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## **Enabling Agricultural Cooperatives through Public Policy and the State**

*The Case of Uganda*

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## **Abstract**

This paper analyses the role of public policy and the state in enabling cooperatives in Uganda, focusing on agriculture. Through a review of literature, analysis of primary and secondary data, the paper notes that the Ugandan government has since early 2000s facilitated the scaling up, conduct and integration of cooperatives in the development process through: incorporation of cooperatives' relevance into relevant development plans, strategies and programs namely: Poverty Eradication Action Plan, and programs, Agriculture Development Strategy and Investment plan; and Prosperity for all program; Consultative formulation of a Cooperative Development policy, amendment of Cooperative laws and regulations; reform of warehouse receipt system and commodity exchange; promotion of Area Cooperative Enterprises to provide agricultural extension services, input supply, produce marketing, savings and credit services; support to financial services cooperatives to increase capital provision; provision of agricultural extension services and value addition support; sensitization and promotional activities to popularize cooperatives; cooperatives capacity building focusing on leadership, business management and entrepreneurship, and integration of gender and environment concerns in cooperative development. Some institutional challenges which need to be addressed face government in fulfilling its policy commitments, including; inadequate financial and skilled human resources, and weak linkage between the government and cooperative movement.

## Introduction

Cooperatives in Uganda play a major role in financial resources mobilization, agro-processing and marketing of agricultural produce. They also contribute in significant ways to eradicating poverty, improving food security, providing employment, mitigating the problem of financial leakages like repatriation of funds and other remittances abroad, ensuring environmental sustainability, tackling the HIV/AIDS and malaria pandemic, and mainstreaming gender.<sup>1</sup> Cooperatives therefore offer enormous potential for delivering growth by providing opportunities and empowering the vulnerable to participate in the development process. Indeed a sizeable Ugandan population derives its livelihood directly or indirectly through co-operative based activities.

Over the last decade therefore, the Ugandan government has shown commitment and interest in reviving the cooperative sector, whose collapse started in 1971, when Idi Amin (*the president then*), declared ‘the economic war’, that saw the expulsion of Asians from Uganda, consequently virtually grounding the economy to a halt. In recognition of the role of cooperatives in poverty reduction, the government has sought to create an enabling environment for cooperatives to develop and thrive. It has strengthened surviving cooperatives and promoted the establishment of new marketing and financial cooperatives to reach farmers with services that contribute to improving rural livelihoods and reducing poverty. The Government realized that, the full potential of the cooperative enterprise in fostering development is yet to be harnessed due to internal problems related to governance and leadership, poor capitalization, inadequate knowledge, management information systems and expertise in managing cooperatives. The legal and regulatory framework was inadequate to ensure that the cooperatives function in the best interests of the members and the entire country. Among other interventions, a National Cooperative Policy has been announced that seeks to address the issues affecting the performance of the cooperatives with the view of enhancing their contribution to the wellbeing of the members and ultimately, the development of the national economy.

The development of cooperatives is a key component of the Ministry of Agriculture, Animal Industry and Fisheries Development Strategy and Investment plan MAAIF/DSIP 2010/11 – 2014/15 whose aim is to:

- Increase agricultural production and productivity;
- Increase access to markets and value addition;

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<sup>1</sup> Ministry of Trade, Industry and Cooperatives. 2011.

- Create an enabling environment for the private sector in agriculture; and
- Strengthen agricultural institutions at the centre and in local governments.

Government is also implementing the ‘*Prosperity for All*’<sup>2</sup> program which is the national development objective, and is reviewing policies and approaches to development that need to be streamlined with cooperatives if the economy is to grow sustainably. The Uganda Cooperative Alliance (UCA), an independent umbrella organization of cooperatives, is spearheading reforms of the sector by promoting sustainable cooperatives that provide services for the poor. The reformed cooperatives offer a complementarity of services by combining access to financial services through SACCOs with bulk-marketing services for farmer produce through Area Cooperative Enterprises (ACEs) and Rural Producer Organizations (RPOs).

While there is increasing participation of governments in supporting effective development of cooperatives through providing an enabling legislative, political and economic environment, there is scanty literature on the topic particularly on the African economies.

This study analyses the role of public policy and the state in enabling the cooperatives in Uganda, focusing on *agriculture* with the overall objective of increasing understanding of how the growth of cooperatives can be enhanced. It provides some recommendations for policy makers on the way forward. In particular, it considers the following questions:

- How are the cooperatives structured? What are their activities and challenges are they facing?
- Under what conditions are politicians and policy makers supporting the cooperatives?
- What types of public policies, laws and government programs have facilitated cooperatives scaling-up? How effective are the policies and to what extent are the support approaches bottom-up (participatory)?
- What resources and institutional support is provided by the government to cooperatives and how effective and sustainable are they?

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<sup>2</sup> The ‘prosperity for all’ plans to find ways of helping people to solve the complex problems associated with inputs of production i.e. land, labor, capital, entrepreneurship (management and organization). It proposes to support the development of cooperatives which are intended to assist the small farmers in managing their marketing better and in mobilizing savings and credit which can increase the capacity of farmers to acquire inputs.

- What are the institutional challenges faced by government in fulfilling its policy commitments?
- What is the recommended way forward?

The study reviewed the available literature and analyzed both primary and secondary data on the topic. The primary data will consisted of semi-structured interviews with government officials other organizations concerned with development of agricultural cooperatives such as UCA, and randomly selected ACEs and Unions. The secondary data was obtained from data bases and Reports from MTIC and UCA, and publications on the internet.

The paper is organized as follows. Section one provides a background to the study. Section two presents the findings of the study. The last section provides conclusions and some recommendations on the way forward.

## **Background to the Development of Agricultural Cooperatives**

The co-operative movement in Uganda started in 1913 driven by the urge to fight against the exploitation of the private European and Asian interests that sought to monopolize domestic and export marketing, especially of cotton and coffee. It operated informally, until the 1946 Co-operative Societies Ordinance was enacted to legalize their operations. A Registrar for co-operatives was appointed and a Department for Co-operative Development created. However, many co-operatives refused to register under the Ordinance as they perceived this as a means of increasing government interference in their activities. Following an inquiry into the cause of fear by cooperatives to register under the Ordinance, the Ordinance was amended to provide for: i) enough autonomy to make registration acceptable. The Administrator General was to carry out the functions of the Registrar, and the Department for Co-operative Development would headed by the Commissioner for Co-operatives, ii) compulsory acquisition of a number of ginneries for passing on to co-operative unions financed by government loans, iii) elimination of discriminatory pricing policies and iv) offering private African access to Buganda coffee processing. These policy measures yielded a positive impact with all the existing groups<sup>3</sup> (273) registered as co-operative societies by the end of 1959. At the end of 1961, there were 21 registered co-operative unions, including the Uganda Co-operative Alliance and 1,662 primary co-operative societies with a membership of 252,378.

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<sup>3</sup> Figures presented are from: Arain, Shafiq Et al. (1967). Commission of Inquiry into the Affairs of all Cooperative Unions in Uganda. Kampala. Government of Uganda. p16.

### *Further expansion 1962 –1970*

Following Uganda's political independence in 1962, government favored co-operatives as policy instruments for rural development. It put policies in place to ensure the achievement of that aim. The 1952 Ordinance was repealed by the 1963 Co-operative Societies Act that restored the office of the Registrar, combining it with that of the Commissioner for Co-operative Development. Also restored were the powers of the Departmental staff that had complained that their advice was usually ignored, as they did not have powers to enforce it.

A Co-operative College was opened at Bukalasa in 1963 and later, a fully fledged one was built at Kigumba, in Masindi.<sup>4</sup> In 1964, a Co-operative Development Bank was formed to mobilize co-operative savings and fund co-operative development. Co-operatives were granted 100% monopoly to gin cotton. By 1965, co-operative unions handled 61% of the volume of cotton, 40% of the Robusta coffee and 90% of the Arabica. Stimulated by heavy government support through the direct assistance and subsidized services, the co-operative movement expanded immensely into many sectors including fishing, dairy, cattle marketing, hides and skins, savings and credit.

### *Loss of autonomy*

Gross mismanagement, corruption and embezzlement became common in the cooperatives started in the late 1960s. A Commission of Inquiry report of August 1966 made extensive recommendations some of which were legislated in the 1970 Co-operative Societies Act to curb these evils. However, the Act gave too much power to the Minister, such that he could undo the provisions of the Act and alone if he so wished. The co-operative movement was thus robbed of its autonomy. Henceforth co-operative societies and unions were run like government parastatals. By the time Amin came to power in 1971, there were over 2,500 primary co-operative societies with over 750,000 family members. There were 36 unions including 4 national unions and an Apex.

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<sup>4</sup> The Bukalasa Co-operative Wing continued to be part of Kigumba until government allocated it to the Ministry of Agriculture Animal Industry and Fisheries.

### *Decline during Idi Amin and Obote II years, 1971 – 1985*

The Idi Amin's regime (1971-79) saw a decline in the performance of cooperatives. Following his declaration of 'the economic war' that saw the expulsion of Asians from Uganda, the economy was virtually put to a halt, with prices of controlled crops like cotton and coffee where co-operatives were dominant dropping so low such that their production fell and farmers resorted to growing other crops like maize and beans. That notwithstanding, co-operatives grew in number<sup>5</sup> during Amin's driven by the realization of civil servants and wage earners that they could only overcome the credit squeeze through formation of co-operative savings and credit societies as the banks could not help. Many consumer co-operative societies were also created to take advantage of scarce commodities distributed through co-operatives by government.

Though Obote's government attempted to revive and use co-operatives as instruments for rural development<sup>6</sup> during his regime 1980-85, his efforts were hampered by excessive government involvement that virtually turned cooperatives into government parastatals. Worse still, as the guerrilla war intensified, such efforts were destabilized as the war was largely fought in the co-operative movement's strongholds like the Luwero triangle in which the three giant unions of West Mengo, Wamala and East Mengo operated. Co-operatives incurred a lot of war losses in the form of people and property. Obote's regime was toppled by that of Okello which was in turn toppled by Yoweri Museveni's National Resistance Movement<sup>7</sup> in 1986.

### *Further decline of cooperatives during structural adjustment*

The NRM government adopted Structural adjustment policies in the late 1980s, which among other things resulted in liberalization of agricultural markets, privatization of public institutions, and cutting of funding for services in many sectors. This led to a further decline of cooperatives. The buying monopoly that had been enjoyed was abolished. The government marketing boards on which the cooperatives largely depended for crop and marketing finance were abolished and with that, the provision of crop finance by government stopped. Worse still, cooperatives were

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