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Short communication

## Agenda on cooperatives for development cooperation in Tanzania

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Are cooperatives able to reduce poverty? Which concrete examples that exist for effective, profit-driven businesses that improve the situation for the poor? Which are the success factors and obstacles behind these? What kind of recommendations can be given for Development cooperation to support cooperatives that reduce poverty? These questions were made in a study commissioned by the Ministry for Foreign Affairs of Finland with the final aim to provide policy recommendations on how Finland could promote inclusive people-centred businesses for poverty reduction by supporting the cooperative business model in Tanzania. One specific objective was to find concrete examples of genuine, business-driven cooperatives comprising poor members that are profit-driven and are improving the situation for those members. The study also identified the particular features that characterize such cooperatives (Sumelius et al., 2014).

Cooperative organizations are among the important economic and social actors in Tanzania. The total number of cooperative members in Tanzania is about 1.6 million, whereas the actual number of people that benefit from cooperative services could be around 8 million. Cooperative organizations are guided by the following *Co-operative Development Policy, 2002 (2003)*; *Co-operative Societies Act, 2003*, *Co-operative Societies Rules 2004* and a *Co-operative Reform and Modernization Programme (CRMP) (2005–2015)*.

The cooperative sector consists of a four-tier structure with cooperative primary societies at the grassroots, secondary societies (unions) and apexes in the middle, and a federation at the national level. The only levels stipulated by law are the primary societies and the federation. It is this prerogative of the primary societies to choose whether or not to form secondary societies and it is the prerogative of the secondary societies to form apexes. However, not all members of the primary societies are aware of the voluntary character of these unions.

The study was based on semi-structured interviews based on a set of questions and a formal questionnaire whereby 11 cooperatives were interviewed. In addition, representatives of different local cooperative organizations, state, international and donor authorities concerned with cooperative development in Tanzania were interviewed. A workshop held on 24.6.2013 discussed preliminary findings together with representatives of the major stakeholders. At the same time the overall scenario of Tanzanian cooperatives was presented from the viewpoint of their strengths, weaknesses, opportunities, challenges and threats.

One basic conclusion of the study was that the cooperative business model for poverty reduction can take very different forms in Tanzania. While some cooperatives, typically Unions, were not very effective in poverty reduction others could be considered as being success stories.

Effective functioning of cooperatives in Tanzania is characterized by a number of features. (1) The primary cooperative society is strong and works as the driving force of cooperative development, business promotion, job creation and poverty reduction. The members have control of the cooperative. (2) Financial services, i.e. services offered by SACCOs (Savings and Credit Cooperative Societies), AMCOs (Agricultural Marketing Cooperative Societies), cooperative banks and cooperative insurance companies, are close to the members of the primary society. (3) Members are trained to know their rights, to know how to run a cooperative efficiently, to maintain their autonomy and independence from external pressures. (4) The secondary structures (unions or similar) are light. Primary members may sell through other channels than the union. (5) The secondary structure provides relevant information to the members and carries out business negotiations with both foreign and domestic buyers. The secondary structure does not deal with any money or physical commodities directly. (6) Activities carried out by the secondary cooperatives are transparent. (7) In cases where the cooperative is clearly market oriented developing new products partnership with a foreign investor seems beneficial. (8) The partnership between the cooperative and

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the foreign investor is based on that between cooperatives themselves.

Concrete examples of effective, profit-driven business that improves the situation for the poor segment of population in Tanzania can be found in the close cooperation between AMCOs and SACCOs. In this case the primary societies market coffee through an AMCO. Members of SACCOs receive higher prices more timely payments and transparency of the organization is better. A large part of the coffee is sold as fair trade coffee directly overseas to Japan. SACCOs provide short-term credit for inputs and smaller investments. The primary societies cooperate with the local cooperative bank in order to acquire appropriate financing. On the whole, living conditions of the members seem to have improved. One decisive factor is that all business activities are in the hands of the members. Another critical condition is that the secondary structure is light with few employees, it facilitates entry or exit, dealing with knowledge management, disseminates information and manages business negotiations with buyers. Members have the option to sell through other marketing channels as well. Women's participation is encouraged by inter alia, giving them a part of the coffee yield. Such a model of partnership could be repeated in many other areas and for other agricultural products in Tanzania.

Another concrete example of a business-driven cooperative has been found in the processing of milk. The cooperative collects and processes milk, markets dairy products through a dairy owned together by a foreign investor. The cooperative has been able to grow and create employment, reduce aid dependence and contribute to the tax base for the government. New dairy products have been created and are mainly sold in Dar es Salaam. Approximately 2200 members are young. Their living conditions and living standards seem to have improved. The success factors include market orientation, partnership between the local and foreign cooperatives, high demands for products, expanding markets, inclusion of young producers and facilitating their needs and establishment of collection centres and efficient milk collection. This type of cooperative is clearly business and market oriented and plays a role in the national dairy market.

A third concrete example of a cooperative that has been successful in reducing poverty is a dairy cooperative managed by women in the Kilimanjaro region. The women of this cooperative have been empowered and the households' incomes have improved through the sales of milk and milk products. The ability to pay school fees for the children and get access to medical services has become easier. Availability of extension, access to market information and other services has improved. The social status of women at household level has increased as they can contribute to household incomes and tax revenues to the government. Generally, this type of dairy cooperative has contributed to the realization of the Millennium Development Goals (MDGs). Dairy cooperatives are an effective way to increase the incomes of women through local marketing activities. Problems encountered in these cooperatives are poor facilities, inadequate technology, relatively low management skills, lack of capital for expansion and promotion. Although the markets are local the impact in a particular community may be large. Technical deficiencies exist and would need improvement.

Some cooperatives, more specifically the coffee unions, do not seem to be succeeding in reducing poverty in link with expectations envisaged the Finnish Development Policy Programme 2012 goal of good governance and accountability. The procedures they follow do not completely correspond to those qualities indicated by the MKUKUTA II, cluster III first goal, which is designed to ensure systems and structures of governance, uphold the rule of law, are democratic, effective, accountable, predictable, transparent, inclusive and corruption-free at all levels.

The *Co-operative Societies Act 2003* of the United Republic of Tanzania recognizes two structures only: the primary society at the local level and the federation at the national level. This allows greater flexibility and space for primary societies to exercise freedom and autonomy of making choices on business development for their members. The act is clear. The existence of a policy implementation frame-work called the Cooperative Reform and Modernization Programme whereby cooperatives can exploit opportunities offered by the government for achieving their own business objectives.

The following agenda for Development Cooperation with cooperatives in Tanzania was formulated. The Finnish Ministry for Foreign Affairs is recommended to implement the following measures:

1. Develop interactions between the Tanzania Federation of Cooperatives (TFC) and cooperative apex organization in Finland in order to share the experience of effective performance of cooperative management. This might include exchanges of TFC and apex staff with the aim of familiarizing both parties to the circumstances of cooperative activities in both countries.
2. Support the expansion of light secondary structures such as the G32 KNCI-JVE LTD network to other parts of Tanzania. This can be achieved through training activities drawing upon the experience of G32 (or a similar organization, the Dundiliza network of SACCOs) and by scaling-up their activities. The experience of G32 can be used in other areas, by other AMCOs of coffee or AMCOs of other agricultural products. New cooperative officials of such secondary structures could be trained in the area of managing business negotiations with buyers, financial services with respect to cooperation between banks and the primary societies, marketing, grading of coffee products and price stabilization through reserve funds.
3. Give support to women dairy cooperatives e.g. in the Kilimanjaro region by renovating milk plants for the improvement of the processing of raw milk and milk products to increase production capacity, avoid contamination and improve hygiene.

The United Republic of Tanzania could provide policy level support cooperative action in the following ways:

- 1) Guarantee that primary societies ensure the freedom of associations to make decisions at the member's level.
- 2) Develop cooperative actions at the village level to empower farmers to look for other opportunities to address risks, improve access to financial services, enhance economic opportunities and democratization processes.
- 3) Improve systems that deliver information to primary societies.
- 4) Enhance women's and the youth's participation in cooperatives.
- 5) Improve professional management of cooperative businesses at all levels.
- 6) Help the primary societies to have reserved funds to stabilize prices, especially coffee prices. The Government of Tanzania could support these measures by ensuring that the officials of the secondary structures cooperate fully with cooperative banks or other banks to create stabilization funds. The Government of Tanzania could also guarantee that the officials have enough knowledge and competence for creating such stabilization funds.

In order to expand the provision of financial services to the levels of members and cooperatives strategic policies should be formed for future use as follows:

- 7) The Government of Tanzania could support provision of financial services by encouraging the independent and well-functioning of the SACCOs which are characterized by good governance.

8) The Government of Tanzania could support professional management of cooperative businesses by providing training facility to managers of primary societies. Training of secondary cooperatives in management issues is another area which the Government of Tanzania could support by ensuring that the Cooperatives Act, 2003 is implemented appropriately in Tanzania.

Finally, recommendations for serving the most pressing research and educational need are the following:

1. Partnership between Tanzanian higher education institutions and foreign universities and research institutes in the field of cooperative education and research should be established in order to enhance cooperative action able to reduce poverty. This could be accomplished through institutional cooperation between Tanzanian and foreign universities (e.g. from major donor countries) focusing on cooperative education. Existing higher education institution network programmes could be approached to find ways of financing such cooperation.
2. Educational improvement of management of cooperative businesses in a more professional direction is needed (human capital in cooperative management) both at primary society, secondary cooperative and federation level. Interaction between

- organizations in Tanzania and overseas countries could help to initiate an education and training programme on all these levels.
3. Cooperative action at lower level is important to empower farmers to look on other possibilities to address risks, access to financial services and economic empowerment and democratization processes. Training on marketing, technical activities as well as leadership for board members is needed. Particular attention should be given to improvement of information delivery systems.
4. Some women dairy cooperatives need to improve the milk plant technically and find ways to employ capable personnel to manage the cooperative dairy. They also need to acquire knowledge about business administration.

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