CO-OPERATIVE POLICY REFORMS AND THE DEVELOPMENT OF MARKETING CO-OPERATIVES IN TANZANIA IN THE 1990S: A CASE STUDY OF IRINGA REGION.

F. T. M. Kilima; A. K. Kashuliza, and G .C. Ashimogo

Department of Agricultural Economics and Agribusiness,
Sokoine University of Agriculture

Abstract

In Tanzania co-operatives are of paramount importance to smallholder farmers in articulating farmer's demand and facilitating collective actions in overcoming problems in agricultural and capital markets. In response to the poor performance of agricultural markets in the country, marketing reforms have been implemented through reforming grain marketing and institutional set-up as part of broader macro - economic changes beginning in 1984. These reforms have affected the functioning of marketing co-operatives and have opened room for private sector activity in the markets. The main objective of this study was to assess the impact of co-operative policy reform on the development of farmer marketing organizations in Tanzania following the 1990s institutional reforms.

Using Iringa as a case, the study examined the managerial, organizational and operational aspects of the newly formed marketing co-operatives. The analysis showed that the reforms have had relatively little impact on the development of marketing co-operatives in Iringa region. There was no substantial evidence against the tested hypotheses that the performance of marketing co-operative societies in general has improved following the 1990s co-operative policy reforms. The poor functioning of rural institutions in Tanzania is an outcome of inefficiencies in agricultural and capital markets. The study recommends continued efforts to improve grass-root governance through designs and implementation of programmes that are consistent with the needs of co-operators, ensuring mutual empowerment of the co-operators and gender equity can enhance successful co-operation. For the purpose of enhancing marketing efficiency, development of infrastructure is important.

1 Introduction

The rise and expansion of modern co-operatives have their roots in the credit and consumption society in Rochdale, in the United Kingdom during 1844. Many of the co-operatives in Less Developed Countries (LDCs) were promoted in the 1950-60s due to the general deterioration of the quality of life (UNRISD cit. Hulme and Montigomery, 1994). The idea was based on the fact that co-operatives significantly contributed to agricultural change and improved quality of rural life in Northern Europe and America. Consequently, it was thought that the western model could be easily adopted in LDCs because it was an innovation congruent with people's needs. Co-operatives were viewed as institutions that could stimulate economic growth and meet the need of rural people and the poor. Disillusionment with co-operatives had set in by the early 1970s. Studies by UNRISD in LDCs concluded "... rural co-operatives in developing areas today bring little benefit to the masses of the poorer inhabitants. In some places the majority of inhabitants have in effect been excluded from membership" (Hulme and Montigomery, 1994). This confirmed the views of many researchers, development planners and donor agencies. For example; Thrikell (1989), comments that the conclusion stems from the fact that co-operatives are frequently perceived as not particularly generous. They are considered to be cosy and introverted organisations that are not generally innovative or progressive and are run by committees of amateurs and socialists. Hamper (1992) begins his paper with 'co-operatives have a bad *track record* just about every where.'

In view of the bad experience with co-operatives, by the 1970s and 1980s emphasis had shifted to other forms of rural organisations, which were thought by planners to be the most effective institutional forms. Rural institutions that exclusively targeted the poor were expected to bring about improvements in living standard. Structural readjustment programmes implemented by some LDCs have implied state withdrawal from some economic and social spheres, which have been dominated by public organisations for a long time. For co-operative development this means the period of co-operatives operating under strict supervision within a centralised and bureaucratic regime is coming to an end.

However, writers on co-operatives and marketing, for example: Coulter and Golob (1992), and Santorum and Tibaijuka (1992) argue that the reform has been successful toward attracting greater private sector involvement in agricultural and capital markets. The policy on co-operatives (URT, 1997) stipulates that the role of governments will be assisting, guiding, supervising and controlling both the government and non-government institutions only during the transition period after which they will be left to develop on their own. However, a number of structural and economical constraints such as poor roads, weak extension services and lack of credit limited the capacity of co-operatives to prosper.

Studies on marketing in Tanzania such as. Ashimogo (1994), Ellis (1983), Hyden (1973), Kashuliza and Ngailo (1993), Mlay (1988) and Co-operative College Moshi (1992) have revealed that operational and technical inefficiencies on the part of co-operatives, poor pricing policy, and government control over co-operatives have been constraining the development of co-operatives in the country.

Analysts of agricultural markets and finance such as Kashuliza (1993), Dreze *et a.*, (1992), and Hoff and Stiglitz (1990) argue that the failure of rural institutions, is largely a reflection of poor understanding of the functioning of the rural markets. An imperfect information paradigm has been proposed to be the root cause. Hope *et al.*, (1984) suggest that approaches adopted in the formation of rural institutions ignore certain cultural practices that constrain some people to participate in co-operatives, or encourage people with low motivation to join in co-operatives consequently limiting principles of autonomy, self-management, equity and solidarity.

It is therefore suggested that institutional reforms must be handled with care so as to enable market participants to respond to opportunities created by the reforms, bearing in mind differences among farmers with regard to their access to resources, credit, information and improved technology. This paper extends the investigation of Produce

Marketing Groups (PMGs) to assess grass-root management, and the overall performance of rural marketing institution in Iringa region, specifically the paper aims to access organisation, management and operation of the produce marketing groups in the region.

2 The study area and methodology

2.1 The study area

Data were collected from Iringa region, which is located in the southern west highlands of Tanzania. The region is one of the four big producers of food grains in Tanzania. It is. It has five districts namely Iringa, Mufindi, Njombe, Ludewa, and Makete. It has an area of 6,949 Km^2 of which 73.48% is suitable for agriculture, 8.23% is under crop cultivation, and 26.34% is covered by conserved natural resources. The region receives more than 800 mm of rainfall per year and rainfall is restricted between November and April. Agro-ecological zones that are found in the region lie at the altitude of 1000 - 1600 masl.

Soils are mainly sandy with granular particle, Generally top layers are black than sub-soils which are reddish or yellowish in colour. The vegetation is comprised of forests, bush land and grassland. Farming systems are predominated by simple production technology. Most of the crops are inter-cropped and few are grown in a pure stand. Maize is the major crop accounting for 87.46% of the grains, sunflower, tea, tobacco, pyrethrum, cotton and coffee are some of cash crops grown. However, tea companies in Mufindi and Njombe districts grow most of the tea. In both districts the economic importance of pyrethrum to smallholders is declining. In addition, the manufacturing sector, which provides incentive for producers to adjust production levels, is too weak to offer positive effects to producers. Overall the people's economic status is poor and more than 50% of the people are classified to be below the poverty line (RDE, 1997).

Currently, marketing systems in the region are changing from controlled pricing to free markets. Procurement trends reveal that co-operatives, licensed traders and foreign companies mainly handle cash crops whereas traders and institutions handle food crops. Rural farmers have been adversely affected by this marketing system because they are far from markets. Traders do not go to remote or inaccessible areas where their operating costs would be too high.

Generally there have been deterioration of infrastructure and public services resulting in erosion of market facilitation. Market insecurity has compelled farmers to sell their produce even at a loss. Lack of market and credit are the main constraint for farmers' development. It was against this background that Primary Marketing Groups (PMGs) were initiated in the region. PMGs were highlighted as rural institutions that could enable farmers to bargain for better prices and ensure the economies of scale by handling large volumes of consignments. (URT, 1977).

2.1 Data Collection

Generally, data presented were collected from farmers in 12 randomly selected villages. Farmers included members and non-members of PMGs. In total 106 farmers were interviewed of which 27 were non-members1. Marketing data and membership information (including gender balances) were collected. Information obtained from these sources were supplemented by additional information from secondary sources such as Moshi Co-operative College, Ministry of Agriculture and Co-operatives (MAC) and the Irish Foundation for Co-operative Development (IFCD).

2.2 Analytical Framework

In this study it was deemed useful to calculate Chi-square values in order to assess association between some socio-economic variables and membership in co-operative societies. The Chi-square is useful in testing the dependence between variables when variables under study are nominal or ordinal in measurement. The statistic simply tests whether there is any variation in the data different from mere chance variation. It indicates whether one can safely assume that there is some relationship between variables being studied in the population from which the sample was drawn (Baker, 1988). In general, a Chi-square for a 2 x 2 contingency table with i rows and j column is calculate as:

$$\chi^2 = \frac{\Sigma ij\,(0ij - Eij)^2}{\Sigma Eij} \quad \text{...(1)}$$

Where; 0 = observed frequency in the ith row and jth column,
E = Expected frequency in the ith row and jth column.

In this study this tool was used to test variable independence in cross tabulations under the hypothesis that membership in PMGs is independent of respondents' education level, age, family size, marital status, gender, occupation, income, and assets owned. Since all variables in the model were directly measurable the empirical model was similar to equation (1).

3 Results and discussion

3.1 Socio-economic characteristics of co-operative members

The main identified features of co-operative members are presented in Table 3.1. The presented socio-economic variables are important because they have bearing on people's altitude, ability and motives to join and participate effectively in co-operative societies.

[1] Non-members were included so as to obtain comparative information.

Table 3.1 Socio-economic characteristics of co-operative members.

Variable measured	Iringa (Number)	Percentage	Mufindi (Number)	Percentage
average age (years)	44.76	-	40.17	-
Average household size	8.32	-	7.43	-
Average number of dependants	4.41	-	4.00	-
Ratio: dependants/total family size	0.53	53.00	0.54	5.83
Marital status of the respondent				
Single	4.00	10.80	5.00	16.70
Married	32.00	86.50	24.00	80.00
Divorced	1.00	2.70	1.00	3.30
Gender of household				
Male	31.00	83.80	16.00	53.30
female	6.00	16.20	14.00	46.70
Average household farm size (ha)	5.36	-	7.69	-
Average land owned by respondents (ha)	13.63	-	9.07	-
Ratio: Cultivated area (ha)/ total area (ha)	0.39	39.30	0.85	84.70
Formal Education attained by respondent				
No formal education	2.00	5.40	4.00	25.00
Primary education	32.00	86.50	10.00	62.50
Secondary education	2.00	5.40	2.00	12.50
higher education	1.00	2.70	-	-
Average household labour distribution				
Farm and farming	2.41	-	2.27	-
Livestock unit	1.42	-	1.14	-
Business unit	1.57	-	1.67	-
Business undertaken by respondent				
Agricultural business	1.00	25.00	1.00	10.00
Non agricultural business	3.00	75.00	9.00	90.00
Occupation of respondent				
Farmers	33.00	89.20	24.00	80.00
Employers (workers)	2.00	5.40	1.00	3.30
Businessmen	2.00	5.40	1.00	3.30
Integrated activities	-	-	4.00	13.40
assets owned by respondent				
Ox and / tractor owned	33.00	94.30	23.00	82.10
Hand hoe and other simple implements	2.00	5.70	5.00	17.90
Crops grown by respondent				
Food crops only	11.00	29.70	22.00	73.00
Food and cash crops	26.00	70.30	8.00	26.70
Average farm income (000 T shs)	1264.82	-	5800.00	-
Average off-farm income (000 T shs)	672.10	-	565.00	-

Source: Own Survey, 1997/98.

3.2 Produce Marketing Groups

Marketing groups discussed in this section were registered with the Irish Foundation for Co-operative Development (IFCD), a non-governmental organisation which has been financing the development of co-operatives in Iringa region since 1980s. At the beginning IFCD was directly involved in financing co-operative, activities through provision of soft loans to co-operatives. Due to the poor managerial capacity within primary co-operatives, many of the co-operatives, which borrowed from IFCD, defaulted. Consequently, in 1996, IFCD designed another approach to deal with farmers through the formation of PMGs at village level. The new approach was to minimise dependence on IFCD by affiliated societies and improve their accountability. The new approach was justified on the fact that in places where markets existed farmers failed to invest rationally because they could not identify the most profitable crops or enterprises. It was hoped that through provision of market information and education on marketing, farmers could mobilise share capital and sell their agricultural produce collectively.

Produce Marketing Groups were initiated by IFCD in 1997 to encourage farmers to form their own marketing groups. In addition, the groups were expected to make plans for appropriate means of processing agricultural produce such as coffee. Farmers were expected to be able to bargain for better crop prices and benefit from the economies of scale through handling large volumes. This study identified four PMGs in the region namely Ludewa Coffee growers (in Ludewa district), Nyombo and Ninga (in Njombe district) and Utolela (in Mufindi district). Instead of engaging in marketing *per see* some of these PMGs established joint venture farms. Members of Nyombo PMG for example grew maize, coffee and round potatoes jointly. Under these arrangements the crops harvested were sold and members received dividends based on their share capital. Also data revealed that some members benefited by selling their produce at prices, that were above farm gate prices[2]. Produce marketing groups identified with marketing of exportable cash crops benefited from collective marketing because some crop buyers including traders and companies formed alliances with the societies. The alliances involved provision of extension and advisory services in relation to crop management. They also provided agricultural credit. Nyombo PMG for example secured input loans from coffee buyers worth Tsh. 3.7 million in the 1997. Though successful in overcoming the problem of low farm gate prices, the collective approach in marketing faced a number of organisational and managerial problems of which the major ones are summarised below.

Many of the societies procured crops without prior consideration to marketing costs, means of transport and storage facilities. In attempt to encourage membership, they procured crops from members at relatively high farm gate prices thus receiving very low profit margins. Utolela PMG for example lost approximately one million shillings due to costly transportation and quality deterioration, which resulted from poor storage.

Other problems identified with PMGs included; (i) Non-members getting free services from co-operatives. In Utolela for examples, it was learnt that some non-members were served by the society along with members. The society decided to buy agricultural produce from members at a price that was above farm gate prices. In the process some

2 PMGs were able to get prices which were above farm gate prices by storing procured crops for sell when prices increased, also through influencing competition in grain markets.

non-members managed to sell their produce to the society. As a result of this members were highly discouraged. Meanwhile it was the members who were responsible for the loss and not the free riders. (ii) Some members were not loyal to their societies and they did not abide by decisions reached by societies during meetings. This was reported at Nyombo primary co-operative society, where it was agreed in a general meeting that each member should sell his/her harvested coffee to the society on credit, and that procured coffee should be stored till when prices were better. Contrary to the agreement some members never sold coffee to the society. Few members among those who sold their coffee to the society could not tolerate waiting for price rise and they withdrew and took away their coffee to sell it to other places.

3.3 Factors affecting membership in co-operatives

Based on the study, it was observed that there were many factors that limited membership in co-operatives. Some of the factors were related to the economic status of respondents as well as the degree of awareness (which is assumed to be a function of education level). Other factors were purely related to belief, culture, motives and traditions of respondents. About 37.7% of respondents were hesitant to join co-operatives due to several factors including; (i) the historical poor performance of co-operatives in the region, (ii) lack of economic achievements on the part co-operatives members, (iii) inability to meet financial requirements for membership, (iv) lack of awareness in benefits of co-operatives, and (v) lack of alternative co-operatives in the region that matched with people's need. Forty one percent of the respondents were discouraged by the poor performance of pre-1990s co-operatives (a result of poor management) and poor achievements by members of co-operatives. Fifteen percent of the respondents suggested that people were not knowledgeable about co-operatives and co-operative affairs. Others indicated that many people were not able to pay membership fees and buy shares in co-operatives (3%) and that some of the people could not find co-operatives that matched with their needs (3%).

Cross-tabulation of the association between respondents' marital status and membership in co-operatives gave significant value of chi-square implying that either married or unmarried people mainly dominated the societies. Table 3.1 above reveals many of the members were married. This was partly explained by the observed high rates of youth migration to urban centres coupled with their reluctance[3] to join in the societies. Results for the factors hypothesised to affect membership in PMGs are indicated in Table 3.2.

The test statistic indicated that there was negative association between education level and membership in co-operatives. Primary school leavers and those who had not attended any formal schooling mainly dominated PMGs. This reflects the fact that in rural areas of the two districts there were few *elite* (including employees of local institutions such as schools and health centres). In addition to their small number, *rural elite* were not necessary compelled to join in co-operatives for agricultural credit, inputs and market needs because they had relatively higher income than rural based farmers and were able to search for markets for their agricultural inputs and produce.

[3] Youth are considered to be over-ambitious and want to realise benefits within short periods.

Table 3.2 Cross tabulation results for some social-economic variables by co-operative membership for Iringa and Mufindi districts

Variable name	Chi-square value	Degree of freedom	Significance
marital status	38.93	3	$P < 0.01$
Occupation	1.07	2	$P > 0.10$
Income (T shs)	2.89	2	$P > 0.10$
Assets owned	0.00	1	$P > 0.10$
Gender	5.14	1	$P < 0.05$
Education	10.61	3	$P < 0.05$
Age (years)	1.37	2	$P > 0.10$
Family size	1.45	1	$P > 0.10$

Source: Own Survey (1997/98)

Age and family size had insignificant association with membership in co-operatives. In view of the fact that households' expenditure increase with family size, it is expected that people with small families would be more capable to pay co-operative fees than with larger families. On the other hand we would expect matured people to be more active in co-operatives than youth, who are very mobile and tend to use their income conspicuously. Elders are expected to participate less.

In general, factors limiting people to join in co-operatives vary greatly from one area to another and among households depending on social, economical and political settings of areas as well as internal factors of the households. Thus the trade-off between these constraints and co-operative membership is complex. Assets owned had insignificant association with membership in co-operatives. This attributed to the fact that respondents had more or less similar income, assets, family size, marital status, education level and age. In addition farmers dominated these co-operatives. Table 3.3 substantiates this argument by giving comparative statistics of some indicators of households' poverty.[4]

Results in Table 3.2 indicate that there were gender imbalances in co-operatives. The percentage of female members in these PMGs was only 29.9% of the total members. Possible reasons for gender imbalances included the fact that family tasks and obligations limited females to participate effectively in co-operatives. Women were under constant pressure to engage in a range of small-scale production activities or wage work in addition to their home affairs. Thus, though they were strongly encouraged by co-operative workers to attend in meetings, seminars and workshops, social and economic obligations compelled women to exclude themselves from the so mentioned training programmes. Thus, women generally lacked information and knowledge on co-operatives.

[4] Ownership of major assets is not included in the analysis because many of the small holder farmers owned similar Assets.

Table 3.3 Comparison of means of selected poverty indicators of members and non-members of co-operatives for Iringa and Mufindi districts

Poverty indicator (mean value)	Members	Non-members	standard deviation (members)	standard deviation (non-members)	T-value
Agricultural income (T sh)	1006426 (n=53)	32400 (n=17)	1401417	51949	5.04**
Number of dependants	4.22 (n=54)	4.13 (n=15)	2.59	2.99	0.11
Off-farm income	624500 (n =36)	97529 (n=17)	585391	109397	5.21**
Annual expenditure	403103 (n=53)	33947 (n=17)	23056	471691	3.23**

Source: Survey Data, 1997/98

Finally, most of the households in the study area had men as heads of households. For this reason men had greater control over household earnings. Traditionally, husbands, who are the controllers of household incomes, provide cash for their wives to use on household expenditure. Survey results indicated that men reserved part of the household income for personal use, especially for liquor and parties with friends. Relatively more men were capable of paying for co-operative membership fees and buy shares than women who were responsible for making up for any deficit in the households' budget.

4 Conclusion and recommendations

Overall the performance of newly formed produce marketing groups in Iringa have been subjected to a number of operational and organisational problems. Some of these problems are economic while others are social or cultural. Primary marketing groups in the region have remained poorly organised, managed and financed. The PMGs are faced up with the following problems:

Many of the smallholder farmers are not capable to pay membership fees and buy shares in co-operatives due to low levels of income.

Insufficient information on the benefits of co-operatives and the poor performance of the pre-1990s co-operatives has undermined people's willingness to join marketing co-operatives.

Poor forward planning by leaders of PMGs on the use of co-operative resources and limited knowledge on marketing and management limited the success of PMGs.

Lack of invested capital by individual members coupled with the lack of markets for agricultural produce were the main factors that limited self-improvements and progress of farmers' group.

Private capital markets can not be confidently expected to supply working capital that is needed to improve marketing efficiency as well as producers and consumers welfare. For the betterment of co-operative, and rural marketing services the following are recommended:

There is a need for the adoption of coherent strategies for offsetting sources of market failures. The focus should be towards the design and implementation of programmes that are consistent with the needs of co-operators. For the purpose of enhancing and raising the marketing capacity of rural institutions there is a need to review agricultural and marketing policies in order to promote input intensification and productivity in agriculture. This will in turn improve capital mobilisation at the grass-root level.

Attempts should be made to strengthen the sense of ownership among co-operators (mutual empowerment). This can be achieved through well-programmed co-operative education system.

To restore confidence of co-operators on their leaders, co-operative Rules and Acts should state categorically how co-operators are going to own and manage their societies.

5 References

Ashimogo, .G.C (1994). Peasant Grain Storage and marketing in Tanzania: A case Study of Maize in Sumbawanga District, Verlag: Berlin. pp. 369.

Baker, T. L (1988) Doing Social Research. McGraw-Hill, Book co. Singapore, 483 pp.

Clements Paul (1993). An Approach in Poverty alleviation for Large International Development Agencies. World Development (21) 10. 1633-1646.

Coulter, J and Golob, P (1992) Cereal Marketing Liberalization in Tanzania. *Food Policy*. 17 (6): 420 - 430.

Dreze, J., Lanjouw, P. and Sharma, N. (1984) Credit in North Indian Villages - An Empirical Investigation. Unpublished Report.

Ellis, F (1983) Agricultural Marketing and the Peasant-state transfer in Tanzania. *The Journal of Peasant Studies*, 10 (4): 215 - 241.

Esman Milton, J. and Norman Uphoff (1984). Local Organizations: Intermediaries in Rural Development. Ithaca, N. Y. Cornell University Press.

Hamper, M (1992). The Critical Factors for the Success of Cooperatives and other Group Enterprises. *Small Enterprise Development,* 3 (1):14 - 22.

Hoff, K., and Stiglitz, J (1990). Introduction: Imperfect Information and Rural Credit Markets. Puzzles and Policy Perspectives. *Word Bank Economic review*, 4.

Hope, A., Timmel, S., Hodzi, S. (1984). training for Transformation. *A Hand Book for Community workers*, Mambo Press. Vol. 3 pp. 56.

Hulme, D and Montigomery, R (1994). Co-operatives, Credit and the Poor: Private

Interest, Public Choice and Collective action in Sri-Lanka. *Savings and development*, Quarterly (94- xviii): 359-382.

Hyden, G. (1973). *Beyond x in Tanzania. Underdevelopment and Uncaptured Peasantry*, Berkeley: University of California Press.

Kashuliza, A. K and Ngailo, L. N (1993). Operational and Financial Performance of Farmer Cooperatives. Some Lessons for Policy Reforms. *Hull Paper in Developing Areas Studies* No. 7. Centre of Developing Areas Studies. University of Hull, Hull.

Kashuliza, A. K (1993) Loan Repayments and its Determinants in Smallholder Agriculture: A case study of Southern highlands. Eastern Africa Economic Review, 9(1): 219-228.

Mlay, G..I (1988). Analysis of factors Affecting Maize Production and Consumption in Tanzania. FAO, Rome.

Royal Danish Embassy (RDE), (1997) Identification Study on the Establishment of Makambako Trade Centre. Unpublished Report. Iringa, 1997. 77pp.

Santorum A, and Tibaijuka, A (1992). Trading Responses to Food Market Liberalization in Tanzania. *Food Policy*, 17(6); 431 - 442.

Thrikell, J.D (1989). Attracting and Motivating Managers in UK. Agricultural Cooperatives, *The Year book of Co-operatives Enterprise* 1989, 55-66. Flunkett Foundation, Oxford.

URT (1997). Co-operative Society Act No. 15 of 19991 and Amendment No. 5 of 1997. Ministry of Agriculture and Co-operatives, Department of Co-operative and Institutions. 33pp.