

A Framework for Strengthening and Sustaining Cooperatives for Socio-Economic Transformation in Uganda

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Abstract

The importance of cooperatives as an appropriate mechanism to address productivity challenges and drive Uganda's economy for socio-economic transformation is commonly advanced. However, the discussion and efforts on how this should be achieved are weak. Efforts that have been undertaken by the Government, Private players, Civil Society and Development Partners have not yielded much to unlock the potential of the cooperatives in fostering development, enhancing production, productivity, and socio-economic transformation. This is attributed to weaknesses of the prerequisites necessary for the vibrancy of cooperatives namely the: culture of cooperation and trust among cooperators; legal, policy, and regulatory framework for cooperatives; cooperatives' enabling institutions; prevailing socio-economic environment; and the political economy. This paper uses a multi-dimensional methodology that includes learning from literature; case study analysis; expert-focused interviews; field studies, and; survey questionnaire administration of various types of cooperatives. To this end, the paper defines a framework under which Uganda should strengthen and sustainably regulate its cooperative movement to unlock its potential to drive its socio-economic transformation. In particular, a novel cooperatives' viability condition in a liberalized market is developed.

Keywords: cooperatives, socio-economic transformation, political economy, Uganda

1. Introduction

Low production and productivity are development challenges hindering socio-economic transformation in Uganda (Dennis, Taye, Yutaka, & Zeufack, 2016). This is in all sectors of the economy but is more pronounced in agriculture (Gollin, Mugenyi, & Rwitika, 2016) which employs a majority of Ugandans (about 70 percent). The relative productivity of labor (value-added per worker) in the agricultural sector is significantly lower than that in the non-agricultural sectors and has been declining over time. Agricultural Total Factor Productivity (TFP)¹ grew between 1961 and 1981; however, it then began to decline since then (Fugile & Rada, 2013). It decreased annually by about 1.3 percent from 1991 to 2006 (World Bank, 2011).

Addressing low production and productivity in Uganda calls for increasing agriculture sector productivity. To this end, the Government has come up with targeted agricultural policies and several programs. This is in addition to efforts by the Private Sector, Development Partners, and Civil Society. However, despite all these efforts, the performance of the sector continues to be dismal. Perhaps missing in all these multi-stakeholder efforts is a vibrant delivery mechanism. There is apparent consensus by key stakeholders, that the strengthening of cooperatives is the gateway to increasing productivity of the agriculture sector and the economy in general from this present dismal performance (Action Aid, 2013).

Cooperatives have been suggested as an appropriate delivery mechanism to address productivity challenges and boost the economy. Cooperatives are 'autonomous associations of persons united voluntarily to meet common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise'

¹The ratio of total output to total inputs. A 1 percent increase in TFP, for example, means that 1 percent fewer agricultural resources are required to provide a given bundle of crop and livestock products.

(International Cooperative Alliance, 1995). Due to their democratic and locally autonomous nature, cooperatives have a potentially strong role in reducing poverty and social exclusion and promoting rural and national development (Develtere, Pollet, & Wanyama, 2008; Birchall, 2003). It is for this reason that cooperatives have been promoted virtually in all African countries since the colonial period.

For Uganda, agriculture-specific characteristics provide a need for cooperatives. The agriculture sector is dominated by small-scale, un-specialized, and scattered farmers that are inefficiently connected to markets. Without cooperatives, it is expensive to provide extension services, farm inputs, finance, and efficient produce for the market. This limits efforts to improve production and productivity in the sector.

Indeed, Uganda's history provides some merit to suggestions that cooperatives can engineer an agricultural revolution. Agriculture productivity in Uganda has mirrored the health of cooperatives, that is; productivity grew at the time when cooperatives were booming and has since been in decline as cooperatives struggle. Cooperatives in Uganda enjoyed their most illustrious period between 1950 and 1970 as the main drivers of production and productivity (Kyazze, 2010). This was evidenced in the agricultural boom at the time; for example, by 1965, the total value of agricultural produce sold through co-operatives including coffee, cotton, and other minor crops and animal products amounted to over 70 percent of all produce. In addition, co-operative unions handled 61 percent of all cotton bales, 40 percent of the Robusta coffee, and 90 percent of the Arabica coffee (UNDP, 2016).

There is a strong Government commitment to using cooperatives to enhance production and productivity (Kwapong, Lubega & Illukor, 2013). The Third National Development Plan (NDPIII) recognizes the need to revamp the cooperative enterprises given their role in empowering members (National Planning Authority, 2020). This cooperatives' empowerment of members is illustrated through access to economic and social services like financial services, delivery of inputs to farmers, access to markets, enhancing small-scale producers' bargaining power, and imparting skills for better production and marketing services. Further, Government has encouraged the organization of the population into cooperatives to reap from the economies of scale at both the production and marketing levels. Indeed, according to the Ministry of Trade, Industry, and Cooperatives, the number of cooperatives in Uganda has grown over years from 5,451 in 1986 to 11,020 in 2010, to 15,583 in 2015 and 31,733 by November 2021. The majority of cooperatives are Savings and Credit Cooperatives (SACCOs) and agricultural marketing cooperatives.

Government efforts to resuscitate cooperatives are yet to make them regain their historical levels as drivers of production and productivity. A majority of the production-based cooperatives collapsed in the early 1990s. Those that have survived are not vibrant. The major reasons for most of the cooperatives' collapse include poor cooperative leadership and management, political factors, and competition from middlemen, which cooperatives were not able to handle after liberalization (Kwapong, Lubega, & Illukor, 2013; UNDP, 2016). To date, the majority of cooperatives are still facing these challenges.

The debate on how to strengthen and sustain cooperatives in Uganda is not clear. Indeed, despite all the efforts undertaken by the Government of Uganda, private players, Civil Society and Development Partners, they have not yielded much to unlock the potential of the cooperative enterprises in fostering development and enhancing production and productivity. This is attributed to weaknesses along the necessary prerequisites for co-operatives to be vibrant namely: the culture of cooperation; the trust among cooperators; the legal, policy, and regulatory framework for cooperatives; cooperatives' enabling institutions; prevailing socio-economic environment; and the political economy. Therefore, understanding and addressing these weaknesses in Uganda's unique context is critical for the much-needed revitalization of Uganda's cooperatives.

In light of Uganda's unique historical, political, socio, and economic realities; defining a framework that addresses the cooperative sector challenges in this context, is required to underpin their success. To this end, the paper uses a mixed-methods approach methodology comprising literature review, expert interviews, and selected in-depth case studies to propose how effectively the framework of cooperatives can be sustainably strengthened to drive Uganda's economic transformation.

The rest of the paper is organized as follows: Section Two reviews the literature on cooperatives; Section Three presents the methodology while Section Four discusses emerging lessons.. Section Five defines the feasible framework for revitalisation of cooperatives while Section Six concludes.

2. Literature Review

2.1 Conceptual Framework

Mazzarol et al. (2011a) specify that cooperatives should be examined from three perspectives, i.e.; members, a business entity, and wider systems. This framework seeks to address the co-operative at the macro-environment or "systems" level and to capture the two-way relationship between the co-operative and its socio-economic environment. The framework also considers the three primary objectives for cooperatives, as the need to build: identity; social capital; and

sustainability. Additionally, vibrant cooperatives are based on aspects of; purpose, profit formula, key processes, and key resources for a vibrant cooperative system (Mazzarol, Limnious, & Simmons, 2011b; Osterwalder, Pigneur, & Tucci, 2005; Teece, 2010).

The conceptual framework presented by (Mazzarol, et al., 2011a) entails aspects of the five major key themes which are discussed in detail in this paper. For example, aspects of the internal organization and governance help in building member identity and commitment through; service quality, member satisfaction, perceived value, member loyalty, member identity, and membership commitment. Additionally, it involves other aspects of building sustainability and a resilience architecture. This is done through adaptability and transience; building effective cooperative lifecycles and solving generic problems among others.

A successful cooperative system also requires an efficient socio-economic environment; this is achieved through building social capital and economic capital. Economic capital involves the creation of jobs, wealth, and the acquisition of assets whereas social capital involves elements of trust, reciprocity, and networking. A good socio-economic environment also helps cooperatives to build a strong industrial or business structure by becoming competitive, developing both buyer power and supplier power, and eliminating threats to entry and substitution.

A developed institutional framework is necessary for cooperatives to be vibrant; this is exemplified in aspects of an efficient Government’s role; vibrant financial services; efficient auditing services; up-to-date cooperative education; and cooperative marketing among others. Efficient institutions are needed to strengthen the management and institutional capacity of cooperatives, especially regarding maintaining the cooperatives' code of conduct, dispute resolution, protection of member’s savings, and provision of education.

An appropriate policy, legal and regulatory framework provides an enabling environment for cooperatives to operate and thrive. This should be witnessed in favorable cooperative laws; favorable economic policies; favorable social policies; favorable market interventions; tax laws and competition laws among others. Relatedly, a country’s political environment is critical to the success of a country’s cooperative system. A cooperative system will be vibrant if aspects of political control or cooperation are handled well. Additionally, the economy must be peaceful and safe for these cooperative activities.

International Cooperative Alliance (2013) and Sumelius, et al. (2013) conceptualize cooperatives as an identity that can only be successful if aspects of the legal framework, capital, participation, and sustainability are solved.

This study synthesizes the literature to propose a feasible framework for the revitalization of Uganda’s cooperative system. It is based on five key aspects which include: socio-economic environment; political economy; internal organization and governance; legal and legislative framework and enabling institutions.

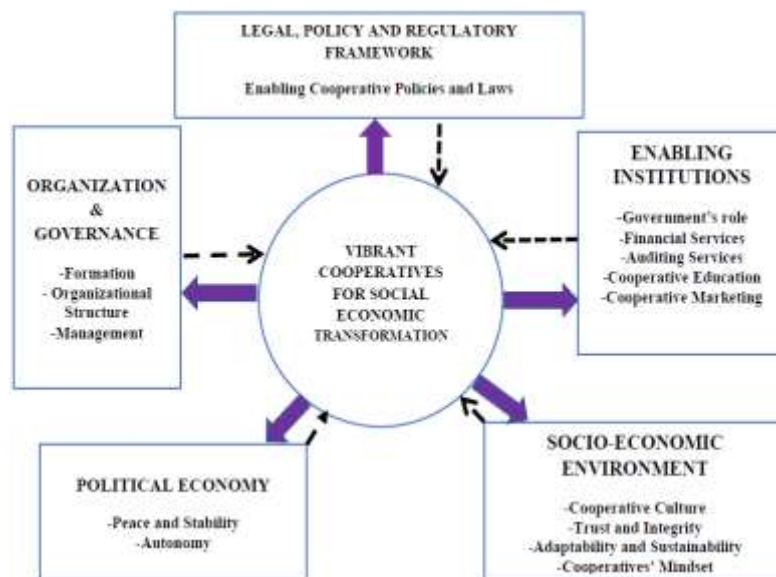


Figure 1. Illustration of the Conceptual Framework for the Revitalization of Cooperatives

Source: Authors’ articulation²

² Arrows show the direction of influence whereas the dotted lines imply coordination and feedback aspects within the framework

At the member level, cooperative members are motivated to support the cooperative for different reasons. (Fairbairn, 1994) pointed out that the way investment returns and profits are distributed within a cooperative has significant strategic implications. The cooperative enterprise-level focuses on how the cooperative business model values its members. Ultimately, the system level of the conceptual framework consists of six elements; four of which are inputs and two of which are outputs. The four inputs relate to the need for social cooperation in the country; the role of Government; the structure of the industry in which cooperatives operate; and the effects of nature. The two inputs relate to both the economic and social capital.

3. Methodology

The paper uses a mixed-methods approach comprising literature review, expert interviews, and selected in-depth case studies to propose how effectively the framework of cooperatives can be sustainably strengthened to drive Uganda's economic transformation. Specifically, the study uses:

- a. A review of published and unpublished literature on cooperatives was done to provide lessons for the revitalization of cooperatives. Specifically, the trend of the cooperative movement in the country was reviewed, during the pre-colonial period, through the colonial era, the early post-independence period, and the current era of economic liberalism. This included understanding the underlying legal, policy, and institutional frameworks; and international experiences.
- b. In-depth interviews of experts, including policymakers and members of cooperatives were undertaken. These included the Minister of State for Cooperatives, The Registrar of Cooperatives, and the staff of the Department of Cooperatives at the Ministry of Trade, Industry, and Cooperatives (MTIC); Bank of Uganda Officials specifically on Agricultural Credit Finance (ACF); and National Planning Authority.
- c. Selected field case studies were undertaken. Field studies help to capture some of the necessary qualitative aspects that may not have been acquired through the Focused Group Discussions (FGDs). The survey sample involved cooperatives from different regions of the country, that is, Northern, Central, Eastern, Southern, and South-Western regions. This was done to capture regional-specific differences. Additionally, the sample involved both long-standing (traditional) and recent (new) cooperatives to capture the different dynamics between the two categories of cooperatives. The sample also included success cooperative stories and failures to learn from both experiences. Different types of cooperatives were also involved in the sample; these involved agricultural cooperatives, multipurpose cooperatives, and financial cooperatives among others. Case studies from specific cooperatives were also done on: Bugisu Cooperative Union, Gumutindo Cooperative Union, Banyankole Kweterana Cooperative Union, Nyakatonzi Cooperative Union-Kasese, Kayunga ACE, Amuka cooperative Union-Lira; Acalt SACCO-Lira; Agweng Farmers' Cooperative-Lira; Arapai Fruit Growers- Soroti; Katine Joint Farmers' Cooperative -Soroti; Kamuda Fruit Growers – Soroti; Busiu SACCO-Mbale; Epicenter Rural Financial Facility- Bungokho, Mbale; Wamala Cooperative Union-Mityana; and Masaka Cooperative Union. The case study methodology was chosen because it offers a suitable opportunity for an in-depth understanding of cooperative dynamics in an environment where there is limited established theory.

4. Emerging Lessons from Findings

4.1 Lessons from the History of Ugandan Cooperatives Before, During, and After Liberalization

The first cooperatives in Uganda were created to curb the market exploitation of producers by middlemen. In the 1910s, the distribution of economic roles along the value-chain by the colonial government was race-based as indigenous farmers were restricted to the low earning cultivation (UNDP, 2016; Action Aid, 2013). Cooperating is a way for indigenous farmers to rally against the restrictions, obtain economies of scale, and increase their bargaining power. As a result, the first cooperative society, "Kinakulya Cooperative Society", was established in 1913 and many others followed thereafter (Kabunga & Batarinyebwa, 1995). But the early cooperatives operated informally as they were denied recognition and legal status by the colonial government. Initial efforts to legalize and formalize cooperatives were met with a limited response by cooperators for fear of Government control (UNDP, 2016; ActionAid, 2013; Kwapong, Lubega & Illukor, 2013; Mamdani, 1976).

The autonomy given to cooperatives by the Cooperatives Societies Act (1952) unlocked their productivity. However, this autonomy was reduced by the revised post-independence Cooperatives Societies Act (1963). Nonetheless, cooperatives continued to thrive as they benefited from the Government's support of the provision of public goods. Between 1952 and 1962, there was a 100 percent registration of cooperatives, membership increased eight-fold to 252,378 and the yield of crops increased six-fold (UNDP, 2016). In addition, cooperatives were permitted to operate

cotton ginneries and coffee curing plants while at the same time receiving financial backing from the government (Kabunga & Batarinyebwa, 1995). The government created Bukalasa Cooperative College in 1963 and later the Kigumba Cooperative College in 1964 to provide educational services for cooperatives. Additionally, the Cooperative Development Bank was created in 1964 to mobilize cooperative savings and generate savings for cooperative development (UNDP, 2016). As a result, agricultural productivity rose.

Marketing Boards were created to bulk trade and collect foreign exchange on behalf of the Government. However, they monopolized trade leading to the weakening of the cooperatives' performance. These Boards were mismanaged by civil servants leading to a decline in agricultural marketing and productivity (Mrema & Ndikumana, 2013). The revised Cooperatives Act (1970) attempted to address mismanagement, corruption, and embezzlement. However, given the political economy at the time it took away all the remaining autonomy of cooperatives. This further dampened their productivity.

Political instability and war in the early 1980s directly and/or indirectly further dampened Cooperatives' activities. The then Government administration attempted to revive cooperatives using them as instruments of rural development but was overcome by excessive government involvement and political instability. The guerilla war interrupted cooperative activities and destroyed a lot of property and lives, especially since it took place in cooperative movement strongholds. Notable among the cooperatives that were directly affected include; Masaka Cooperative Union, Banyankole Kweterana, West Mengo, East Mengo, and Bugisu Cooperative Union (BCU) among others (UNDP, 2016). Indirectly, political instability led to looting and vandalism of the productive assets, which dampened the effective operation of cooperatives. To date, some cooperatives are still grappling with these effects.

With economic liberalization, the Government divested its interest in cooperatives, withdrew direct support to cooperatives, and abolished the monopoly along the commodity value chains. However, cooperatives were not adequately prepared to survive in a liberalized and competitive market.

The immediate effect of liberalization was the collapse of many cooperatives mainly because they were not prepared to stand on their own. The timing of liberalization was not conducive for them to survive in this environment given the adverse effects suffered during the war and the unstable economic environment at the time. In the background of heavy indebtedness, severe weaknesses in entrepreneurship, management, and commitment to leadership, cooperatives would not compete with new investors with superior organizational and managerial capabilities, with access to cheaper capital and better technologies to obtain produce from farmers for marketing (Nannyonjo, 2013). Yet, amidst challenges, some cooperatives survived because of internal strength which enabled them to adapt to the new economic environment.

Liberalization led to a proliferation of a diversity of cooperatives largely away from agricultural production to service and consumption, among others. By November 2021, Uganda had 31,733 cooperatives. The majority of these cooperatives are SACCOs and agricultural marketing cooperative societies. In particular, SACCOs have become more prominent to largely fill the financing vacuum created by the collapse of the credit facilities which were embedded in the cooperative network.

To overcome the effects of liberalization, a new organizational structure of cooperatives, parallel to the traditional setup, has evolved creating a leadership gap within the cooperative movement. Traditionally, cooperatives were organized in a hierarchal order with farmers at the lowest tier and the marketing boards at the highest tier (Kwapong & Korugyendo, 2010). The new parallel organizational structure operates through Rural Primary Organisations (RPOs) and Area Cooperative Enterprises (ACEs). While the new and old structures are not any different, the old structure is more organic and the new is more top-down, majorly driven by development partner financing.

4.2 Lessons from Selected National Case Studies

Experiences from selected cooperatives have provided useful lessons. The selected cooperatives include Bugisu Cooperative Union; Gumutindo Cooperative Union; Banyankole Kweterana Cooperative Union; Nyakatonzi Cooperative Union; Kayunga ACE; Amuka cooperative Union-Lira; Acalt SACCO; Agweng Farmers' Cooperative; Arapai Fruit Growers; Katine Joint Farmers' Cooperative; Kamuda Fruit Growers; Busiu SACCO; Epicenter Rural Financial Facility- Bungokho; Wamala Cooperative Union-Mityana, and; Masaka Cooperative Union. The following lessons emerge.

The formation of cooperatives should not be incentivized by handouts from government or development partners but rather by the deep-rooted interests of members to solve their common problems. Most of the traditional cooperatives that developed through the desire to address a common need/problem were able to create sufficient social capital that is needed for them to survive. Banyankole Kweterana Cooperative Union (BKCU), founded in 1956 by coffee farmers in the region, was formed to get better prices by eliminating the exploitation of middlemen in coffee trading. This built sufficient social capital by maximizing the well-being of members. In addition, the cooperative provided farm inputs, training, and employment opportunities. When it halted its operations in 1999, the common/cooperative problem

persisted. This, in 2003, led its members to negotiate with Government to pay its war debt (Ushs.4 billion, about US\$ 1.5 million). The Union used this money to resume operations by reinstating or buying back dilapidated or lost properties respectively. Bugisu Cooperative Union (BCU) was also formed on similar common needs which enhanced the loyalty and commitment of members (social capital). This also contributed to its survival as its senior members lobbied for government support of the union and protested the selling of union assets. Many members continued to sell through the union and made coffee donations to the union to enable it to raise funds. Such commitment and patronage of the union enabled the cooperative to continue existing amidst challenges (Kwapong, Lubega & Illukor, 2013).

Cooperatives that are formed through the influence of external forces/development partners/civil society have sustainability challenges. Development partners and civil society include USAID, KULIKA, Techno Serve, FAO, PROLIFERA, AMREF, Guardian Newspaper UK, the Hunger Project, and Food Trade Uganda. These partners through Uganda Cooperative Alliance (UCA) provided financing for capacity building for cooperatives. This enabled the setting up of many cooperatives during the liberalization period. However, the sustainability of these cooperatives has been a challenge, particularly after the support is withdrawn. A case in point is Kayunga Area Cooperative Enterprise (KACE), which was formed under the new cooperative organizational structure with the support of development partners through UCA, is struggling to survive.

Cooperatives that are production-based are bound to succeed more than cooperatives that play an intermediation role. The loan repayment rate for most SACCOs is low majorly because they do not have productive units from which these loans can be repaid. A “true” cooperative should have a financial arm and this could make it easy for them to retrieve the loan since they know the portfolio of their members.

Organizational values and good leadership are critical for the survival of cooperatives. Cooperative societies that survived the 1970–the 1980s’ political and economic unrest, and the 1990s’ liberalization challenges did so because of robust internal institutional mechanisms that guaranteed transparency and accountability of the cooperative society leadership. This prohibited the leadership from developing discretionary power which leads to exploitative behavior and thus financial mismanagement that befell many failed cooperatives. For many cooperatives, the leadership was reserved for the elders who perpetuated a ‘Big Men’ culture instead of competencies (Kiranda, 2017). BCU survived because its leadership was based on individual competencies rather than seniority. As a result, its dynamic and visionary leadership appropriately invested during good times and this bailed out the union in times of crisis (Kwapong, Korugyendo, & Illukor, 2013). Also, Nyakatonzi Cooperative Union’s strong management team came up with strategies to adapt to the changing market environment during liberalization by looking for markets and financial support for the union. With no direct Government financial support amidst heavy indebtedness; they hired a competent, innovative manager who effectively managed their operations and was able to repay their debts.

Cooperative finance is central to the survival and sustainability of cooperatives. The closure of Uganda Cooperative Bank in the early 1990s left a deep gap in accessing cooperative financing. This severely affected the cooperatives. The cooperative bank used to provide cooperative affordable financing. However, with the effect of war and economic unrest, most of the cooperatives lost their ability to service and repay their loans. This weakened the Cooperative Bank and partly led to its closure. With the closure of the Cooperative Bank, affordable cooperative financing was lost, leaving cooperatives with expensive commercial financing ranging as high as 40 percent at the time. This adversely affected the cooperative activities as they could not compete with the private traders. For example, BKCU had acquired loans to the tune of Ushs2.6 billion from the Bank using coffee as collateral. However, with the coffee lost during the war, it lost the collateral that could have been used to acquire the finance necessary in running the union activities and faced challenges paying back the loan. Stanbic Bank, which took over its loan after the closure of the Cooperative Bank was not based on the cooperative financing principle, consequently, the union had to sell off its assets to clear the outstanding loan at higher interest rates. Also, Bwetyaba Cooperative Society which had acquired a Ushs6 million loan had to sell its assets to pay UShs24 million to Stanbic Bank in 2003 due to interest.

Alternative/innovative affordable financing has been vital to the survival of cooperatives after the closure of the Cooperative Bank. Due to the high cost of capital in Uganda, several cooperatives have been able to innovatively acquire relatively affordable credit from foreign financial institutions with flexible terms to survive. Nyakatonzi Cooperative Union accesses affordable financing from Rabo Bank in the Netherlands at an interest rate of 8 percent, without collateral. BKCU accesses affordable finance from Shared Finance, a UK cooperative union, through the Cooperative Bank of Kenya at an interest of 8 percent, without collateral, through a tripartite agreement between the lender, the cooperative, and the buyer. It also accesses financing from FESSO in France. BCU has benefited from HSBC Equator Bank of USA which has been providing financing at competitive rates. Also, some cooperatives have been able to access pre-financing for their members through the fair-trade system.

Cooperatives are prone to political capture and abuse. The post-independence leadership in Uganda had been part of the cooperative movement and had benefitted enormously from the cooperatives in their ascendance to power and thus

sought to control and manipulate the cooperative movement (Kyazze, 2010; Nuwagira, 1993)³. The leadership of various cooperatives became de facto representatives of the ruling party with a lot of power to exercise discretion in the decisions of the cooperative administration. In the end, they undertook activities that were in direct contravention of the cooperative society laws (Kiranda, 2017).

Government support in form of essential public goods is required for cooperatives to effectively drive production and productivity. During the liberalization period, cooperatives lost the benefits of government support through direct assistance and subsidized services. In addition to financial support through the cooperative bank, other services included: affordable cooperative education services; auditing of cooperatives' financial accounts; extension; research; and input supply, among others. The Ministry of Cooperatives and Marketing used to provide specialized services for the promotion and development of cooperatives up to the district level, with a dedicated District Cooperative Officer. The District Cooperative Office used to offer cooperative education, training, and auditing services, among others. The current setup does not give adequate attention to the specific needs of cooperatives.

Cooperatives should be distinguished from profit-driven private sector organizations. The taxation policy should reflect the fact that cooperative enterprises operate differently from conventional businesses. While private sector businesses are solely profit-oriented, cooperatives are welfare-maximizing social enterprises. The current taxation practice, however, treats cooperatives as conventional businesses. This limits their ability to balance their welfare-maximizing social objectives and stay afloat at the same time.

4.3 Lessons from International Experiences

The study is further enriched with lessons from international experiences, and the selected countries include Kenya, Malaysia, and Almeria. Unlike other countries, Kenya not only shares the same story on the evolution and policy trend of cooperatives but also offers great lessons toward a strong and vibrant cooperative movement. Kenya's cooperatives are the most vibrant and strongest in Africa, ranking 7th in the World. Cooperatives account for 45 percent of Kenya's GDP and 63 percent of its households' livelihoods (Khumalo, 2014). The Kenyan Cooperative Movement is also the most regulated in Africa and Kenya acts as a role model on the African scene. Like Uganda, Malaysia has had similar pre-colonial forms of cooperation. In addition, cooperatives are also the third largest sector in Malaysia after the Public and Private sectors. By 2011, Malaysia's cooperative movement consisted of over 8,500 cooperatives with a membership of about 9 million people, snowballing to 17 million with family members included. Almeria is studied because its cooperative movement has been able to thrive despite past political turbulences. Further, like Uganda, Almeria has small-holder farmers with an average landholding between 1.4 hectares and 1.8 hectares. Despite this, Almeria has maintained the agricultural cooperatives at the highest level to date.

Cooperative autonomy is critical for the success of cooperatives; however, it should be checked since it is usually misused. In Kenya, in 1997, state control over the cooperative movement was withdrawn. The newly acquired freedom was abused by elected leaders. Many cases of corruption and mismanagement were reported (Manyara, 2003). As such, risks associated with cooperative autonomy need to be managed. The Kenya Co-operative Societies Rules, 2008 managed these risks. In addition, the SACCO Societies' Act, 2008 paved the way for vigorous enforcement of prudential standards for SACCOs. A new policy and legal framework gave prominence to Government's role in supervision and regulation by re-enforcing state regulation. In Malaysia, despite the outstanding performance of the cooperative movement, they have long been associated with a history of cash flow and mismanagement; criminal breach of trust and fraud; and lack of enforcement against members who break the law and deviate from the cooperative principles (Othman, Mohamad, & Mohamed, 2013). The Government responded by creating a statutory body to strengthen the Government's Supervisory role (Yeop, 2007). The law was amended to tighten the regulations and provide better oversight of the movement.

Appropriate institutions need to be set up to strengthen the management and institutional capacity of co-operatives. In Malaysia, the Cooperative College of Malaysia (CCM) is responsible for the provision of training and education on cooperative studies for cooperative movements in the country. In Kenya, the government established institutions for maintaining cooperatives' code of conduct, dispute resolution, protection of member's savings, and provision of education. The following institutions have been set up:

- i. SACCO Societies Regulatory Authority (SASRA): The SACCO Societies Regulatory Authority (SASRA) oversees transparent and accountable operations of SACCOs in Kenya.

³ For example, Ignatius Musazi, the former leader of the Uganda African Farmers Union (UAFU) / Uganda Federation of African Farmers (UFAF), formed the first political party, the Uganda National Congress (UNC), which was later re-organized and renamed the Uganda People's Congress (UPC).

- ii. Ethics Commission for Co-operatives (ECCOS): The ECCOS promotes and enforces cooperative ethical conduct and anti-corruption within the cooperative movement. A Co-operative Tribunal is empowered to enforce the cases tabled by the Ethics Commission.
- iii. Cooperative Tribunal: The Tribunal hears and settles cooperative disputes.
- iv. The Co-operative College: The Cooperative College trains leaders and members in cooperative systems and has been crucial in increasing cooperative productivity. It has since been upgraded to a full university known as the Cooperative University of Kenya (CUK) under the Ministry of Higher Education (Wanyama, 2009).
- v. A fully developed cooperative structure with an acceptable apex enhances operations of the cooperative movement. An apex should not deviate from its core mandate or else reduce its credibility as a voice for all cooperatives. In Kenya, the four-tier Cooperative structure is fully developed and operating smoothly. The structure consists of; Apex, Tertiary (NCOs), Secondary (County/District Unions), and Primary. The apex is the Cooperative Alliance of Kenya⁴ (CAK), a successor to the Kenya National Federation of Cooperatives (KNFC). KNFC digressed from its core business of advocacy to other activities already being performed by some of its members. This led it to compete with some of its members thus leading to its collapse in 2009.

An operational tertiary cooperative is critical for the provision of specialized services to its affiliates. In Kenya, the tertiary level is comprised of National Cooperative Organizations (NACOs) specialized in providing critical services to their affiliates. The services include insurance; banking; housing; commodity marketing; and promotion of active relationships with social and economic partners to create a favorable climate for cooperative development. They as well provide commercial and financial services, human resource development, advocacy, and representation of cooperative unions and societies at the international level. For instance, Cooperative Bank of Kenya Ltd (CBK) provides the Kenyan Cooperative movement with both financial credit and an avenue for donor and government support. CBK has particularly provided finance to the cooperative unions in the agricultural sector that was experiencing difficulties in obtaining credit to facilitate the marketing of members' produce (Wanyama, 2009). Furthermore, the Cooperative Bank serves as a mechanism through which most development partners channel support to the agricultural sector. Similarly, the cooperative movement in Malaysia has 2 cooperative banks; the Bank Rakyat and Bank Persatuan. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) is a cooperative bank that has been the backbone of the Malaysian cooperative movement. Bank Rakyat provides Islamic cooperative bank financing to both members and non-members.

Cooperatives should be treated differently from private business enterprises in tax policy. In Kenya, cooperatives are classified according to the Income Tax Act (Cooperative Societies Cap 470) and Cooperatives Act (Cap 490). Those cooperatives registered under the Cooperatives Act 1997 are taxed differently, with the cooperative principle applied. In Malaysia, there is a provision of tax relief and other tax exemptions such as free stamp duty and the issue of business licenses are other forms of assistance. The tax rate is also lower than that for private companies. Tax exemptions are also given for the distribution of profits to cooperative members.

4.4 Lessons from the legal, Policy, Regulatory, And Institutional Framework For Cooperatives In Uganda

4.4.1 Lessons from Legal, Policy, and Regulatory Framework

The National Cooperative Policy (2011) aims to strengthen cooperatives; however, its operationalization is a challenge. It identifies problems and suggests solutions on how to harness cooperatives' advantages. However, little has been done to operationalize some of these policy actions.

To date, the cooperatives in Uganda have been guided under the following legal framework: Cooperative Societies Ordinance (No. 5, 1946); the Cooperative Ordinance of 1952; Cooperatives Societies Act and Rules of 1963; Cooperative Societies Act 1970; the Cooperative Societies Amendment (2020) Act and the Cooperative Societies (2020) Regulations, the East Africa Cooperatives Act (2014) and the Tier 4 Microfinance Institutions and Money Lenders Act (2016). These have had different levels of success in driving the cooperatives agenda in the country.

The legal framework overlaps and creates confusion. The Tier 4 Institutions and Money Lenders Act (2016) was enacted to regulate SACCOs, Non-deposit taking microfinance institutions, self-help groups, and community groups. The Act establishes an autonomous body known as Uganda Micro-Finance Regulatory Authority (UWRA) mandated to regulate, license, and supervise tier 4 microfinance institutions and money lenders. However, several provisions of the Tier 4 Institutions and Money Lenders Act take on the same roles that the Cooperative Amendment Act (2020) stipulates, this has led to collision and confusion in the regulation of the financial cooperatives (SACCOs) sub-sector. Further, SACCOs have two reporting lines both to the Registrar of Cooperatives and the Uganda Microfinance

⁴ CAK was registered on the 22nd December, 2009 as the National Apex Organization for the Co-operative Movement of Kenya under the Co-operative Societies Act, CAP 490 Laws of Kenya.

Regulatory Authority (UMRA), under the Ministry of Trade, Industry, and Cooperatives (MTIC) and the Ministry of Finance, Planning and Economic Development (MoFPED) respectively. For instance, the Cooperatives (Amendment) Act (2020) (*Section 55A (2)*) allows SACCOs to include the word “*Savings and Credit Cooperative or SACCO*” as part of the name of the society, even during the probationary registration period. However, the Tier 4 Microfinance Institutions Act (*Section 40 (1-4)*) deters SACCOs that are registered but not yet licensed from using it in their name. Additionally, whereas Section 6, 7 & 8 of the Cooperatives (Amendment) Act (2020) entrusts the registration and cancellation of registration of SACCOs and give such powers to the Registrar of Cooperatives, Sections 38, 39 & 40 of the Tier 4 Microfinance Institutions and Money Lenders Act (2016) give the same powers to the Uganda Microfinance Regulatory Authority. More so, Section 55AD of the Cooperatives (Amendment) Act (2020) dedicates the supervision of cooperatives to the Registrar of Cooperatives while at the same time, Section 31 of the Tier 4 Microfinance Institutions and Money Lenders Act (2016) dedicates the supervision function of SACCOs to the Uganda Microfinance Institutions Authority (UMRA). These, among others, confuse the economic actors in the SACCOs sub-sector.

4.4.2 Institutional Framework for Cooperatives in Uganda

The institutional framework governing cooperatives in Uganda can be grouped into two: the government and the cooperative movement.

4.4.3 Government

The Department of Cooperatives under the Ministry of Agriculture, created in 1946, to regulate cooperative societies' activities assumed that all cooperatives were agricultural cooperatives and functions were split with courts of law. The Department's administrative functions were split, with the introduction of the Office of the Administrator-General who was responsible for the registration of and vested with the power to liquidate cooperative societies considered due for liquidation. However, cancellation of registration of a registered society could also be done by the courts of law upon application. In addition, a semi-autonomous agency - the Uganda Cooperative Development Council was created to oversee the general administration and direction of the movement was created (Nuwagira, 1993).

Between 1968 and 1976, there was an unstable government institutional framework for cooperatives as the mandate shifted from one ministry to another. Before 1968, all cooperatives development and marketing functions were handled by the Ministry of Agriculture. They were split off from Agriculture and placed under a fully-fledged Ministry of Cooperatives and Marketing, brought back to Agriculture in 1972, and then split off again in 1976. The activities of the marketing boards were supervised by the Marketing Department. The department was also responsible for determining farm gate prices; licensing domestic buyers, and representing the country at international bodies. The country by then was divided into 10 marketing zones each with a regional marketing office (Marti, Runnebaum, & Torres, 1984).

In 1983, the Agricultural Secretariat was created under the Bank of Uganda mainly to set commodity prices (Marti, Runnebaum, & Torres, 1984), however, this couldn't work in a liberalized environment. The Agricultural Secretariat's functions included, among others: advising the government on the pricing of agricultural commodities and the amounts to be paid to the farmer and others who are engaged in processing and marketing; and making detailed studies of the costs of production, processing, and marketing for all major agricultural commodities (ibid). The Agricultural Policy Committee used to submit its recommendations to the President's Economic Advisory Committee (PEAC). Based on the information it received, PEAC set the prices that the farmer would receive for their coffee and cotton.

Currently, cooperative development and marketing functions are under the Ministry of Trade, Industry, and Cooperatives (MTIC) but the cooperative role is given a secondary role. Within MTIC, the Registrar (Commissioner, Cooperatives Development) oversees the day-to-day monitoring, supervision, and auditing of cooperatives. At the Local Government level, the District Commercial Officer (DCO) oversees cooperative activities in addition to other mandates of MTIC at the District level. The Community Development Officer (CDO) does the same, in addition to other mandates of the Ministry of Gender, Labour and Social Development (MoGLSD). The challenge with this is that the DCOs are biased toward commercialization at the expense of cooperative management (Nkandu, 2010).

4.4.4 Cooperative Movement

The Cooperative Societies Act (1991) sets up a four-tier vertical institutional structure for the cooperative movement, however, it is currently operating at three levels. At the lowest level is the primary society which is at the village or parish level. At least two registered primary societies form a secondary society and at least two registered secondary societies for a tertiary society, and two or more secondary societies form the apex society. The apex advocates for cooperative societies both nationally and internationally implements various cooperative development projects and serves as the main policy advisor to Government on cooperative issues. The apex society currently is Uganda Cooperative Alliance (UCA) Ltd, created in 1961. In practice, the cooperative movement in Uganda is operating three levels of societies without the tertiary level.

UCA is the umbrella body for the cooperative movement; however, its ability to act as the common voice is under question. It changed its role from an apex body to focus on development and training programs for village-level societies, with UCA membership open to any primary society (Shaw, 2007). It is currently promoting the idea of grouping together approximately ten primary agricultural cooperatives also known as Rural Primary Organizations (RPOs) into a “mini union”, known as an Area Cooperative Enterprise (ACE). Consequently, its function as an umbrella body is being questioned, particularly by cooperators who existed during the pre-liberalization period.

5. Defining the Framework for Revitalization of Cooperatives

In light of the foregoing findings and emerging lessons, a framework under which Uganda should strengthen and sustainably regulate its cooperative movement to unlock its potential to drive its socio-economic transformation is defined. The framework defines what needs to be done for the vibrancy of cooperatives namely the: culture of cooperation and trust among cooperators; legal, policy, and regulatory environment for cooperatives; cooperatives' enabling institutions; prevailing socio-economic environment; and the political economy, as defined below.

5.1 The Cooperatives Viability Condition in a Liberalized Market

The cooperative business model values its members economically if either it offers market terms or it betters what the market offers at any given time. Therefore, if the market offers a market price (Pm) the cooperative should offer a markup (Pc). This can be represented as follows;

$$Coop = f(Pm, Pc) \quad (1)$$

Where $Coop$ is cooperative economic viability to members.

For cooperatives to remain economically viable to their members, the markup (Pc) must be non-negative (it must either be zero or above). This is represented as follows:

$$Pc \geq 0 \quad (2)$$

For this condition to hold, cooperatives must offer farm gate prices plus benefits accruing from value addition across the entire value chain. Therefore:

$$Pc = \sum_{i=1}^n BV_i \quad (3)$$

BV represents the benefits from the value chains of production. The higher the levels of the value chain, the greater the benefits. Substituting equations (3) into (1) yields the following cooperative economy viability model

$$Coop = Pm + \sum_{i=1}^n BV_i \quad (4)$$

Where variables are as already defined.

5.2 Policy, Legal and Regulatory Framework

- 1) Widely disseminate, sensitize and operationalize the Cooperatives' Policy, 2011 by immediately developing and financing the Cooperatives Development Plan.
- 2) The Cooperative Amendment (2020) Act and the Tier 4 Microfinance institutions Act should be harmonized to have a well-coordinated and regulated cooperatives sector. This is especially because the two laws have seemingly different provisions regulating the same financial cooperatives (SACCOs), which somewhat confuses the sub-sector. Additionally, the Cooperatives Act should be aligned to the Audit laws or Act so that the cooperatives' audit function is streamlined. Ultimately, Government, through the Cooperative Registrar's Office and the respective District structures should support cooperatives to carry out auditing.
- 3) The Taxation policy should also treat cooperatives differently from other companies. Taxes should be waived off on other cooperatives for one decade as it was done for financial cooperatives (SACCOs). Additionally, at the elapse of the decade, cooperatives should be charged lower taxes than other entities. This is because cooperatives are not profit-driven but rather surplus-driven entities.
- 4) All the different Government policies should leverage cooperatives. If managed and regulated well, cooperatives can transform the lives of cooperators, society, and the economy at large. For instance, government initiatives such as the Parish Development Model Financing, “EMYOOGA”, and Agricultural value-chain pre-financing should be channeled through cooperatives.

5.3 Institutional Framework

- 1) The current Department of Cooperative should be elevated into a Directorate with the following separate and strategic functions/Departments:
 - i. Cooperative Development Services (CDS); to handle the formulation, adoption, and implementation of integrated and comprehensive plans and programs on cooperative development, developing management and training programs.

- ii. Cooperative Registration Services (CRS): to handle the registration and cancellation of the registration of cooperative societies and for the conduct of inquiries.
 - iii. Cooperative Audit Services (CAS): to provide cooperatives audit service
 - iv. A Cooperative Tribunal (CT): to hear appeals, review orders, and undertake revisions. The tribunal should also be mandated to define, promote and enforce cooperative ethical conduct and anti-corruption within the cooperative movement. This tribunal should be able to handle the issues regarding the involvement of cooperative members, managers, or senior staff persons who assume political office in the cooperative movement.
 - v. District Cooperative Office should also be formed and facilitated.
- 2) Partnerships should be created with the government, the cooperative movement, and the academia that will ensure that there is devotion to education, and training people in cooperative professional management and governance.
 - 3) Efforts should be made to revive/strengthen the operations of the tertiary cooperatives which are critical for the provision of specialized services to its affiliates. These include; the Cooperative Bank, Uganda Cooperative Insurance Ltd, Uganda Cooperative Transport Union, Ltd, Uganda Cooperative Savings and Credit Union, etc.
 - 4) A comprehensive understudy of the circumstances that led to the dissolution of the earlier Cooperative Bank should be undertaken. This will contribute a great deal to the plans to revive the Cooperative Bank. It is good to learn from the experiences that led to the dissolution of this bank so as not to repeat these mistakes when creating the Cooperative Bank. The Cooperative Bank Liquidation Report should therefore be produced.
 - 5) Plans to revive the Cooperative Bank should be fast-tracked with financial contributions from the cooperative societies.
 - i. The starting modest capital base contributed by all cooperative societies should be supplemented by the government through an interest-free loan repayable in not less than 10 years. The cooperatives have expressed willingness to pull their resources to establish a new cooperative bank in which various cooperatives buy shares to establish the necessary capitalization.
 - ii. The Government should exempt the Bank and offer a grace period within which the capital base stipulated by the Financial Institutions Act can be raised.
 - iii. It is recommended that the government role in the bank should take the form of provision of a portion of the required capital fund, technical advice, and regulation.
 - 6) To maintain the quality of cooperatives' produce, MTIC should regulate the quality of produce at the different levels across the value chain. This will not only lead to improved quality of cooperatives' products but will also reduce the manipulation and or exploitation of the cooperators by astute middlemen.

5.4 Political Economy

- 1) Cooperatives are the best and most sustainable way to address the current youth unemployment and poverty which poses a high social disharmony and security risk.
- 2) To strengthen the present weak capital base of the current cooperatives, there is a need to prepare a "Statement of Affairs" for all cooperatives to determine their war debts and make arrangements to compensate them.
- 3) To show Government commitment to cooperatives, government policies and interventions should leverage cooperatives. For instance, policies such as industrialization, export-led strategies, poverty eradication programs, agriculture interventions, agricultural credit facilities, and market promotion, Parish Development Model, and EMYOOGA, among others should follow the cooperative model of development.

5.5 Cooperative Organization and Governance

- 1) As the country seeks to revive and strengthen cooperatives in Uganda, the focus should be put on building socially rooted democratic cooperatives with a shared purpose as well as responsible and accountable leadership.
- 2) Incentives from the government to cooperatives should be aimed at winners at each level (formation, structure, diversity, etc.).
- 3) To strengthen accounting systems, cooperatives should be compelled to employ competent accountants. Cooperatives should be required to have on their staff one professional accountant with a degree in accounting and some previous experience and should have one or two bookkeeper clerks to assist.

- 4) The current Apex (UCA) should focus on its core mandate or else its credibility as a voice for all cooperatives will be damaged. It should stop engaging directly with primary societies and thorough consultations need to be made with all cooperative societies to own the parallel structure being promoted by UCA.
- 5) Primary societies should be allowed to purchase their inputs from or sell their produce to those sources which provide the best service and best prices, not necessarily from their District unions. The present pattern of inter-cooperative relationships is too rigid.

5.6 The Socio-Economic Environment

- 1) For sustainability and survival during liberalization, cooperatives should be market-driven; they must offer better incentives, products, and services than those offered by middlemen. The cooperatives must also be innovative, flexible, and diverse to adapt to the different market opportunities. Cooperative members should see the benefit of belonging to cooperatives given the benefits that accrue to them at the different levels of the value chain.
- 2) The bonuses and dividends declared and distributed by cooperatives to their members should not be taxed. The tax regime governing cooperatives should reflect the conflicting role and mission of cooperatives between the principles of profitability and the social objectives of the cooperative movement to enable them to drive production and productivity.
- 3) Cooperatives should be encouraged to network and build up their own corporate identity as a viable alternative to investor-driven enterprises. This will enable them to survive in the current socio-economic climate characterized by high and ruthless competition for markets, profits, and power, user-driven enterprises.
- 4) Single-purpose primary societies should be permitted and encouraged to reorganize as multi-purpose cooperatives. This would permit them to engage in the marketing of other commodities in addition to coffee or cotton.
- 5) Cooperative education should be rooted in the school curriculum at all levels. Currently, cooperative education and training in Uganda are not well coordinated. Each cooperative society trains its members and staff depending on its ability.

6. Conclusion

Low production and productivity are development challenges hindering socio-economic transformation in Uganda. Cooperatives are widely agreed upon as the appropriate mechanism to address productivity challenges and drive Uganda's economy for socio-economic transformation. However, the discussion and efforts on how this should be achieved have been weak. This paper defines a framework for strengthening and sustaining cooperatives for socio-economic Transformation in Uganda. This framework analyses six key aspects which include: a cooperatives viability condition in a liberalized market; socio-economic environment; political economy; internal organization and governance; legal and legislative framework and enabling institutions. Specific action points that are supposed to be undertaken to strengthen and sustain cooperatives are highlighted in each specific theme. If implemented, these measures will strengthen cooperatives, increase Uganda's production and productivity and ultimately lead to economic development, prosperity, and socio-economic transformation.

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