

THE WAY FORWARD FOR THE CO-OPERATIVE MOVEMENT IN TANZANIA

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1.0 Introduction

The current setting of the co-operative movement, in Tanzania, shows a predominance of the financial co-operatives by almost more than 50% of the total population of cooperatives in Tanzania. This predominance is not accidental. It is part of a natural consequence of the impact of market liberalization policies where commodity and service markets, will demand financial services in the country. The agricultural marketing co-operative movement experienced declining trends over the past decade of liberalization, but co-operative actions have finally settled at the level of primary societies. The primary societies which survived, are performing co-operative business some with co-operative unions and some without co-operative unions. But they are doing business.

The overall picture of the co-operative sector in the economy, is as shown in Table 1 below:

Table 1: Co-operative Statistics as at March 2010

Type	Percent
Financial services	55.3
Agriculture marketing	29.6
Services	3.1
Industrial	2.0
Livestock	1.5
Fishing	1.3
Irrigation	1.1
Consumer	1.1
Mineral	0.6
Housing	0.3
Transport	0.04
Others	2.8
Apex	0.02
Groups	0.8

Source: Co-operative Development Development

The distribution of co-operatives outside financial services and agriculture, is only 30%, weak and small because, it has always been formed by the need of the members with minimal promotional efforts from agencies and the government. We can point out that the demand for co-operative action is available in all sectors of the economy. But there is need for an open promotional and educational strategy which does not exist at the moment. That new promotional strategy must start from a new conceptualization from the bottom-up driven processes and should be flexible and inclusive with the participation of all concerned stakeholders in Tanzania.

In this presentation, I will discuss the current constraints of co-operative development and growth as a first building block for discussing the future of the Tanzanian cooperative movement. Under the current setting, I will look at the influence of current macro economic policy, co-operative policy intervention, institutional economic theory of co-operation and organizational transformation theory.

In the second part of the presentation, I will look at the future scenario, given the current constraints in trying to develop a theoretical framework on how the Tanzanian cooperative movement can re position itself in a future global competitive market. In the last section, I will provide the way forward for the co-operative movement in Tanzania and conclude the discussion.

2.0 Current Constraining Environment

Current discussion on co-operative development is critically influenced by three main factors including macro economic policy environment, co-operative policy and the need for the appropriate economic theory of co-operation.

2.1 Macroeconomic Policy Environment

Broad macroeconomic policy of any country, is influenced by two important theoretical constructs of political economy. First the economic base and its superstructure. The economic base is formed by the totality of ownership of the means of production distribution and consumption and their production relations. The economic base determines the sectoral characteristics of the economy and the way the national assets in agriculture, industry and services are owned and controlled. The economic base determines the corresponding superstructure which simply means the institutional framework of the organizations which support the existence of a particular economic base in terms of the character of the state, which is an embodiment of the executive, the judiciary and the legislature. Therefore, policy decisions made by a particular state in power, are done to maintain existing production relations of the predominant mode of production.

Our current mode of production is theoretically characterized by peripheral capitalism which depend on small scale private capital of small farmers, small scale owners of industry and a small foreign owned service sector. There is more emphasis of the need for foreign direct investment. Apart from foreign investors from Europe, most investors in Tanzania are from African countries mostly from South Africa and Kenya. The peripheral capitalist system that we are in, is dependent on foreign capital flows and marginally investing in agriculture. Foreign investment is largely in the service sectors. giving a lopsided distribution of sectoral contribution to GDP as seen in table 2 below:

Table 2: Sectoral Contribution to GDP 2005

Sector	% contribution
Agriculture	29
Industry	22
Services	45

Source: Economic Survey GoT 2005

The National Strategy for Growth and Poverty Reduction (MKUKUTA), recognizes co-operatives as important institution in poverty reduction. But at a national level, we see two constraints; first, co-operatives do not feature out in the national co-operative statistics. As such, the gradual impact of co-operatives in the poverty reduction strategy cannot be validate, neither can it be monitored as well as evaluated. Secondly, inside the co-operative societies themselves, it has been difficult to track down impact of co- operative action on the members' economy. As such, co-operators talk about their success without any documented evidence (Chambo et al., 2007).

There is a new macroeconomic strategy by the government to improve agriculture first. In this program, which addresses investment and rising productivity, the principal approach is one farmer one farm one technique. The co-operative approach of organizing farmers including the lowering of transaction cost advantage of co-operatives is completely sidelined. The state system of peripheral capitalism sees the development of large-scale rich farmers as the engine of agricultural development than group oriented agro enterprises.

Peripheral capitalist economy is different from what I would call a self reliant internally integrated economy constructed out of internal sectoral linkages and dependent on national capitalist class where foreign investment must be linked with local participation all the time. The development of investment in all sectors of the economy, is deliberately achieved through a well-designed partnership. This kind of economy, would generate a different kind of nationalistic superstructure that would make decisions for the development and sustainability of an internally integrated self-reliant economy.

On top of the above limiting factors, Tanzania is a country which has so far spent its budgetary allocation below expectation of the Millennium Development Goals. The budgetary allocation has been 5% against the expected 10%. It is also among the African countries which have spent declining allocations on transport and communication from 6.3% in 1980, down to 3.7% in 2005 (Fan, et al., 2009).

2.2 Co-operative Development Policy

The co-operative development policy proclaims the responsibility of propelling cooperative development in all sectors of the economy. But as we saw in the introduction, promotional efforts are not evenly distributed in sectors other than agriculture and financial services. Tanzania is one of the countries in Africa where the government has gone ahead in enacting the Co-operative Societies Act and its rules as well as projecting a co-operative Reform and Modernization Programme. But with all the ambitions of the policy, legislation and the modernization programme, we see four main constraints of the new policy action on co-operatives: First, while there is discussion about reforming the co-operative movement, there is no strategy to reform the government department itself (Chambo: 2008). Lack of reform on the part of government, will later on stand as a break to co-operative reforms on the co-operative movement. Secondly, the unreformed character of the office of the Registrar of co-operatives, continues to make the office a pace maker of the co-operative movement and continues to exercise what Dulfer (1972) calls the conflictive model of co-operative promotion by the government where it effectively initiates the formation of co-operatives, supervises Annual General Meetings and carries out the vetting of co-operative leadership before

they are elected. This control aspect of unreformed office of the Registrar, has a tendency of stifling dynamic change processes inside the co-operative movement.

Thirdly, there is lack of investment in member education and empowerment. Dulfer (1972) argues that the only support that governments could provide to the co-operative movement, is the support of independent co-operative movement by funding its education and training programs as well as funding research and development for the generation of new knowledge and designing new co-operative systems of organization (Chambo:2007). The support of education has three aspects; first is upgrading the capacity of membership in democratic business and collective entrepreneurship development. Secondly, is the upgrading the skills capacity of co-operative boards of directors to guide competitive co-operative business locally and internationally and thirdly is the institutionalization of member empowerment in co-operatives, so that members have the capacity and the right of entitled participation in production, distribution and consumption of resources.

2.3 Neo-Classical Theory of a firm vs. New Institutional Economic Theory of

Co-operation

The debate of what economic theory should be used in the analysis of internal dynamics of the theory of co-operation, has occupied economic researchers for over five decades now. The work that started with the contribution of Emelianoff (1942 in Codon (2004) tried to dispute the previous analyses which were trying to analyse the behaviour of co-operative firms as synonymous to private individual firms maximizing profits in different markets. Previous analyses before 1942, concluded that co-operatives were trying to maximize the per unit value by distributing all benefits to members in proportion to their patronage volume or use (King and Ortman:2007). This is a critical departure in the analysis of co-operatives as single firms on the neocolonial economic theory.

The work of Emelioff (1942) made a further contribution in the understanding of the internal economics of co-operation, with the concept and the substance of vertical integration focusing on the structural and functional relationship of members as principals to their co-operatives and managers as the agents. The theory was later refined by Robotka (19947) and Phillips (1953) in Codin (2004) who refined the fact that co-operatives could both be treated as firms making decisions as entities in the neoclassical sense and also could be treated as organizational aggregations of economic units (the members individual businesses)

Our view support the inclination of later economists such as Royer (1999) in King and Ortman) who argued that there was need for / different theoretical models for analysis of the richness of the new environment in which co-operatives were operating .They argued that all their efforts by co-operatives to compete in a global economy and the changes that have happened for them to accommodate competitive engagement including the decisions they have always done, they have managed not as individual units which co-operate, but as aggregated organizations operating through the principles of collective entrepreneurship. Their traditional structures have been changing according to changing needs of members and have sustained a new theory of organizational economics or the New Institutional Economics.

The analysis of the internal economics using the methodology of New Institutional economics, sees that the co-operative as an aggregation of small private firms as economic units in the market. Those small production units or the farms of the members are private firms on their own right (Carlson, 1972). But individual economic units come and pool resources together and from the marketing organization aimed at minimizing both production and exchange costs. The distinction between co-operative organizations and the economic units of the farmers is the fact that while the objective function of the later is profit maximization, that of their co-operative is the maximization of member welfare through patronage refund in proportion of volume of use and the minimization of costs.

The analysis of organizational economics of the co-operative enterprise has addressed three theories which have challenged co-operatives as economic organizations in the context of being an aggregation of smaller organizational economic units. These theories include:

2.3.1 Transaction theory

The Transaction Cost theory is applicable to group (Roger: 1999) and King and Ortman (2007) are based on institutions and institutional constraints of co-operative organizations. Transaction costs are the costs faced by co-operatives and the aim here is to minimize such costs so that the co-operative can maximize welfare of the members. The main transaction costs identified in theory are those costs of organizing

and transacting exchange (Royer:1999) in Condon (2004), such as the costs of search and information, bargaining costs, decision cost and policing and enforcement costs. In a world of imperfect markets such costs are less when they are co-ordinated by an organization than individual small farmers at their farm level. The challenge for co-operatives is how best to identify them and minimize them. The cooperative organization is a service centre for its members. The identification of all transaction costs and determination and estimation of their values is an important intervention in reaching the cost mini objective in the long run. The current business assessment of co-operative organizations seldom takes on board these important costs.

2.3.2 Property Rights as a Limitation

Property rights are defined as the capacity to use or control of the use of an asset for any form of human activity in an organization. The rights are an important identity of ownership of residual claims over the use of assets. In a modern co-operative organization, property rights are the payment assigned to member owners of the cooperative, after meeting other obligations such as taxes and payment to creditors. It is after those payments are done; the residue goes to the members as patronage refund. It is this aspect of property rights which has been contested over time. As pointed out by researchers such as Condon (2004) that members control based on patronage refund is not as strong as if it was attached to share values. It has been argued by cooperative economics researchers (that patronage refund does not provide sufficient incentive for members to invest in the co-operative society for two main reasons; first, members normally have the consideration of take home of the refund and. Secondly, property rights in terms of shares in a co-operative society, maintain the same nominal value and are not transferable through capital markets. If a member leaves the co-operative society, they receive the original value of their shares. Both these aspects of property rights are a disincentive to asset growth and expansion of co-operative business.

Thirdly, the non-tradability of co-operative shares in capital markets, invites the complex problem of external and internal free riders on the co-operative society. Internal free riders as the old members. External free riders are the non-members who can still make use of the facilities of the co-operative society such as selling their produce through the co-operative society free of charge.

2.3.3 Agency Theory

The agency theory of co-operation focuses on the relationship between the owner members and employed managerial staff. According to this theory, the two groups do not have the same objectives of making the co-operative grow. While members are interested in the expansion and growth of the co-operative enterprise, the managers want higher pay packages and incentives. In order to achieve higher commitments from managers, members will have to design higher pay packages to attract high managerial commitment to the growth of the co-operative society. The challenge is how high the co-operative members should go and for how long.

3.0 Organizational Transformation

Traditional organizations such as co-operatives have remained conservative operating, with same structures they used to conduct their business. Co-operatives in agricultural marketing for example, have tried to maintain the same structures starting from primaries, unions, apex bodies and federations. But those structures do not conduct effective business. They have become a burden to the members. With more education and skills, members at the primary society level are starting to innovate business structures and assuming the power which was usually carried out by the cooperative unions. When they see market opportunities they to cease them. cooperatives have not carried out the necessary organizational transformation that is currently demanded by global markets. According to Clerk and Clegg, (1998) organizations faced three choices of advancing into the future; First, carry out cost cutting exercise. This would reduce costs of operation but would not bring in innovation. Second choice would be organizational re-engineering whereby, some departments thought to be critical to the organization would be allowed to carry out major changes through re engineering. But the remaining departments would remain the same. This re-engineering strategy would be limited by the unchanged departments and the very structure of the organization which does not change. The best choice would be total organizational transformation where every aspect of organization is allowed to change and attain completely a new structure, new departments and allow for total innovation of every aspect of the changed organization.

The transformation of co-operative organizations would allow them to reflect on the type of fundamental changes that would take place in their structure, their market position, different types of markets, sources of supply and their position in the national decision-making system.

4.0 Implications from The Constraining Environment

The overall effect of a constraining environment, is to limit the potential for growth and expansion of the co-operative movement in all sectors of the Tanzanian economy. The slow development of co-operatives is seen in the insignificant proportions of cooperatives in the other sectors other than financial services and agriculture. The demobilized potential areas such as minerals, irrigation, housing and consumer are clearly a vivid example of lack of interest by promoting agents. This calls for a broad-based strategy for co-operative development from the co-operative movement rather than from the government.

But from the analysis given above, we can draw the following implications for the future of the co-operative movement in Tanzania as follows;

- The political economy of the power structure in Tanzania is not transformative but rather managing the status quo of a neocolonial economy. The sectoral structure of the economy has proportionately altered towards more of the service sector with marginal increases in the industrial sector. With agricultural contribution to GDP declining and giving way to the service sector. This bias towards the service sector is not negative in absolute sense, but needs a balanced growth of the major productive sectors in industry and agriculture. But a balanced sectoral transformation cannot be done by a peripheral capitalist state. It can be done by an inward-looking transformative state with a priority for building a self reliant internally integrated economy in Tanzania. That construction, relies on in education and skills development of its farmers and their organizations. Such a policy reform and intervention cannot be carried out by a state machine guided by the Zanzibar Declaration. We shall need to go back to the principles of the 1967 Arusha declaration and revisit the major economic and political economy of it and carry out a soul-searching analysis of reinventing it in the context of current political economy and derive the way out.
- The contribution of co-operatives is less recognized by both the government and the members still take co-operatives as sideline business. Co-operative contribution does not feature out in the national statistics and therefore lacks the advantage of critical measurement monitoring and evaluation. Members in cooperatives do not have a method or instrument to measure how they have been successful economically through co-operatives

- National policy dialogue, does not recognize the existence of co-operatives in the country. The reasons are many but two are important; first the co-operative movement is still unimportant in the national economy as we have pointed above .It occupies marginal sectors of the economy. Secondly, the co-operative movement has weak leadership as well as low membership numbers therefore unable to impose strong voice and agenda at the national level. Statistics indicate that proportion of agricultural co-operatives is confined to a handful of in the traditional export sub sector which include coffee, cashew tobacco and the declining cotton. The rest of the agricultural economy the food production sub-sector, is outside the co-operative organization. In the financial services sector, there is more weight in the urban employee based co-operative movement than rural financial co-operation. In terms membership, figures from the Co-operative development department are less than 10 million people against an estimated adult population of 35 million people.
- The co-operative movement does not have its own program and strategy for modernization and expansion .It is currently implementing the government driven program for co-operative reform and modernization. But in the same government program, the government has not shown how it is going to reform itself in fostering member driven co-operative movement in Tanzania. By not developing its own strategy, the co-operative movement is playing in the play ground of the government. As such it has no framework for instrument dialogue with the state. That is why the movement has not even tried to look at the implications of the 2003 Co-operative Act by making a critical assessment of the two tier and the existing four tier systems in order to make an informed decision of the economic viability of the dual coexistence of the two-tier systems.
- Co-operatives are formed by small holder farmers and other producers. As such, major macro economic programs such as Kilimo Kwanza targeting large scale commercial farmers can hardly be inclusive of co-operative organizations. This however does not mean we are negating the importance of large-scale agriculture in Tanzania. What we want to say is that the development of such a sub sector, should go together with investment in small farmer sector and their economic organizations. Co-operative organizations need to carry out deep analysis of their transaction costs all the time so that they have a business structure and frame that attains minimum costs at any given moment.
- Transaction cost economics are very crucial to co-operative organizations. People co-operate to attain lower transaction costs in order to enhance their incomes. currently they are not part of the costing structure of co-operatives Co-operative

organizations need to carry out deep analysis of their transaction costs all the time so that they have a business structure and frame that attains minimum costs at any given moment.

- Property rights need critical analysis and review so that they build more incentives for membership commitment to invest in their co-operative societies.
- Incentive packages for professional managers are a critical factor in building a strong co-operative movement in Tanzania
- Co-operatives need organizational transformation so that they can re position in current competitive markets

5.0 The Way Forward

The way forward for the co-operative movement in Tanzania, will be supported by a reformed macro economic policy, sectoral policy change and the need for organizational transformation inside the co-operative movement.

5.1 Macro economic Policy Environment.

In facing the global economy, there is need to make a thorough review of our current macro economic policy which will guide other sectors of the economy including future co-operative development. This discussion is timely today because Tanzania is about to start writing a new constitution. In the constitution we should be categorical of what country do we want to see in the next sixty years. What kind of economy are we building and what will be the position of group-based enterprises such as co-operatives. we must accept the fact that peripheral capitalism cannot take us far. We need a national driven capitalist welfare state that will provide equal opportunities for nationals to occupy their position in the national economy. A nationalist economic strategy, will recognize the power of small farmers, their co-operatives and transform them to become entrepreneurs. The new state, will generate sectoral policies which will encourage debate which will be recognize the role and inclusiveness of the co-operative movement.

5.2 Co-operative Development Policy

Co-operative development policy has not been reformed yet. Both the policy and its legislation, assume that the government will be the main promoter of co-operatives. That the Registrar of co-operatives will supervise annual general meetings and vetting cooperative leaders. There is need to develop a mechanism that will assist the Co-operative Development Department to reform and modernize so that their relations with cooperatives are more on a formal partnership than directed subordination as they are at the moment. In doing so, the department will play a more progressive role in handing over the promotion of co-operatives to the co-operative movement and deal mainly with the creation of a favourable environment. According to Munkner (2006), a favourable climate for the development of co-operatives is provided by the following aspects:

- Guarantee of freedom of association and the right to exercise any legal economic activity in groups.
- Protect the co-operative name against misuse
- Offer enabling legislation
- Granting autonomy to adjust the by laws of each co-operative society to the wishes and needs of its members
- Guarantee equal opportunities with other business organizations
- Protect co-operatives against unfair competition
- Provide a tax regime for co-operatives that takes into account their peculiarities.

5.3 Co-operative Organizational Transformation

The major changes taking place in the global economy have a direct bearing on changes in the co-operative movement. The changes are structural, technological, professional and the nature they conduct co-operative business locally regionally and internationally. At the local level, co-operative organizations need to strengthen their own local system with the best professional managers who can do business locally, regionally and internationally. In this way, they have to review the co-operative business model to see how they can reduce transaction costs and maximise revenue to the members. In the engagement of professional managers, the co-operatives have to re think about how they can strengthen their property ownership conditions by a special campaign to raise share capital in co-operative

organizations. A cut off point in share ownership may be determined above which those members paying for more shares receive share income other than just patronage refund on volume use.

The other to consider in the transformation program, is the utilization of the value chain approach in co-operative business. Originally co-operatives, especially those in agricultural marketing, were selling commodities in unknown markets to unknown buyers. The value chain approach offers opportunities for the co-ordination of markets in terms of buyers, prices, contracts and carrying out value addition activities to enhance the earning ability of co-operatives at home. The value chain approach, will make members aware of critical transaction costs as well as raising their share ownership to strengthen the co-operative business.

Thirdly, co-operatives in need of expansion, can open up and move into a strategy of restructuring into what are known as Second Generation Co-operatives (SGC) or some times called New Generation Co-operatives (NGC) (Walzer, N. and Merrett, C (2002). According to Sachank and Fulton, New Generation Co-operatives bear the following characteristics which depart from traditional co-operatives including value added processing, significant equity contribution by members, ability to trade equity and delivery rights and the obligation for product delivery, based on equity contribution. This is a growing sub sector of the co-operative movement both in the USA and Europe. But it gives direction of where our co-operatives may need to prepare as they undergo their own transformation into the future.

6.0 Conclusion

The future of the co-operative movement is determined by a number of critical factors at both the current Political economy of the current state because it is the provides the political direction of the major changes in macro economic policy. A transformed state that moves away from peripheral capitalism to inward looking nationalistic self reliant integrated economy, is historically necessary because it provides the broad context of the change process required in the institutional superstructure. Secondly, the Co-operative Reform and modernization program should also include the modernization and reform of the co-operative Development Department, the co-operative policy, the co-operative Act

2003b and the rules. Such reform on the part of the structure of the government will open door for effective reform and modernization inside the co-operative movement itself. Finally in order to create meaningful partnership between the state and the co-operative movement, the movement itself need a separate strategy for its own future.

