WHY A FEW AGRICULTURAL COOPERATIVES SURVIVED THE CRISES IN THE COOPERATIVE MOVEMENT IN UGANDA WHILE MANY OTHERS COLLAPSED?

Nana AfranaaKwapong[a], Patrick LubegaKorugyendo[b] and John Ilukor[c]

[a] Humboldt University Berlin, (**corresponding author**)
Postal Address: P. O. Box GP 17711, Accra Central Ghana.
E-mail:nafranaa@yahoo.com
Phone: +233 541-849-325

[b] International Food Policy Research Institute (IFPRI) Kampala Office,
15 East Naguru Road, Kampala, Uganda.
E-mail:P.Lubega@cgiar.org
Phone:+256-41-285-060

[c] University of Hohenheim,
Division of Social and Institutional Change in Agricultural Development,
Wollgrasweg 43, 70599 Stuttgart, Germany.
E-mail: john.ilukor@gmail.com
Phone: +49-711 459-23631

Abstract
This paper summarizes case studies examining the underlying factors that resulted in the survival of some cooperatives, and the collapse of so many others. Evidence shows that factors that led to the collapse of many cooperative unions are related to the years of political instability, the inability of the union to compete on a liberalized market, the accumulation of huge debts, and poor management. In contrast, the few cooperative unions that managed to survive did so due to the presence of strong and persistent leadership and proper management, gaining access to external financial support, and retaining a strong membership in times of crises.

Key words: Cooperatives, liberalization, Uganda

1. Introduction

Agricultural cooperatives in Uganda date back to 1913 as a response to the disadvantageous terms of trade imposed on smallholder farmers by colonial administrators and middlemen who monopolized both domestic and export markets for coffee and cotton (Kabuga and Kitandwe 1995; Kyazze 2010; Mugisha et al. 2005; Flygare 2006). In such an economic context, forming a farmers' cooperative provided a mechanism for smallholders to collectively bargain for higher output prices, achieve higher margins through economies of scale, and engage in value-added activities. Until the 1980s, cooperatives in Uganda had some success in counteracting the effects of unfavorable market positions for smallholder farmers. At that time, political instability, the liberalization of markets, and mismanagement, among other reasons, caused almost all cooperatives to fail. However, a few exceptional cooperatives survived. This paper summarizes case studies that examine the underlying factors that resulted in the survival of some cooperatives, and the collapse of so many others. The first farmers' cooperative formed in Uganda was the Kinakulya Cooperative Society, established in 1913 in the Central region (Kabuga and Kitandwe 1995). Many other farmer associations were then formed across Uganda in the following years, including the Buganda Growers Association in 1923 and the Uganda Growers Cooperative Society in 1933 (Kyazze 2010). To institutionalize the operations of these smallholder cooperative associations, the colonial government enacted the Cooperative Ordinance in 1946 (Kabuga and Kitandwe 1995; Mugisha 2005).

Between 1946 and Uganda's independence in 1962, membership of the cooperative societies increased eight-fold and the tonnage of produce handled increased six-fold (Kabuga and Kitandwe 1995: 84). The prosperity of farmers increased as the business operation of the cooperatives expanded and employment opportunities were created (Kyazze 2010). This success, however, was short-lived due to the government's increased interest and control over the activities of cooperative societies, the emergence of corrupt practices among cooperative leaders, and the appointment of political leaders as managers of the cooperatives who ultimately pursued their own political and economic ambitions. As a result, many cooperative societies experienced a decline in their performance in the two to three decades after Uganda's independence (Kabuga and Kitandwe 1995; Kyazze 2010; Mugisha 2005).

Another factor limiting cooperative effectiveness in Uganda is the liberalization of markets as part of economic reforms encouraged by the World Bank. Cooperatives were not prepared to compete in this new, more liberalized market, which resulted in the abolishment of Cooperative Marketing Boards and the collapse of many cooperative unions and primary cooperative societies. In addition, these new economic policies were introduced at a time when the country was just emerging from years of political instability and business activities of the cooperatives were beginning anew following the end of the 'Bush War' in 1986. The war disrupted the trading activities of the cooperatives. Moreover, cooperative assets were requisitioned for use in the fighting, lost or destroyed, negatively impacting cooperative activities.

The Bugisu Cooperative Union (BCU) was one of the few cooperatives to survive the pressures that led to the collapse of many others over this turbulent period. As we will discuss below, BCU was able to survive by gaining access to external financial support from private investors and government, strong membership, good leadership, access to markets, and having a strong asset base. The purpose of this paper is to examine these underlying factors that resulted in the survival of some cooperatives such as the BCU, and the factors that led to the collapse of so many others. Lessons learned from this past experience may guide efforts to promote the current revival and expanded development of the agricultural cooperative sector in Uganda.

2. Methodology

To explore why some cooperatives survived the crisis in the cooperative movement in Uganda in the 1990s at a time when many others collapsed, case studies of one surviving and one failed cooperative union were conducted. Both cooperatives were established in the 1950s for processing and marketing coffee. BCU has been operating in the Eastern Region of Uganda since 1958. The failed cooperative union examined was – the Banyankole Kweterana Cooperative Union (BKCU) – which operated successfully in the Western Region from 1956 until 1986, when its operations began to decline. The BKCU finally ceased operations in 1997. However, former members of the union have been attempting to revive its operations since August 2008. Focus group discussions were conducted with surviving members of both BCU and BKCU. Cooperative union members who had actively participated in their union for more than twenty years and were currently participating in Area Cooperative Enterprises (ACE)[1] were selected for the focus groups. Four discussions were conducted in the eastern region with BCU members and three focus group discussions were conducted in the western region with those who were involved with the BKCU. These members interviewed were former members of the union who also were currently involved in attempting to revive the union. Focus group discussions were composed of between six and twelve participants. Interviews were also conducted with former and current management staff of the two cooperative unions. The data was collected between January and May 2010.

3. Case studies

3.1 Historical evolution of Banyankole Kweterana Cooperative Union

Formation of BKCU

Banyankole Kweterana Cooperative Union (BKCU) was founded in 1956 and registered with the Registrar of Cooperatives on 7th May, 1958. The union was formed by the farmers to eliminate the middlemen who were mostly foreign tradersexploiting farmers. The farmers cooperated to vertically integrate into the marketing chain, partaking in the marketing of their produce and having a strong bargaining power. Farmers in the old Ankole region which then consisted of Mbarara, Ibanda, Bushenyi, Ntungamo, Isingiro and Kihura districts were organized to form the union. The middlemen who traded coffee now had to deal directly with the unions as farmers sold their produce through the union. The union negotiated coffee prices on behalf of the farmers. In this way, the farmers avoided direct negotiations with the middlemen.

Organizational design of BKCU

The union is member owned and controlled by the members. It has a membership of four hundred primary societies. The members finance the activities of the union. Each of the primary society contributes a share capital of about UGX 500,000 (approx. US$ 185) and an entrance fee of UGX 20,000 (approx. US$ 8). The union mainly deals with buying, grading and marketing of Robusta coffee for members, provides agricultural extension services and update market information for members. The union is governed by a board of directors which is headed by the chairman. The members from the board of directors are elected from the delegates from each primary society. Each member primary society from the union appoints two delegates to attend the Annual General Meeting (AGM). From the delegates at the AGM, nine members are elected as board members together with the chairman of the union. The board of directors sits and appoints the management of the union and other supporting personnel of the union who are salaried workers.

The union after its establishment grew very strong and had a number of branches established all over the region. The union had a processing factory established at *Kakoba* in Mbararafor processing coffee. Members of the primary society brought dried coffee beans to their primary societies for bulking. The government provided financial assistance to the cooperatives which aided in the purchase of farmers produce. Upon delivery of a farmers produce, receipts were issued to the members that indicated the quantity of coffee supplied and the price fetched. The coffee was transported to the union for grading and marketing. The coffee was transported with the trucks provided by the union. The cost of transport was deducted from the total amount paid to the primary societies. After processing, the coffee was sent to the Coffee Marketing

[1] ACEs are secondary cooperatives societies which are located at the sub-county level and group together a number of local primary cooperative societies.

Board at Bugolobi-Kampala, and then transported to Mombasa for export abroad. After the sales of the coffee by the union, payment were directly made to the primary societies. Members then received their payment from their primary societies in their villages. The union was much concerned about the quality of the coffee produced as their target market was the international market. They encouraged the production and supply of high quality coffee. Premium prices were paid for the supplied coffee. Members received a lot of benefits from marketing their produce through the union other than marketing outside to other traders. The union provided extension services to the members to improve on their coffee production and processing of high quality coffee for higher prices. Members of the union had the opportunity to participate in organized educational tours. The union provided farm inputs to the farmers through their primary societies. Farmers were freely provided with trampolines on which to dry the coffee, spraying machines, wheelbarrows, cutters, garden bags and other farm inputs. Members were assured of their payments from sales of coffee and also received "bonus" from the union which was a shared profit from the business operations of the union. Some members of the union were able to build good houses from cement, roofed with iron sheets. The coffee farmers were known to be the rich ones in their communities. The union also provided employment opportunities for a lot of people in the region. At the end of the year, during the Christmas festive season, the union provided free cattle from the union's ranch to the members. Members were generally satisfied with the operations of the union and saw the unions to be beneficial besides controlling prices and elimination of middlemen in coffee trading.

Decline of BKCU

These benefits were not however long lived; the union faced a lot of challenges that led to the collapse of the union. The political instability in the country after independence greatly affected the union. Idi Amin's reign in the early 1970s marked the beginning of the crisis era for the union. Amin's military governments created a devastated economy disrupting the marketing of coffee. The Indian traders who had been forcibly sacked from the country served as a linkage between the unions and the export markets. With the absence of these traders, the union had difficulties finding market for their members produce. Some of the primary societies began sending coffee illegally to the neighboring countries in Rwanda and Congo. The illegal cross boarder trading locally termed "*magendo*" was severely punished by the government when the perpetrators were caught, but some farmers took the risk however to look for cross-border markets for their coffee. Some farmers abandoned their coffee farms to turn into bushes, others cut down their coffee plantations to plant other crops as they did not have any market outlets.

Aside this, the Uganda – Tanzania liberation war in 1979 which ended Idi Amin's reign led to the destruction of the union's factory at Kakoba, which further affected the business operations of the union. The factory was rebuilt by the Obote II government and started operations again in 1984. In 1986 soon after taking off with its operation the "Bush War" by the National Resistance Army (NRA) led by now President Yoweri Kaguta Museveni began. The NRA soldiers took away the unions vehicles and sold stocks of coffee which the union had collected from the primary societies. These coffees had been bought on credit with loan from the Cooperative Bank and the members who had supplied the coffee had not been paid for their coffee. The army sold the coffee to fund the war and the vehicles in support of the war. The union management had the army sign for all the items they took and kept records of the value of the assets taken. The army promised to return the vehicles and the money for the coffee when the war was over and they came to power. The union lost its working capital, did not have the means to transport member's coffee from the villages to the union and could not pay back the loan they owned to the Cooperative Bank. The operations of the union came to a standstill. The Cooperative Bank mortgaged most of the remaining assets of the union as they were unable to pay back the loan. Members of the union had to look for other means of marketing their produce as their union could no longer buy their coffee and offer the benefits they used to receive. Individual traders had taken advantage of the crumpling union to begin trading with farmers.

Just after the "Bush War" ended, even before the union could recover to begin operations again, markets were liberalized, paving the way for other traders to compete with the failing union. Members had lost hope in their union and were no longer loyal to the union. Members had begun marketing coffee themselves and no longer saw the importance of the union. As the union was no longer strong, the primary societies were also equally affected. Most of the primary societies became inactive; a few others continued trading with other buyers. The union however kept on operating slowly, hoping that the government would come to their rescue and compensate the union for the damages done, but this never happened. The union finally had to close its offices in 1999, putting to a halt all its operations.

The gradual collapse of BKCU can be attributed to a number of interlinked factors. Box 1 provides a narrative provided by one study respondent of how the union collapsed. The story of BKCU is similar to many failed cooperative unions. The main causal factors identified as leading to the collapse of the BKCU were the inability of the union to compete in a liberalized market, the effects of years of political instability, and the loss of valuable assets, huge accumulated debts, and general mismanagement.

Box 1: What led to the collapse of Banyankole Kweterana Cooperative Union?

… the union had a problem during the wars in the country in 1979 (Amin's war) and 1986 (Museveni's war). Our union was very big, we had six branches. During the wars, we lost a lot of assets. After the war we had to restart all over again. ***But the war of Museveni which ended in 1986 affected us the most and that led to the closure of the union.*** We had a lot of assets – about fifty lorries were taken all by the liberation army. They took away everything – stocks of coffee which we had bought on credit and on which we had not repaid the loan. The union had a problem paying back the loan. We mortgaged our assets and had to give it up to the cooperative bank because we could not pay back the loan. We asked the bank to give us some time but they would not allow us. The bank mortgaged most of our assets. They sold our buildings at very low prices to private investors. The remaining assets were vandalized as the union was no longer in operation… When the soldiers took our assets, the good thing was that they signed for all the items they took for which we kept records. These assets were worth about UGX 900 million. The soldiers told us they were using the assets to support the war and after the war, they would pay back everything … We are now making claims from the government to pay back what they took from us…

Source: Key informant interview. IFPRI/Humboldt University Uganda Cooperatives Survey, 2009-10.

Reviving BKCU

Members after some years of experience on the liberalized markets and comparing to former days of organized markets through the union wanted to have their unions revived. Farmers were again being cheated and were unhappy dealing with frequent fluctuation in prices of coffee. They wished they could be receiving the original benefits they used to get from membership in the primary societies. The surviving leaders of the collapsed union, decided to petition the government to compensate the union to support the union to revive its operations again. The first group of management went to the government in 1996 but did not receive any support from the government. The second group went to the government in 2003 to make another petition. It was not until 2008, when the government suddenly realized that there was the need to support and revive the unions again. Therefore, President Museveni called the management of BKCU to his office and asked

"*What happened to BKCU?" … maybe he could not fully recollect and understand what happened. We told him everything that happened then he said* "*I even sold some of your coffee…we sold it to finish the war" (comment Board Member BKCU).*The president ordered the Attorney General's Office and the Ministry of Finance February 2009 to take up the case of Banyankole Kweterana Cooperative Union and see to supporting the union and pay for the requested compensation by the union. Claims made by the union amounted to UGX 13 billion (approx. US$ 4.8 million). The government made an initial payment of UGX 4 billion (approx. US$ 1.5 million). The union bought back it processing plant at Kakoba in Mbarara after serious negotiations at UGX 950 million (approx. US$ 348,000), and paid off loan debts of UGX 2.5 billion (approx. US$ 915,000). The union requested for an additional UGX 5 million (approx. US$ 1.830) as working capital to begin buying coffee from the farmers which was granted by the government in July 2009. By October 2009, the union had bought 200 tons of coffee from the primary societies. The union had an annual general meeting (AGM) in July 2009, after a decade of not holding any AGM to inform the members on the need to revive their union. The focus of the union is on sensitizing the members on the importance of supporting their union by marketing their coffee through their primary societies.

3.2 Historical evolution of Bugisu Cooperative Union

Formation of BCU

Bugisu Cooperative Union (BCU) is a member based cooperative union for coffee farmers. A minimum number of thirty members form a primary society. The union has a membership of two hundred and seventy seven primary societies. The average number of farmers in one primary society is very variable and lies between one hundred and thirty thousand individual farmers. BCU was founded and registered in July 1954. The union was formed to eliminate foreign traders who were reported to exploit coffee farmers. Bugisu Cooperative Union operates in the Bugisu region which includes the districts of Mbale, Sironko, Manafwa and Bududa. Member farmers are organized in primary societies in these districts and sell their coffee to the union. These primary societies were grouped into four zones which merged to form the Bugisu Cooperative Union. The founder of the union was Kitutu Samson. In the past, farmers worked together and had a healthy relationship to their cooperative union. The union processed and exported Arabica coffee. The union in 1958 built a factory for the marketing of Arabica coffee. In addition, the union sold coffee directly by means of auctioning in Kenyan markets. In 1967, the government set up the coffee marketing board, which required all the unions to sell through this board. The foreign currency received was controlled by the government. The union could not make as much profit as it used to when it was exporting the coffee by itself. All the same the unions still had a monopoly as they were the main coffee dealers and controlled the quality of the coffee. When the union was well established, they had an account with the Uganda Cooperative Bank (UCB) and the member primary societies started saving their money with this bank. BCU bought land and constructed many buildings. Some of these buildings were commercial buildings, others for renting, staff housing, and buildings for primary societies. Some of these houses are 'Kitutu house' named after the founder, which houses Barclays Bank Mbale, BCU House which houses other banks and other companies (DFCU, Bank for housing, UCA, Private sector promotion center), Mt. Elgon Hotel, Central stores and many other buildings thus real estate is a major asset of the union.

Organizational design of BCU

The union is governed by the board of directors and a management team headed by the general manager. The board members are elected at annual general meetings where two delegates from each of the zones are represented. The union currently has a board of nine members headed by a chairman. In the 1970s-1980s, BCU was a strong organization. Farmers brought their coffee to their primary societies for bulking. The primary societies had their areas of operations/coverage and the managers of the primary societies sent their coffee for sale at BCU. The primary societies graded and weighed the coffee, checked the moisture content and controlled the quality of the coffee before sending it to BCU. BCU bought only good quality coffee, premium grade coffee (PG) and Grade 1 (G1) coffee that fetched high prices. When a farmer delivered his coffee to his or her Primary Society he was given a receipt to show the quantity of coffee marketed, price, grade and total amount of money to be received by the farmer after the sales of the produce. BCU upon purchase of the coffee issued to the Primary Society what was known as "buying note", a kind of receipt showing the quantity bought, amount and informed the secretary and managers the total amount to be received and when to receive the payment. Payments for the primary societies were made into accounts of the societies with the Uganda Cooperative Bank or Uganda Commercial Bank. The secretary managers and treasurers of the various primary societies received the money on behalf of the members and made payments to the members in their villages.

Members of the primary societies who were marketing through the union received a lot of benefits which encouraged the members to sell their produce through the cooperative. Like the other unions, the members received inputs, iron roofing sheets, pulping machines, fertilizers to enhance their production, second payments and bonus, extension services. Money was readily available to the farmers upon sale of their coffee. The union provided the primary societies with crop finance with which they used to buy the coffee of the farmers. Some primary societies acquired pieces of land on which they developed buildings for the society. Some of the primary societies had pieces of land and commercial buildings which were rented out to generate some income for the society. Some societies had maize milling machines which served the community at a fee. Most of the primary societies were able to acquire the properties they now have through their cooperation with BCU in the early days of the union. BCU gave bursaries and scholarships to children of members who could not afford to pay tuition fees. BCU also built a number of schools including Teso College, Bubulo Girl's High School, Masaba Senior Secondary School. The union contributed greatly to community development projects within the Bugisu region.

Decline of BCU

Around 1969, the monopoly enjoyed by the unions ended. The government removed the monopoly by setting up coffee marketing boards (1970s) which served as an intermediary between the unions and the export markets. Primary societies were given cash payments upon sales of coffee and the primary societies were given crop finance and could pay the farmers cash on delivery of coffee. The unions were no longer allowed to export directly overseas, rather they had to market all their produce through the coffee market boards that were responsible for dealing directly with the exporters. The price at which coffee was bought was determined by the government, the coffee marketing system was directly controlled by the government. During this period, growth and expansion of the union were not as rapid as when the union was in charge of the export market for coffee. The unions did not fully approve of the coffee marketing boards as they acted as intermediaries deciding on the prices and the union could no longer gain foreign currency from their trading activities. The unions sometimes made a loss as they bought the coffee from the farmers at a price that was lower than the prices at which the marketing unions offered.

Around 1973 to 1978, when Idi Amin's military government was in rule, there was a setback in the agricultural sector. There were a lot of shortcomings with the coffee marketing boards as the government interfered directly with the activities of the marketing boards and the marketing boards were characterized by mismanagement and corruption. Coffee production declined during this era. The Museveni's bush war in

1986 affected generally all unions in the country. Where the war started in the west and central region, most of the unions in those regions were much affected. In the eastern region with BCU, there was some looting especially of trucks by the military. This however had a minor effect on the operations of the union. Most of the trucks were recovered by the union after the war and sold off later.

Later on in the early 1990s the government liberalized the markets, making the markets very competitive. When the markets were liberalized, many companies other than the marketing boards had a license to market coffee. Most of the marketing boards died out as they could not compete on the open markets. They lost control over price setting and could not get the unions to continue trading with them. The union could also not get the primary societies to continue supplying produce to the union. Neither could the primary societies motivate the farmers to continue supplying produce to the union. As a consequence, members were selling their coffee outside the union. The societies did not have money to buy coffee from the members. Members were not willing to supply coffee on credit to the society when they could receive direct cash payment from selling to other traders. Most primary societies lacked money and went out of business. The union had to borrow money at high interest to be able to buy coffee with cash. BCU had a crop finance loan from Uganda Cooperative Bank (UCB) of UGX 3 billion (approx. US$ 1.1 million). The union loaned some of the amount to the primary societies to buy coffee from farmers. Most of the primary societies defaulted with their payments which created a debt for the union. The debt from the primary societies amounted to about UGX 700 million (approx. US$ 257 million). The banks withdrew from financing the cooperative union since they could not pay back received loans. The union no longer had money to buy coffee from the farmers and the primary societies did not have crop finance either. BCU needed 10 million kilogram (kg) of coffee annually but when the market was liberalized, they could get only 2 million kg coffee. The coffee processing plant worked under low capacity, profit margins were low, the quality of the products reduced, low prices caused the farmers to no longer care about the quality of coffee they produced. If BCU did not buy their coffee there were always a large number of alternative buyers willing to buy.

In 1995, BCU acquired a new factory "Buhler" plant which had a capacity of 18,000 metric tons (20 million kg). The machine was acquired in 1993 and commissioned in 1995 using a loan given by the government through the Uganda Commercial Bank (UCB) and Cooperative Development Bank to the sum of UGX 2.7 billion (approx. US$ 987, 000). No sooner had the union purchased this plant than had liberalization of markets fully taken off. To procure quantities sufficient to break even was a challenge. Soon the BCU could no longer be service the loans they took from the bank, there was no profit and they accumulated long term debts. Around 1996, the loan had accumulated an interest of UGX 2.1billion (approx. US$ 768, 000). The union's management negotiated with the government to restructure the loan waiving off the interest and the remaining UGX 2.7 billion payable over a period of 15 years. The union managed to pay back UGX 639 million (approx. US$ 235, 000) in one and half years. The union reduced on its operational cost and laid off a large number of employees. In 1982, BCU was employing about one thousand employees but now has only about fifty employees.

The restructuring of the markets led to failure of other institutions; The Uganda Cooperative Bank and Uganda Development Bank all collapsed during this period. An institution called the Non Performing Asset Recovery Trust (NPART) was set up for four years to recover all assets and sold out the banks. All the UCB loans went to one single trust. The trust (NPART), threatened to sell the union if they failed to recover the loan. The management of the union contacted a philanthropist called "Mr. Luiggi" a national of Switzerland and an Italian by origin who was from Jobbingfield Properties Ltd. He paid off all the loans of the union from the banks and withdrew all the titles from NPART and became the sole creditor. Mr. Luiggi contracted coffee traders from Switzerland to purchase coffee from BCU. The quality of the coffee had reduced since liberalization and sometimes coffee exported was returned back to the union. The union was sometimes penalized for not fulfilling their contracts. Due to this the union made some losses. Mr. Luiggi in 2005 requested for full management of the cooperative union to ensure it effective and efficient operation. The management of the union decided to lease the factory to Mr. Luiggi and in return recover the money in terms of rent from the investor as he used the factory for business. But within one year of taking over the business, he withdrew because the business was not performing well and instead wanted to take back his money.

Reviving BCU

The union's management pleaded with the government to pay off Mr. Luiggi his loan and save the union from being owned by a foreign investor. In early 2008, the government decided to buy some land from the union about 619 acres raising about UGX 3 billion (approx. US$ 1.1 million). The government gave the union this sum of money in exchange for the land on which it intends to build an industrial estate in the Mbale. The union was able to pay off the investor and the remaining amount remitted to the unions account. A special general meeting was held in February 2008 and the old board of directors was ousted and a new board elected into office. The offices of BCU were never closed even though at a point in time the union did not have money to buy coffee; the main offices were still opened where the management still came to work. In 2006/07, the union missed out coffee marketing, but all the other years, the union marketed coffee. During the one year period that the union did not market coffee, the members still looked for markets elsewhere, selling to other buyers.When the new management was set up, money was available to begin business. The union had a strong asset base both in land and buildings. Part of the processing plant was being rented out to other processes such as *Kyangalanyi* coffee traders. A few members who were well established and had some source of finance used their own resources to buy coffee from members and sent to BCU. They foresaw the benefit of reviving their union during this period and did campaign for the members to start again selling through the cooperative. A few elder farmers from some primary societies in the different zones mobilized the members in their zones. These were prominent men who had been active in the primary societies and were determined to ensure the revival of the union, sought out measures to address the challenges that the union was facing. These delegates from the primary societies mobilized the primary societies and encourage them to start patronizing their societies again and began selling their coffee to the union. Some of the unions responded and started marketing coffee together again. The members adopted the old system of encouraging farmers to forget about the past and continue with the present situation. Farmers who were members of the union were encouraged to donate 1kg of coffee each from the coffee they marketed to the union to recover its debts which was accepted by many of the members as they were committed and determined to see the revival of their union.The BCU union even though also faced the challenges of operating in a competitive liberalized market, but managed to somehow continue operating. The management of the union adopted timely and useful strategies to sustain their operations. Box 2 highlights the factors that contributed to its survival.

Box 2: Why Bugisu Cooperative Union survived

Union leaders sought out and entered partnerships with investors, donors and friends who provided pre-finance for the marketing of coffee by the union. With these funds, the union was able to purchase farmers' coffee with cash payment on delivery at competitive prices from both members and non-members.

BCU has a great worth of assets in the Bugisu region. These assets served as a guarantee which the management could use to secure loans from lenders or investors during the crisis era to enable it to continue with its operations.

During the wars in 1976 and 1986, some of the union's lorries were requisitioned by the military, but this had a minor effect on the operations of the union. Most of the lorries were recovered after the war and sold off later. The union was able to continue operations after the end of the war.

The union identified profit-making activities, such as renting out union buildings for commercial activities, renting of staff houses and union land, and milling of coffee for other coffee traders at its coffee processing factory, in order to generate additional revenue.

BCU reduced its operational costs. Benefits to staff were reduced and land which was not productive was liquidated to raise working capital. The union's organizational structure was revised for a smaller recurrent wage bill by laying off some of its staff.

BCU received financial support from the government after petitioning the government to assist the union to clear off its remaining debts and revive the union. The union traded some of its land assets with the government in exchange for this financial assistance.

The union focused on retaining its members by re-introducing benefits such as payment of bonuses which members formerly received and awarding bursaries to students whose parents were active members. In this way, the union was able to maintain its membership base.

Source: Key informant interviews. IFPRI/Humboldt University Uganda Cooperatives Survey, 2009-10.

4. Emerging Lessons

Lessons from the BCU and the BKCU case studies reveal a number of factors that led to the collapse of many cooperative unions in Uganda in the 1990s.

- Political instability in the country disrupted the operations of the cooperatives. The wars in 1979 and 1986 affected different cooperative unions to different extents, but had a general negative impact. As the wars started in the Western and Central regions, unions in these regions were most adversely affected. Assets were either requisitioned for use in fighting, lost, or otherwise destroyed. Many cooperative unions could not recover from the damage caused by the wars.
- The government's market liberalization policy was introduced at a time when cooperatives were not prepared, capacitated, and sufficiently educated on how to compete in an open market. The unions were beginning to recover from the effects of the wars and struggling to restart their operations when the markets were liberalized. The supply of agricultural produce to the unions was reduced drastically as farmers began side-selling to other traders that had entered the markets. These traders offered higher prices and immediate cash payments at the farm gate. The union no longer enjoyed the monopoly of being the sole buyer and no longer had government support through the now-collapsed Marketing Boards. The unions had to become financially independent, compete for farmers' produce, and look for markets. Most unions could not meet these challenges and were unable to run their business operations profitably.
- Cooperative unions faced rising debts from unpaid loans accumulating large amounts of interest. The cooperative unions could not satisfy the terms of their loans due to other challenges they were facing during this period. This led to a further loss of union assets to lenders, as banks auctioned off these assets

to redeem funds that otherwise would have been lost. As the assets of unions were eroded, the operations of these cooperatives came to a standstill.

- Poor management of the unions in many cases contributed to their collapse. Some union leaders took advantage of the failing state of the cooperatives to pursue their own personal interests. Remaining assets of unions were mismanaged and often funds were not properly accounted for.

  The few cooperative unions that managed to survive the crisis period like the BCU had to struggle to survive. They faced the same challenges mentioned above, but had some additional advantages that enabled them to continue with their operations.

- Unions were able to obtain external financing from the government, donors or traders. Some unions went into partnership with the traders and provided pre-financing to unions to acquire produce, which enabled the unions to have working capital to continue with their operations. The management of the BCU also petitioned government to assist the union to clear off its remaining debts. The union traded some of its land with the government in exchange for this financial assistance.
- The successful cooperative unions found market outlets for their member farmers' produce. During the liberalization of markets, the cooperatives looked for markets both internally and externally.
- Cooperatives that had a strong asset base and continued to maintain their assets were better able to continue their operations. Cooperatives with buildings, storehouses, processing factories, land, or commercial buildings derived income from these assets as operating revenue for the union.
- Good leadership ensured that a union continued its business operations on sound financial footing. Strong management teams came up with strategies to adapt to the changing market environment during liberalization, looking for markets and financial support for the cooperatives.
- The loyalty and commitment of members also contributed to the survival of some cooperatives. For example, some of the senior members of BCU 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 even though faced with a number of challenges.

5. Conclusion

Evidence shows that the underlying factors that led to the collapse of many cooperative unions are related to the years of political instability, the inability of the union to compete on a liberalized market, the accumulation of huge debt, and poor management. In contrast, few cooperative unions managed to survive so due to the presence of strong leadership and proper management, the gaining of access to external financial support, undertaking efforts to develop new markets and marketing channels, maintaining a strong asset base, and retaining a strong membership.

Drawing on these lessons, efforts in promoting the revival and continued development of the agricultural cooperative sector in Uganda should focus on the capacities of both members and leaders. Good leadership and governance of the agricultural cooperatives should become elements of education and trainings. The cooperatives should be operated as profitable business entities with viable business plans. Agricultural cooperatives should provide farmers with a strong incentive to actively participate by providing benefits such as improved linkages to markets, fair and competitive prices, payment of dividends and other social assistance. Diversification of business is also important. Cooperatives should acquire a portfolio of physical infrastructure such as processing plants, storage facilities, and commercial buildings which may serve as capital buffers in bad times. External financial support may be provided at the initial stages of the development of the agricultural cooperatives to generate equity capital for running the operations of the cooperative and building its assets. Such support would be effective if measures are taken to promote good leadership and a strong membership base, and the cooperative is provided incentives to develop into an independent and profitable business unit.

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