



**INTERNATIONAL FOOD  
POLICY RESEARCH INSTITUTE**  
*sustainable solutions for ending hunger and poverty*  
Supported by the CGIAR

UGANDA STRATEGY SUPPORT PROGRAM (USSP)

Policy Note No. 11  
December 2010

## Why a few agricultural cooperatives survived the crisis in the cooperative movement in Uganda while many others collapsed

*Nana Afranaa Kwapong  
Humboldt University, Berlin, Germany*

*Patrick Lubega Korugyendo  
IFPRI-Kampala*

**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 to fail. However, a few cooperatives survived. This brief 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 brief 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.<sup>1</sup>

### 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, researchers conducted case studies of one surviving and one failed cooperative union. 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 we will examine – the Banyankole Kweterana Cooperative Union (BKCU) – 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)<sup>2</sup> 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.

<sup>1</sup> The research was conducted within the multi-country research project “Making Rural Services Work for the Poor: the Role of Rural Institutions and their Governance for Agriculture-Led Development”. The project was carried out by IFPRI, Humboldt University and Makerere University. The authors are grateful to Todd Benson, Ephraim Nkonya, Prof. Dr. Markus Hanisch, Prof. Bernard Bashaasha and Dr. Margaret Mangheni for their remarks and facilitation during the research project.

This policy note is drawn from materials assembled for a draft chapter of a PhD dissertation being prepared by the first author.

<sup>2</sup> ACEs are secondary cooperatives societies which were introduced by the Uganda Cooperative Alliance (UCA) in the early 2000s as an attempt to revive the collapsed cooperative movement. The ACEs are located at the sub-county level and group together a number of local primary cooperative societies.

### Case studies

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, the loss of valuable assets, huge accumulated debts, and general mismanagement. These factors are further explained in the next section.

#### 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 US\$ 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.

In contrast, the BCU union also faced the challenges of operating in a competitive liberalized market, but managed to 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.

We identified six factors that contributed to the survival of the cooperative union. These are: the presence of strong leadership and good management, a large asset base for the union that, when needed, was used to generate revenue, external financial support from private investors and government, sharp cut-backs on operational costs, actively securing market outlets for members' produce, and members' loyalty to the union.

### Box 2: Why Bugisu Cooperative Union survived

- Union leaders sought out and entered partnerships with investors, donors and friends who provided pre-financing 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 large number 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.

### 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 traders went into partnership with the union 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.

## Conclusion

Evidence shows that the underlying factors that led to the collapse of many cooperative unions were 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, the few cooperative unions that managed to survive did so due to the presence of strong leadership and proper management, gaining 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 building

good leadership and governance of the agricultural cooperatives through cooperative 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, higher prices, payment of dividends and other social assistance. Diversification of business is also important. Cooperatives should acquire physical infrastructure such as processing plants, storage facilities, and commercial buildings which may serve as additional income streams for the union. 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.

## References

- Flygare, S. 2006. *The cooperative challenge: Farmers' cooperation and the politics of agricultural modernisation in 21st century Uganda*. Uppsala, Sweden: Uppsala University.
- Kabuga, C., and J.W. Kitandwe. 1995. Historical background of the cooperative movement. In *Cooperatives: Past, present and future*, C. Kabuga and P. Batarinyebwa, eds. Kampala: Uganda Cooperative Alliance.
- Kyazze, L. 2010. *Cooperatives: The sleeping economic and social giants in Uganda*. Dar es Salaam: International Labour Organization (ILO).
- Mugisha, J.; B. Kiiza; T. Hyuha; S. Lwasa; & C. Katongole. 2005. *Governance and business performance of rural producer organizations in Uganda*. Report prepared for NORAD. Unpublished.

---

*This Policy Note has been prepared as an output for the Uganda Strategy Support Program and has not been formally peer reviewed. Any opinions stated herein are those of the author(s) and do not necessarily reflect the policies or opinions of IFPRI.*

*The Uganda Strategy Support Program of the International Food Policy Research Institute (IFPRI) works closely with the government of Uganda, represented by the Plan for Modernisation of Agriculture (PMA) Secretariat, and other development partners to provide information relevant for the design and implementation of Uganda's agricultural and rural development strategies. For more information, USSP: [www.ifpri.org/themes/ussp/ussp.htm](http://www.ifpri.org/themes/ussp/ussp.htm); PMA: [www.pma.go.ug](http://www.pma.go.ug).*

*Copyright © 2010, International Food Policy Research Institute. All rights reserved. This material may be reproduced for personal and not-for-profit use without permission from but with acknowledgement to IFPRI. For other use, contact [ifpri-copyright@cgiar.org](mailto:ifpri-copyright@cgiar.org).*

### INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

2033 K Street, NW • Washington, DC 20006-1002 USA  
Tel: +1-202-862-5600 • Skype: IFPRIhomeoffice  
Fax: +1-202-467-4439 • E-mail: [ifpri@cgiar.org](mailto:ifpri@cgiar.org)

### IFPRI-KAMPALA

Plot 15, East Naguru Road, P.O. Box 28565 • Kampala, Uganda  
Tel: +256-414-285-060/064 • Fax: +256-414-285079  
E-mail: [ifpri-kampala@cgiar.org](mailto:ifpri-kampala@cgiar.org)

### PLAN FOR MODERNISATION OF AGRICULTURE (PMA) SECRETARIAT

Plot 39-A Lumumba Avenue • Mukwasi House, 3rd Floor  
P. O. Box 5675 • Kampala, Uganda  
Tel: +256-414-252-263/4 or 321780 • Fax: +256-414-252-262  
Email: [pma@pma.go.ug](mailto:pma@pma.go.ug)

### Contact:

Godfrey Bahigwa, Director ([director@pma.go.ug](mailto:director@pma.go.ug))