-it-viable-for-government-to-invest-in-saccos/#.WXV8fyiGPIU> (Accessed July, 24, 2017)

¹¹For example see <http://www.chimpreports.com/12116-museveni-donates-shs50m-to-butambala-sacco/> and <http://mobile.monitor.co.ug/News/2466686-1185396-format-xhtml-fcjef3/index.html>

Hitherto the enactment of Tier IV Microfinance Institution and Money Lenders Act in 2016, all cooperatives had been regulated under the Cooperative Societies Act of 1991. The 2016 Act that specifically regulate SACCOs and money lending was enacted as a result of SACCOs posing a big challenge to effective regulation despite the huge public investment. Borrowers seldom paid back monies taken from SACCOs on account of the existing law not permitting SACCOs to lend and also their leaders' misusing] the available savings.

The capacity of the Tier IV Act to fully regulate the sector is yet to be tested. The Microfinance Regulatory Authority which is charged with supervision, registration and licensing of SACCOs hasn't been established yet. Similarly, the SACCO Protection and stabilization fund which are supposed to assist SACCOs in case of any financial challenges have faced the same fate. However, before giving chance to this recently enacted law, Ministry of Trade presented to Parliament the Cooperative Societies Amendment Bill 2016 and one of its objects is to further strengthen the regulation of SACCOs. An indication that SACCOs are posing a big challenge to effective regulation and monitoring by the state.

For Produce and Marketing cooperatives, the challenge is not the law but less government support. As noted above, early this year, Ministry of Trade laid in Parliament an Amendment Bill to the Cooperative Societies Act which is under consideration by the Parliament Committee on Trade, Tourism and Industry. It is intended to strengthen the regulation of all types of cooperatives considering the current diversity in the cooperatives. In addition to strengthening regulation and promoting good governance in cooperatives.

However, Clause 2 and 24 of the bill seek to give the Registrar powers to deregister cooperative societies and to inquire into the constitution, working and financial conditions of the registered cooperatives without the permission of the Board respectively. These proposals need to be revisited otherwise they appear to grant the Registrar with discretionally powers which can be easily abused.

The most suitable model to alleviate poverty among the two

Much as SACCOs are viable mechanisms for promoting a saving culture in the country that can eventually lead to surplus credit in the economy to facilitate both public and private investments, in their current state, SACCOs will have problems achieving this. SACCOs face a lot of political interference (some of them are started by politicians and many were initiated after the Kyankwazi Convention of 2007, most which have since collapsed), they're weak, and lack qualified human

resource¹². This is mainly attributed to the high poverty levels in the country that can't enable adequate savings to recruit qualified and technical human resource. Many of the existent SACCOs struggle to recover their principals from the borrowers due to weak laws, lack of capacity to offer enough investment and financial literacy to members¹³.

In light of the above, government should take deliberate efforts to encourage participation, invest and enhance production in the primary sectors of the economy which in this case for Uganda is agriculture. Recognizing the high poverty levels in the country to the extent that many families can't even afford to feed themselves, the government's primary efforts ought not to be on promoting growth of SACCOs because there is nothing to save but empower the communities to produce first.

This situation can be salvaged by revitalizing the produce and marketing cooperatives. Each individual can contribute produce to a pool of produce which in this case is a cooperative. Collective bargaining power can save farmers from exploitative markets, lack of storage facilities and can even go an extra mile in providing safety nets to members in the event of unpredictable seasons. These mechanisms offer a great opportunity in addressing poverty and increasing productivity in the agricultural sector which is currently employing about 78% of the country's population in agricultural extension services, post-harvest handling, transport and marketing among others. However, it's important to note that produce and marketing cooperatives are not immune from corruption and mismanagement by their leaders. They as well require close and strict supervision and support by the state.

Government take on cooperatives

The government's tabling of the Cooperative Societies Amendment Bill 2016 in Parliament is a step in the right direction to give full effect to the National Cooperative Policy. Parliament should ensure that the law provides for commodity based produce and marketing unions, stabilization fund, and give them monopoly to market agricultural produce as it was in the early 1960s and prohibit politicians from taking leadership roles.

Government should further take fiscal measures to pay the debts it owes to various produce and marketing cooperatives, allocate resources to renovate and construct storage facilities and support

¹² Uhuru Institute for Social Development, Centre for Basic Research, Action aid International Uganda. The Cooperative Movement and the Challenge of Development; A Search for Alternative Wealth Creation and Citizen Vitality Approaches in Uganda, 2013 pg. 14

¹³ Ibid pg.15

with transportation facilities, in addition to extension of long-term tax exemptions and empowering the department of cooperatives in the Ministry of Trade, Industry and Cooperatives to fully support, supervise and monitor the cooperatives. All these need to be supplemented by both civil society and government concerted efforts of massive education of the masses on the vital role of promoting economic growth especially the rural economy. This is based on the limited knowledge of the current generation of young people in produce and marketing cooperatives.

Administratively, there is need for government to restructure the cooperatives into one mother ministry. Currently, one leg of cooperatives is the Ministry of Trade, Industry and Cooperatives under the Minister of State for cooperatives and the other is in the Ministry of Finance, Planning and Economic Development under the Minister of State for Microfinance.

Conclusion

The cooperative movement is as old as the human endeavor¹⁴. Human beings tend to have the inclination to jointly work together to overcome what can't be solved individually¹⁵. Therefore, the cooperative approach to the management of business is not new or distinct to any tribe, race or country¹⁶ reason why cooperatives are spread across the whole country. Government ought to adopt both strategies (SACCOs and produce and marketing cooperatives) in the fight against the skyrocketing poverty in the country, well-functioning produce cooperatives will eventually feed the SACCOs. This will eventually lead to increase in credit in the domestic market and reduce over dependency on foreign credit which is expensive. Thus, SACCOs should be secondary and produce and marketing cooperatives primary as engines of facilitating a sustainable saving culture.

¹⁴Ibid pg.18

¹⁵Kabuga, C and Batarinyebwa, P.K. (1995). Co-operatives: Past, Present and Future. Uganda Co-operative Alliance Ltd, Kampala.

¹⁶Kyazze M; Cooperatives: The sleeping economic and social giants in Uganda; International Labour, Coop AFRICA working paper; No.15, 2010

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