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Strengthening of Cooperatives for Social Economic Transformation in Uganda

Abstract

Uganda's high dependence on agriculture calls for an urgent solution to the challenge of low production and productivity in the sector. Almost all players - farmers, traders, government officials and CSOs agree that the way out of this predicament is by harnessing the potential of cooperatives. However, the discussion on how this should be achieved is haphazard. Indeed, efforts by the Government, private sector players, Civil Society organizations and Development Partners have not yielded much. This is attributed to weaknesses along the prerequisites for co-operatives to be vibrant, namely: the culture of cooperation and trust among cooperators; the legal, policy and regulatory framework for cooperatives; the enabling institutions; the prevailing socio-economic environment; and the political economy. This brief highlights key policy interventions that should be implemented to enable cooperatives to sustainably and effectively play their role in Uganda's social-economic transformation.

Introduction

One of Uganda's development challenges for social economic transformation is the low production and productivity. Whereas this is manifested in all sectors of the economy, it is prominent in the agricultural sector, which is Uganda's economic backbone. The relative productivity of labour (as measured by the value added per worker) in the agricultural sector is significantly lower than that in the non-agricultural sectors.

However, this was not always the case. Indeed, agricultural Total Factor Productivity (TFP) in Uganda grew between 1961 and 1981 when cooperatives drove Uganda's economy, but then began to decline when the cooperatives were in turmoil. The TFP decreased annually by about 1.3 percent from 1991 to 2006

In light of this, cooperatives have been widely suggested as the best solution to the production and productivity challenge in the agriculture sector. This is especially because of their multi-dimensional advantages like; generating economies of scale among small farmers; easy access to cheap credit or finance; delivery of extension services, research and agricultural inputs; reducing informality; solving the unemployment problem, especially among the youth and women; and building unity and cohesion

in society, thus reducing social exclusion.

Cooperatives can also provide an efficient mechanism for channelling government initiatives, particularly for Local Economic Development, income enhancement, and/or wealth creation.

An hour worked outside of agriculture is almost 2 times as more productive as that worked in agriculture³

Efforts undertaken by the Government of Uganda, private sector players, Civil Society Organizations and Development Partners to unlock the potential of cooperative enterprises have not yielded much, mainly due to lack of a conducive framework in which cooperatives should operate efficiently especially in the current free market and liberalization dispensation.

Against this background, this policy brief provides key policy interventions that should enable cooperatives to sustainably and effectively play their role in Uganda's socio-economic transformation. These interventions are based on five broad pillars on which a strong cooperatives movement should be entrenched. These are: (i) a sound legal, policy, and regulatory system; (ii) strong

enabling institutions; (iii) a favourable socio-economic environment; (iv) a reliable political economy; and (v) sound organization and governance.

The brief is based on a 2018 policy study by the National Planning Authority (NPA), in conjunction with Ministry of Trade, Industry and Cooperatives (MTIC), entitled “Strengthening of Cooperatives for Socio-economic Transformation in Uganda”. The study adopted a number of approaches including: a literature review of published and unpublished materials on cooperatives; regional and international case studies; expert interviews; and public stakeholder consultations through the National Development Policy Forum (NDPF).

Key Findings

- 1) For sustainability and survival in a liberalized market, cooperatives must offer better incentives, products and services than what market intermediaries offer. In this regard, cooperatives must provide farm gate prices plus a mark-up accrued from the entire value chain. For this to happen, cooperatives should be in charge of the entire value chain right from production to marketing.
- 2) Provision of selected cooperative public goods including; education, auditing, affordable finance, extension and targeted subsidies through an efficient delivery mechanism is key for the success of cooperatives. This is because cooperatives in Uganda experienced growth with the provision of these public goods. This is also evidenced in countries like Kenya and Malaysia where cooperatives are leading socio-economic transformation.
- 3) Cooperative education, in particular, is vital for cultivating a cooperative spirit, building internal organizational values, entrepreneurship, strong corporate governance (leadership and management) that are critical for survival of cooperative enterprises.
- 4) An organic bottom up formation of cooperatives (voluntary, democratic, and with shared purpose) creates social cohesion and mutual trust (social capital) that are necessary for the sustainability of cooperatives. Formation of cooperatives should not be incentivized by handouts from the government or development partners. Majority of cooperatives in Uganda that form voluntarily to solve a common problem succeed and are sustainable. Those whose formation is motivated by handouts from Government and Development partners succeed only to the extent when these handouts are in place, thereafter, they collapse.
- 5) Cooperative financing is critical for cooperative survival. Most cooperatives in Uganda collapsed after the collapse of the Cooperative Bank in 1999 which used to provide cooperative tailored credit at favourable terms. After the closure of the Cooperatives Bank, loans were restructured to unsustainable commercial terms. Indeed, the surviving and thriving cooperatives in the current liberalized environment have an innovative cooperative-tailored financing mechanism that helps them to survive.
- 6) An appropriate mechanism for compensation of cooperatives for losses incurred during political instability is desired. Political instability led to looting and vandalism of productive assets in cooperatives like Masaka Cooperative Union, Banyankole Kweterana, West Mengo, East Mengo and BCU among others.
- 7) The prevailing political economy has a significant influence in determining success of cooperatives. Many capable leaders and managers of cooperative groups succumbed to increasing economic pressures and political self-interests in the 1960s, which hampered success of cooperative societies.
- 8) An appropriate policy, legal, regulatory and institutional framework is critical for the vibrancy of cooperatives. Historically, cooperatives thrived in the presence of laws that balance between state regulation and cooperative autonomy. The legal and regulatory framework should provide some level of cooperative autonomy to enable them to be self-accounting, as well as provide administrative and regulatory clout that takes regard of the diversity of cooperatives.

Policy Recommendations

This brief proposes a framework under which cooperatives in Uganda can be revitalized and enabled to sustainably grow in a liberalized environment. The framework is premised on five pillars:

1) Legal, Policy and Regulatory Framework

- (i) The Ministry of Trade, Industry and Cooperatives (MTIC) should widely disseminate, sensitize and operationalize the Cooperative Policy (2011) and urgently develop and finance the Cooperatives Development Plan.
- (ii) The Cooperative Societies Amendment Bill (2016) be enacted by Parliament to:
 - a) Provide for adequate balance between autonomy of cooperatives and the powers of the Registrar of Cooperatives;
 - b) Streamline the responsibilities for registration and cooperatives' development;
 - c) Provide for the uniqueness and diversity in roles and focus of cooperatives;
 - d) Provide appropriate dispute resolution and ethics enforcement mechanism;
 - e) Harmonize the Tier 4 Microfinance Institutions Act and Money Lenders Act (2016) with the Cooperative Societies Act (1991) so as to have a well-coordinated and regulated cooperatives sector. Additionally, the Cooperatives Act should be aligned with the Accountants Act, 2013, so that the cooperatives' audit function is streamlined;
 - f) Clearly stipulate the functions and operations of the different cooperative structures to enhance the operations of the co-operative Movement. This is especially concerning the roles of both tertiary cooperatives and the cooperatives' Apex body i.e the Uganda cooperative Alliance UCA).
- (iii) MTIC should timely develop the Cooperative Societies Regulations to take regard of the amendments;
- (iv) The Ministry of Finance, Planning and Economic Development (MOFPED), Parliament and the Uganda Revenue Authority (URA) should extend the favorable tax treatment for SACCOs to all cooperatives. The tax regime should reflect the fact that cooperative enterprises operate differently from conventional profit-making business entities.

2) Institutional Framework

- (i) Government should support efforts to revive the Cooperative Bank:
 - a) Cooperatives are in a process of reviving the cooperative bank. This should be supported by government providing an interest free loan repayable within a period (not less than 10 years);

- b) Government should grant the Bank an exemption and offer a grace period within which the capital base stipulated by the Financial Institutions Act (2016) can be raised.
- c) Government's role in the Bank should take the form of technical advice, regulation and incentives.
- d) Bank of Uganda should produce the liquidation report of the former Cooperatives Bank to provide lessons;
- e) Government financing support to selected cooperatives should be formalized and channelled through the Bank.
- (ii) Cabinet and MTIC should elevate the current Department of Cooperative into a Directorate with the following separate departments:
 - a) **Cooperative development services:** to handle the formulation, adoption and implementation of integrated and comprehensive plans and programs on cooperative development, developing management and training programs;
 - b) **Cooperative registration services:** to handle the registration and de registration of cooperative societies and cooperative dispute resolution;
 - c) **Cooperative audit services:** to provide cooperatives' audit service.
- (v) Government should create and facilitate the District Cooperative Offices;

3) Organization and Governance Framework

- (i) Government support/incentives to cooperatives should be aimed primarily towards those cooperatives that formed naturally/"organically", with deep rooted structures and accountable leadership;
- (ii) Government, through MTIC, should provide free audit services as a public good to cooperatives;
- (iii) The current Apex body, UCA should focus on its core mandate as a voice for cooperatives and stop engaging directly with primary societies;
- (iv) The current pattern of inter-cooperative relationships should be relaxed to allow primary societies purchase inputs from or sell their produce outside their District Unions.

4. Socio-economic Environment

- (i) To survive in the current socio-economic climate characterized by high and ruthless market competition and profits user-driven enterprises, cooperatives should be encouraged to network and build up their own corporate identity as a viable

- alternative to investor-driven enterprises;
- (ii) Primary societies should be encouraged to reorganize as multi-purpose cooperatives, to enable them to engage in the marketing of different commodities.
 - (iii) Cooperative education should be rooted in the school curriculum at all levels, to inculcate the cooperative spirit at all levels.

5. Political Economy

- (i) Any cooperative committee member, manager, or senior staff who assumes political office or takes political employment should be required to take leave of absence from his position in the cooperative, so that he or she is not simultaneously engaged in cooperatives and politics so as to reduce undesirable political use of cooperatives;
- (ii) MTIC should prepare a “Statement of Affairs” for all cooperatives to determine their war debts and put in place transparent modalities for compensation;
- (iii) All government initiatives for wealth creation and local economic development should be channelled through cooperatives.

Conclusion

Cooperatives play a multiplicity of roles in promoting a savings culture and financial inclusion, delivering quality and timely inputs to farmers and enhancing the bargaining power of small-scale producers to access lucrative markets. However, there is need to address the weaknesses along the prerequisites for co-operatives to thrive. If implemented,

the policy recommendations highlighted in this brief will enable cooperatives in Uganda to sustainably grow and compete in the current liberalized environment.

References & Useful links

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