
Members' Awareness and Perspectives on Governance Practices among Horizontally Integrated Rural Co-operative Societies in Mbinga District, Tanzania

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Abstract

Co-operative societies cater for production, marketing and financial needs of members. As a strategy for achieving maximum benefits, co-operative models such as the horizontal integration of production and financial oriented co-operatives have been adopted. However, empirical studies indicate that members hardly achieve the expected benefits from the co-operatives as expected due to poor governance, fraud and embezzlement of funds by unethical staff and leaders. This study examines members' perspectives on governance practices among the horizontally integrated co-operative societies and identifies benefits arising from integration practices. A cross-sectional research design was adopted with KIMULI and Muungano Co-operative Societies as the focal study areas. 81 members of selected co-operative societies identified through a simple random technique were interviewed. A survey questionnaire, focus group discussions and key informant interviews were used to collect data. Findings show that good leadership and management, transparency and democracy were important for successful operations of horizontally integrated co-operatives. There was a significant difference in members' perspectives on the governance practices of AMCOs ($M = 7.366$; $SD = 3.385$; $p = 0.077$) and SACCOs ($M = 9.171$; $SD = 2.609$; $p = 0.005$) which implies that governance in SACCOs is significant unlike in AMCOs. Efficient governance organs and enhanced members' participation in decision making were the underlying success factors in SACCOs compared to AMCOs. Thus, there is need for sensitization of good governance practices in AMCOs and members should actively participate in elections and decision meetings crucial for AMCOs performance and survival.

Keywords: Governance, Members, Horizontal Integration, Co-operative, AMCOs, SACCOs.

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INTRODUCTION

Globally countries have witnessed renewed interest in co-operative associations especially because of their transformation and expansion into contemporary fields of activity. Their capacity to assume a number

of forms consistent with the socio-economic environment in which they are situated and their identity of being member centered in which each member is a shareholder (owner), decision-maker and a customer of services provided, has given them mileage and special

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attention. As socio-economic associations, co-operatives provide opportunities for members particularly in the rural areas to address their social and economic needs conveniently since the majority have not been reached (ICA, 2013; Khumalo, 2014). Normally, the co-operatives are formed by a group of people who come together voluntarily to fulfil their economic and social needs through democratically controlled systems (Kyazze *et al.*, 2017).

In Tanzania, co-operative societies are mainly established by the rural communities along the mainstream activities of agricultural undertakings in the form of Agricultural Marketing Co-operative Societies (AMCOs) as well as Saving and Credit Co-operative Societies (SACCOs) (Danda, 2011). The aforementioned co-operatives are critical to economic development, especially in rural areas where absence of large spending power does not attract private investment to harness local skills and resources that can uplift the local economic living standards besides exporting produce to customer locations in cities (ILO and ICA, 2020; Mhembwe and Dube, 2017). In doing so, members have adopted various contemporary co-operative model(s) such as the horizontal integration of production oriented and financial oriented co-operatives to achieve economies of scale and enjoy maximum benefits in the value chain. Thus, a well-informed governance structure is important for the successful service provision and sustainability of the co-operative societies built around the commitment, devotion and strong relationships between the members, board members, supervisory organs and management.

Good governance encompasses participation, transparency and accountability, effective and equitable promotion of rule of law at institutional level where there are public interests (OECD, 2013). Regarding co-operatives, the same

encompass presence of transparency, accountability, member participation, consensus orientation and equity (Odeke, 2011; Frenz, 2014). Thus, good governance in socio-economic associations is paramount towards successful and satisfactory efficiency and should always be initiated and practiced to achieve the desired performance; to serve members and the community. Since co-operatives are member-based associations which promote their socio-economic affairs, at the top of their governance structure is the Annual General Meeting (AGM), the highest decision making organ, followed by the Board and Supervisory Committee (both elected by the AGM) and Management and Staff (who are hired and supervised by the Board) (Chambo and Diyamett, 2011).

The organs function autonomously to discharge their duties and responsibilities in a way that they complement each other and lead to achievement of overall co-operative goals (Odeke, 2014). As such the organs are part of the total system that functions in tandem to ensure good governance to achieve the co-operative objectives. Hence, it suffices to say that the performance, failure and/or success of a co-operative enterprise depends on the practicalities in operations of the three organs and anything short of that negates the very principles of co-operatives (Chambo and Diyamett, 2011).

Nonetheless, understanding the co-operative principles such as open membership, openness, voluntarism, education, equality, concern for the public, democracy and service to members as put forward by the International Co-operative Alliance (ICA) is critical towards understanding the foundation of good governance in co-operative societies. All these call for an efficient internal management, transparency, democracy and excellent communication between the governance organs and most importantly

member should fully participate in decision making and exercise their democratic rights.

However, Garnevska *et al.* (2011) found that although co-operatives have a well-formed governance structure due to the requirement of official registration, this did not necessarily mean that all the members fully understood why and how co-operatives work. Also, Chambo (2009) and Asfaw (2015) observed that many agricultural co-operative enterprises are struggling to cultivate the right leadership and highly qualified management for putting good governance in practice which pessimistically affects co-operatives.

As a result of the observed flaws, there have been outcries from members throughout the country on poor governance and management of co-operatives resulting in embezzlement of funds mainly through collusions between staff, management, board members and supervisory committees, particularly in SACCOs (Magali, 2013). Similarly, Mmari and Thinyane (2019) noted the challenges of poor member participation; inadequate managerial skills; corruption and frauds as well as inadequate capital. The observed challenges among others impairs the applicability of contemporary co-operative models which require management, leaders' and members' commitment in the management of co-operative financial and managerial affairs. The aforementioned challenges in the co-operative sector cast doubt as to whether the potentials of horizontal integration among co-operative can be fully exploited to maximize members' socio-economic benefits. Therefore, based on this background the study specifically examined members' perspectives on governance practices among the horizontally integrated co-operative societies and identifies the potential benefits of integration practices to co-operative members.

METHODOLOGY

The study was guided by cross sectional research design which allows data on variables of interest to be collected simultaneously and examined to determine variables' association and pattern of relationship (Bryman, 2012). The key variables of interest in this study were horizontal integration practices and governance practices among co-operatives in the rural setting. Hence, the design allowed data to be collected rigorously within a specified time in order to draw inferences and test the hypothesized perspectives among co-operative members. The study was conducted in Mbinga District purposely selected due to presence of co-operative societies (KIMULI AMCOs and Muungano SACCOs) with long experience of horizontal integration practices.

KIMULI AMCOs had a total of 1786 members while Muungano SACCOs had 1021 members located in different villages in the District. The focus of the study was on active members of AMCOs and SACCOs involved in the horizontal integration practices among the co-operatives since not all members were engaged into such practices (voluntary participation). A sample of 81 members (27 of them multiple members and 53 single members) of horizontally integrated co-operatives was selected for data collection. Multiple members were smallholder farmers who belonged to both AMCOs and SACCOs (*horizontally integrated*) at the same time while single members were belonging either in AMCOs or SACCOs operating under horizontal integration arrangements but not interested with integration practices. Simple random technique was used to select the members using member lists provided by managers of AMCOs and SACCOs. Data was collected using a Survey Questionnaire, 10 Key Informants Interviews (KIIs) with 1 District Co-operative Officers (DCO), 1 Village

Executive Officers (VEO) and 8 Board Members as well as 2 Focus Group Discussion (FGDs) conducted with members.

Qualitative data (obtained through KIIs and FGDs) were analyzed using constant comparison technique whereby incidents applicable to key themes were coded (open, axial and selective) and compared as recommended by Onwuegbuzie *et al.* (2012). Members perspectives on governance practices were captured and measured using 5-point Likert Scales basing on their perceptions and thereafter analyzed using both descriptive statistics (mean, median and standard deviation) and multiple response analysis. The indicators of good governance included presence of democracy, member participation, accountability, transparency, members awareness on the Board and Committees, predictability (leaders adhering to 3-year election cycles) as well as conducting of statutory meetings as scheduled. ANOVA was used to compare the mean difference of members' aggregated perceptions in order to determine whether there is a significant difference.

FINDINGS AND DISCUSSION

Horizontal Integration Practices Among Co-operative Societies

Horizontal integration practices in the context of the study area involved consolidation of selected AMCOs and SACCOs operations relating to agricultural financial, production and marketing. The integration of production and financial oriented operations supported the inclusion of two distinct but interconnected co-operatives in order to address members' affairs aiming at achieving economies of scale. The practices did not affect the autonomy of co-operatives (*for non-integrated operations*) since each co-operative maintains its own members, staff, committees and board but rather they worked together for integration matters. Also, the integration did not affect

membership status (voluntary membership) though there came the concept of multiple member and single member.

The history of integration goes back to 1993 when KIMULI AMCOs was officially registered and members (smallholder farmers) saw the need to have a Finance Unit within the AMCOs for purposes of coordinating co-operative financial related operations. The Unit was responsible for arranging for members to acquire loans (from financial institutions), for buying farm inputs as well as catering for their household livelihood requirements. Despite being a good practice, the then co-operative legislation did not allow the AMCOs to handle saving and credit operations. That being the case, the DCO advised members of KIMULI AMCOs to form a saving and credit co-operative society which led to the formation of Muungano SACCOs. During an interview, the DCO pointed out that horizontal integration of KIMULI AMCOs and Muungano SACCOs was done by considering the 6th Principle of Co-operatives which is *co-operation among co-operatives*. The principle calls for co-operatives to strengthen each other by working together through local, national and regional networks. In FGDs, members highlighted that the co-operatives were integrated for purposes of improving value chain activities financing, enhancing processing of produce and improve marketability.

Therefore, after horizontal integration, smallholder farmers (multiple members) were allowed to borrow from SACCOs to buy farm inputs from AMCOs and continue with production until the harvest season where the AMCOs will deal with processing and marketing. After selling, payments are channeled through members accounts in SACCOs by AMCOs officials (on behalf of farmers). The compulsory deductions are settled (contributions, levies, loan

deductions) then the remaining balance is deposited in the respective members' account in SACCOs (deposits and/or savings account) which can be used for borrowing purposes or cash withdrawal. Hence, the highlighted integrated practices enabled smallholder farmers to access inputs on credit, receive extension services, produce and process quality output but also increase their propensity to save through SACCOs in order to sustain future household expenditures.

Governance Practices Among Horizontally Integrated Co-operatives

Members (single and multiple) were required to rank their perceptions on the indicators of good governance based on the provided indicators. Findings indicate that out of nine attributes of governance used, multiple members scored higher on seven statements (attributes) which implies that the integration had positive influence on awareness of governance issues in the integrated co-operative societies unlike when they were operating separately. Results in Table 1 (based on AMCOs) show that the multiple members were highly aware of leadership terms and elections (86.8%) than single members (84%). As for accountability, again, multiple members were able to receive audit reports (81.1%) compared to single members (69.3%) but also multiple members (79.2%)

exercised their right of making leaders accountable for their decisions and responsibilities. The results imply that multiple members participated in election and received reports of co-operative operations regularly due to their increased awareness compared to single members since the integration has exposed them to more joint trainings on leadership and governance. During FGD the members consented that “...since the horizontal integration was their own innovation come to a success, as multiple members pointed out that it has increased their commitment to see their co-operatives are prospering through good governance and the joint shared funds are not embezzled like for other primary co-operative in district...”

Regarding SACCOs practices, results in Table 2 indicate that the scores were high on how co-operative members perceived the pillars of good governance in their saving and credit co-operative society. Like the AMCOs, in SACCOs members participated in elections, receiving audit reports as well as in the formal meetings called. However, compared to AMCOs, SACCOs have higher scores particularly for single members which implies that members were closely attached to their SACCOs operations. This was not surprising because SACCOs operations in the study area were almost throughout

Table 1: Perceived governance by co-operative members in AMCOs

Governance Attributes (multiple response)*	Multiple Members		Single Members	
	Count	Percent	Count	Percent
Aware that leaders are elected after every three years	46	86.8	63	84.0
Involved in decision making during AGM	43	81.1	62	82.7
Participate in election of Board and Committee Members	44	83.0	66	88.0
Aware of type and composition of Board and Committees	34	64.2	43	57.3
Aware of statutory meetings and they are conducted as scheduled	36	67.9	43	57.3
Audit reports made open to members and have read them	43	81.1	52	69.3
Ensure leaders are accountable in meetings	42	79.2	53	70.7
Aware of linkages with nearby co-operative societies	37	69.8	46	61.3
Aware of linkages with other non-cooperative institutions	29	54.7	35	46.7

Table 2: Perceived governance by co-operative members in SACCOs

Governance Attributes (multiple response) *	Multiple Members		Single Members	
	Count	Percent	Count	Percent
Aware that leaders are elected after every three years	39	86.7	31	96.9
Involved in decision making during AGM	39	86.7	29	90.6
Participate in election of Board and Committee Members	40	88.9	30	93.8
Aware of type and composition of Board and Committees	32	71.1	30	93.8
Aware of statutory meetings and they are conducted as scheduled	36	80.0	31	96.9
Audit reports made open to members and have read them	38	84.4	30	93.8
Members share surplus as per bylaws	29	64.4	29	90.6
Ensure leaders are accountable in meetings	38	84.4	31	96.9
Aware of linkages with nearby co-operative societies	34	75.6	27	84.4
Aware of linkages with other non-cooperative institutions	24	53.3	19	59.4

the year compared to AMCOs which their operations were almost seasonal basing on coffee production cycles. Also, both single and multiple members had higher interest with audit reports of SACCOs as well as the composition of board and committees unlike in AMCOs where the scores were low.

During an interview with the SACCOs manager (who happened to be a multiple member) pointed out “...based on their nature SACCOs attracts a lot of members attention and commitment due to higher financial investments made by them which pushes them to oversee and scrutinize as much as possible all operations through active participation in regular and special general meetings, requesting audit reports as well as dropping candidates with questionable integrity during general election...the stakes are high in SACCOs compared to AMCOs and members are always cautious not to let any negligence affect their financial investments...”

Nearly all members of SACCOs (both single and multiple) are aware of specialized committees of their co-operative enterprise in terms of their composition, responsibilities and meetings they are supposed to conduct

compared to members of AMCOs. During FGDs it was observed that all participants were aware of the loan committee followed by the supervisory committee probably because they link members with immediate credit needs as well as ensuring that funds are not misused to provide dubious loans. This was different in AMCOs whereby the single members particularly who perceived the board as one of the committees while it is not. This gives an indication that most AMCOs members are not aware of the democratic structure and governance of their co-operative enterprise.

A statistical comparison shows governance in SACCOs is significant at 5% ($p = 0.005$) and when compared to AMCOs where it is insignificant ($p = 0.077$) as shown in Table 3. This continues to amplify that through integration the members financial stake (managed by SACCOs) are quite high than what we see in AMCOs. While the business process in SACCOs has short term impact on the members, the business process in AMCOs is a long chain for which, members are taking a long time to realize financial results.

Table 3: Comparison of Perceived Governance in AMCOs and SACCOs

	Attributes	Mean	Std. Deviation	F test	Sig.
AMCOs	Multiple Member	8.0000	3.11942	3.169	0.077
	Single Member	6.9359	3.51006		
SACCOs	Multiple Member	8.5000	3.03864	8.473	0.005
	Single Member	10.2000	1.21485		

Benefits of Horizontal Integration Among Co-operatives to Members

As highlighted earlier, the integration of the co-operative activities was the initiative of the members in order to maximize the economies of scale in their agricultural activities and livelihoods. The study went further to validate some of the proclaimed benefits whereby 93.3% and 81.6% of multiple and single members respectively pointed out that there are many benefits of integration of some activities between the AMCOs and SACCOs. The multiple members were the potential beneficiaries while the interviewed single members witnessed the benefits among their neighbors and the majority were constrained, among other reasons, by lack of financial capability or challenges relating to meeting obligations required by SACCOs and AMCOs at the same time which limited their participation.

Among the mostly ranked benefit is the availability of financial services to members (98.2%) as indicated in Table 4 whereby the smallholder farmers were able to access financial services from the SACCOs to finance their value chain activities. As pointed out earlier, the members were able access credit that was useful in buying seeds,

fertilizer and pesticides among others to support their production activities. AMCOs by their design were not sufficiently capitalized to meet the financial demands of the members conveniently apart from the subsidized inputs which were not consistently provided. Also, the members enjoyed the benefit of access to processing, storage and marketing that were offered by the AMCOs. During FGDs it was pointed out that KIMULI AMCOs after integration was able to seek a loan that was used for construction of a coffee pulping unit for processing members coffee which added more value prior to marketing. As a result, members were able to fetch better prices for their coffee unlike before when they used unproductive indigenous/local technologies to process coffee which resulted to few outputs with doubted quality.

This implies that multiple members were seen to be settled on financial services and marketing related advantages as the main benefits of integration unlike single members (particularly from SACCOs) who were mainly driven by financial services hence they could not see the reasons for becoming members of AMCOs.

Table 4: Benefits of horizontal integration among co-operatives (multiple response)

Benefits	Multiple Member	Rank
Financial services	98.2%	1
Marketing/Storage/Processing	27.7%	2
Improved production	8.5%	3
Agricultural inputs	4.3%	4
Prompt payment of produce	2.1%	5

However, despite the perceived benefits some members pointed out some challenges of which if worked upon it will increase the potentials of the integration towards providing members with more benefits. Among the mostly pronounced challenge is the absence of a formalized contractual agreement (joint venture) which would have indicated the management structure and coordination of horizontally coordinated operations. Members also highlighted the difficulties in participating effectively in both co-operatives' activities (e.g. in regular meetings and training offered) particularly in production season where household are very much occupied.

CONCLUSION

A reflection of findings clearly shows that governance practices underly performance and success of horizontal integration practices among the co-operatives despite the differences in the members' awareness and perspectives. Multiple and single members in the SACCOs were more rigorous compared to AMCOs whereby single members were mostly unaware and/or uninformed of governance practices.

The study concludes that horizontal integration fosters greater financial inclusion among members and good governance practices are central towards successful endeavors of the co-operatives in the integration. Also, efficiency of governance practices in the integration process needs the co-operatives to be in proximity where members will have easy access to co-operative services and operations. The integration practices were done based on mutual understanding without a tentatively drafted memorandum of understanding between the two separate legal entities.

RECOMMENDATION

It is recommended that co-operatives should formalize their integration practices with a well charted-out memorandum of

understanding to guide their horizontal integration undertaking which would require a joint management as well as a business guide between SACCOs and AMCOs. The current law and regulations allow for such operations unlike the previous legislations. Further, it is recommended that other co-operative societies located in proximity and serving more or less same members should take advantage of integration practices which would enable members to improve their socio-economic affairs.

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