

ROLE OF CO-OPERATIVES IN ACHIEVING SUSTAINABLE RURAL DEVELOPMENT

THE INTEGRATED CO-OPERATIVE MODEL AND CO-OPERATIVE GOVERNANCE IN ACHIEVING SUSTAINABLE RURAL DEVELOPMENT IN RWANDA AND TANZANIA

By

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MAIN PREMISE OF THE PAPER: Despite the pluralistic character and long history of agricultural marketing co-operatives in Rwanda and Tanzania, research and governance practice, are scanty.

MAIN HYPOTHESIS OF THE PAPER: The introduction of the Integrated Co-operative Model, is an efficient means of linking pluralistic governance for the achievement of sustainable rural development in Rwanda and Tanzania

1. Introductory Background

Agricultural co-operatives have been regarded as important institutions for the survival of early and modern human- beings. The nature of agricultural cooperatives has been changing overtime depending on the socio-economic conditions for example in the 17th century we had the “reductions” established by the Jesuits in Paraguay, while in the eighteen century we experienced the emergence of modern Rochdale co-operative societies (Stickers *et al*, 2011). The modern co-operatives were introduced in Africa by colonialists to serve their interests using the unitary governance approach. They had different interfaces that were related to the interests of colonial countries. For instance in French colonies we had the *Sociétés Indigènes* (later “*Africaines*”) *de Prévoyance*” while in British colonies we had the Unified model, whereas in South Africa and

Namibia co-operatives centered on commercial agriculture that was dominated the rural areas (Schwettmann and Pardev,2014).The initial establishment of the agricultural co-operatives was guided by the need to search for better prices for small holder farmers in the marketing of agricultural export commodities, and hence accelerated a historical bias of not addressing other important commodities for small holder farmers. They were not like the Rochdale co-operative model and therefore had substantive implications on current agricultural marketing co-operatives especially specially on addressing exports and limiting demand oriented co-operatives. Overtime the content and structure of the agricultural co-operatives has not changed. The co-operatives have been centres of receiving international and government assistance rather than institutions of self-reliance. Agricultural co-operatives in Rwanda and Tanzania are yet to address the challenges related to both human growth and economic growth of its members in qualitative rather than in quantitative terms (Stickers *et al*, 2011).

Historically, the drastic policy changes in Rwanda and Tanzania have had a far reaching effect on the performance of the agricultural co-operatives. In Tanzania the effect of policy environment on the Unified Co-operative model may be divided into four phases. First, during the colonial period, we had the educational model being promoted by the Unified Co-operative model. Members were given scholarships and thereafter left to go their own way. The spirit of co-operatives is to provide education that will spearhead democracy and self-liberalization and enhance good governance. For example, the Mondragon co-operatives have used this approach, The second phase is soon after independence, where the conflicting approach was dominant, the state did not observe the co-operative principles and values but used the co-operatives for their own interest. However, a meeting on co-operatives, organized by the United Nations 2002, recommended among other things, the fact that co-operatives should not be used as instruments of the state, they should not be promoted as instruments of government policy implementation or technical aid programs and forums for political indoctrination (United Nations, 2003). It was also emphasized that policies on co-operatives should move the co-operative enterprise away from dependency on the state The third phase was the era of economic liberalization, where we had the complementary model that affected negatively the Unified model to the extent that it rendered the primary co-operatives less effective and as a result the Unions became weak because they were dealing with marketing of export crops only. The fourth phase is the

realization of the importance of primary co-operative societies in rural development that led to the enactment of the Co-operative Societies Act No. 6 of 2013. With this Act primary co-operative societies were given the autonomy to operate and in case a co-operative society is economically weak then it can form a merger with a partner co-operative society. This was a departure from the traditional Unified Co-operative model and the manifestation of a horizontal integrated approach, that could be used by the primary co-operatives to promote pluralistic governance, entrepreneurship and innovation.

Rwanda transformed from the French Model to the British Unified Model after joining the Commonwealth. According to Mukarugwiza, (2009), the co-operative movement in Rwanda has passed three main phases serving different purposes; the colonial rulers promoted co-operatives to support colonial interests. This included the establishment of agricultural marketing societies for the export economy. The second phase is after independence, whereby the independent government took co-operatives as business entities, but for producing and sustaining the subsistence economy of the members. While the original colonialist structures agricultural co-operatives continued, the subsistent emphasis of the new government, ran parallel to it. The economic implications of this parallel situation, established two reinforcing organizational systems. First, the members remained subsistent and poor with co-operatives around. Second, they produced to serve the export economy where value migration continued unabated. The Rwanda genocide of 1984 destroyed the existing co-operative enterprise system. The third phase is after the genocide, where the state is looking at the co-operative movement differently and current policy formulation on co-operatives has a great input of consultations and participation of the co-operative members. Rwanda is currently running the strategic administrative and the educational model. In addition, Rwanda has experienced a growth of the agricultural primary co-operative societies (Mukarugwiza, 2009), That is why Rwanda has effective institutional mechanisms to implement the co-operative strategy than the other member countries. The strategic administrative and educational model is a departure from unitary governance and paves way to pluralistic governance, that may address the challenges of economic democracy and human growth in agricultural co-operative societies. Moreover, the Rwandese model has one important advantage, that it is built on all commodities and it is more inclusive for all types of

co-operatives. Furthermore, the existing structure allows the establishment of horizontal connectivity between primary societies.

2.0 Unitary and Pluralistic Governance

Co-operatives are the right institutions for the implementation of governance principles and practice. Co-operatives, based on the co-operative principles, carry major aspects of governance, including democracy, legitimacy, member participation accountability and transparency.

There is a difference between what is termed as system governance similar to unitary governance where the participation is implemented through administratively constructed networks in the improvement of official delivery of services (Bevir2006). It is however, a top bottom process based on the expertise of professional management and social scientists. Pluralistic or radical governance, is based on self governing members through the promotion of dialogue in which, the members play an active role in the making and implementing co-operative business and policy (Bevir, 2006).

There are however, two conflicting scenarios where co-operatives are seen as based on democratic principles and values in theory. However, the way they operate on the ground, leaves a lot to be desired. They usually reduce the degree of pluralistic governance with organizational control bound in the board –management close relationships where they end up crafting limited solutions board members and managers pave their way to personal interests This type of governance is more unitary than pluralistic and that is the one of the challenges of co-operatives in Africa. As Taylor (2005), puts it that, the design orientation of co-operatives is based on members who are at the same owners, provides the opportunity for the achievement of pluralistic governance. Such an advantage is promoted by; First, in a co-operative organization, members trust each other and enjoy economies of scale, Second, there is increased equality on the distribution of the co-operative advantage. Third, is the disposition of information which mitigate leadership opportunism through member participation and business evaluation and fourth, is economic democracy where members are expected to take joint decisions problem definition, the appropriate economic activity to be carried out by the co-operative and the equity in share contribution. To implement all these pluralistic activities, the co-operative members are limited

by two levels of incidents resulting to limitation of limited governance. First is the low capacity in advancing their stock of knowledge about their business. Secondly and related to the previous argument, is the ability to assimilate external knowledge and use it for commercial purposes. The members need problem solving education so that they do not remain on the receiving end. Without such education, pluralistic governance will be limited.

3.0 The Governance Problem

While we see the problem of implementing governance at the micro organizational level of the co-operative enterprise, we argue that the implementation of governance at the organizational levels, is also determined by the macro- economic perspective of the state. A study carried out at macro level governance by the United Nations Development Program, (Grindle 2007), and based on an analysis of existing political systems in Africa, shows that at a political level, most countries in Africa, except South Africa, governance is minimally institutionalized and demonstrate that governance in the public management systems, is still fragile and needs time for capacity building to create stable structures , rules and institutions for legitimacy of decision making. It is therefore clear that governance in national institutions like the co-operatives will always be affected by the character of governance and the national level and the two cannot easily be isolated.

The common hypothesis we put forward is the fact as pointed by Grindle (1997), that in both Tanzania and Rwanda, national level governance needs more time for stability and needs capacity building. In this way, the relationships between the instability of national governance, has direct influence on the status of governance in the co-operative movement. However, we must argue that the stage of governance inside the two countries and their co-operative movements, is addressed at different stages as we shall see.

The history of co-operatives in Africa, reveals that while learning about democratic practice and the application of pluralistic governance is still a new phenomenon to them, the easiest action they could always take the tendency to implement the formality of implementing the co-operative Act. Second, there are two ways in which co-operative leaders are deliberately avoid

the utilization of pluralistic governance in co-operatives; co-operative leaders tend to uphold the formality of implementing the Co-operative Act. Secondly, it depends on the structured leadership styles current co-operative leaders are trying to exercise after being elected as leaders. First, there are those leaders who are trying to be too democratic at the expense of co-operative business development and entrepreneurship. On the other hand, there are those who are too entrepreneurial at the expense of the legitimacy of democracy and pluralistic governance. Both these extreme leadership styles, impose substantial limitations on good governance. The leadership style needed in all stages of co-operative organization, are those known as integrative leaders. Such leaders do balance entrepreneurship and pluralistic governance at the same time, including emotional intelligence. Likewise, the introduction of co-operatives in the rural areas of Africa, is usually carried out by government co-operative Officers who assume the hierarchy of the top bottom structure of central government and end up in the institutionalization of unitary governance.

3.1 Deviation of African Co-operatives from the requirements of pluralistic governance to unitary perspectives

The implementation of unitary systems of governance, also emanate from the vertically integrated unified co-operative structure as imposed by British colonial government. Traditionally, agricultural marketing co-operatives, have historically, performed simple technical activities of crop collection and transporting the externally demanded commodities to Europe. While the imposed structure imposed the second tier structure of the co-operative unions who carried out marketing and searching for the best buyer of the crops, there was little communication between the unions and the respective primary societies. The lack of communication on the co-operative benefits to the members, imposed lack of transparency and accountability. According to Munshi (2004), accountability and transparency are two important instruments of pluralistic governance. While accountability is built on four critical components of answerability, liability, role based expectations or predictability and accountability expectations. It is expressed as the mechanism for reporting on usage of resources and be held responsible to accept the consequences of failing to meet stated performance objectives. On the other hand, transparency is unrestricted access to timely and realistic information on democratic decisions and performance (Osborne and Gaebler,1993). It is firmly argued that without

transparency accountability is limited and co-operative members are left out from participating effectively on their co-operative business.

In the context of co-operative board members and professional management, there are two negativity conditions which impose limitations on pluralistic governance; First is the operation of the Principal- Agent theory. This principal postulate that while members are the principal to decision making, have long term objectives of attaining co-operative benefits, the managers as agents, have short term objectives of making money and go. The second negative condition according to Osborne and Gaebler (1992), is after board members realize their professional weaknesses, decide to pay higher salaries to professional managers. While such a decision is expensive and costly to co-operatives, the P-A relationships continue unabated.

Apart from such negativity conditions, not all members are knowledgeable and demand good governance. There is always a group of members who keep themselves aloof and do not have any sensitivity to governance (Craig, 1993). Such members sit on the fence but wait for the co-operative benefits without active participation and involvement. In all the cases above scenarios, pluralistic governance will have little support from both the members and the co-operative leadership.

3.2 Empirical evidence of the shortage of the pluralistic model in Rwanda and Tanzania

Contemporary studies in Rwanda and Tanzania by Chambo and Diyamett (2014) and Musahara (2012) indicate the broad areas where pluralistic governance is institutionally challenged.

Rwanda

According to Musahara (2012), Rwanda closely follows the implementation of the co-operative principles. However, Rwanda has to embark on capacity building for the institutionalization of pluralistic governance due to the following reasons; First, the Rwanda co-operative movement is generally influenced by elitist managers who try to exploit co-operatives at the expense of the

members. Secondly, there are families of influential people as members, but determine how co-operatives should work. So far there is no distinction between associations and co-operatives. The distinction is important for co-operative governance because while co-operatives are profit driven organizations, associations may be driven by not for profit processes. Fourthly, the four tier structure of the movement, based on the unified model, is expressed as a legal requirement for the establishment of co-operatives and not determined by the members. Fifthly, member education is still inadequate and as a result, the members are not aware of what is taking place in their co-operative business apart from crop collection.

Musahara (2012), continues to argue that internally, the structure of co-operatives is still very weak, with low member participation, ownership, poor leadership, weak financial management and poor reporting or lack of transparency. There are also, low managerial skills, poor internal communication and the unions are weak and compete each other.

Tanzania

According to Chambo and Diyamett (2014) current agricultural marketing co-operatives are challenged by the complexity of institutionalization of pluralistic governance in the following areas of concern; First, there is overriding imposition of the bureaucratic model of the co-operative organization. It is explained that as unions collapsed during economic liberalization and competition, government intervention, resorted to the bureaucratic model of co-operative business. This intervention, took the co-operative movement to unitary governance. Secondly, the number of registered agricultural marketing co-operatives was declining setting in low expectations of growth of democratic institutions based on good governance. Third, there is still conflict between the perception of co-operatives as non- profitmaking organizations or surplus driven institutions. When the majority of farmers take them as tools for poverty alleviation and catchments of external assistance, the demand for good governance is minimal. It is however should be closer that co-operatives are profit driven organizations which need to be guided by clear principles of good governance. The bureaucratic failure of imposition of the three tier system legally, means that traditionally, the national structure of the co-operative movement is not determined by the wishes of the membership. What is seen is the unions subordinating

primary societies, creating hierarchical structures, giving a limitation to democratic governance of the co-operative movement.

Looking at the visible characteristics of governance in the Rwanda and Tanzania, it is fair to argue that the co-operative movements in the two countries are still operating in the framework of unitary governance and need more capacity building and facilitation to shift gears to the institutionalization of pluralistic governance. The law determines the structure, low managerial skills, poor communications limiting transparency and accountability. Such a structure demands a new approach and facilitation to a model of co-operatives demanding the internal institutionalization of pluralistic governance.

4.0 Introducing the Co-operative Integrated Model in Agricultural Marketing Co-operatives through the Pluralistic Governance and Rural Development in Rwanda and Tanzania

4.1 Brief history of co-operatives in Rwanda and Tanzania

The two countries under study, have different histories of their co-operative movements. They have different policies legislation and different structures and strategy. But the logistics of the formation of co-operatives during the colonial days are similar. During the colonial days Rwanda started with mining co-operatives for export to Europe (Musahara, 2012). In Tanzania, the first co-operatives supported the export economy in coffee, cotton, cashew nuts tobacco and pyrethrum. The co-operatives in both countries were technically collection points for export commodities for European industry. After political independence in Rwanda, the government introduced agricultural marketing co-operatives fulfilling the order of supporting external demand. Tanzania after independence continued with the same cash crops but added food crops for internal demand.

After 1994 Rwanda, changed the content and structure of the co-operative movement in Rwanda. Rwanda has established the unified co-operative model with the four tier structure of primary societies, unions, federations and the national confederation Tanzania continued with a three tier

structure of primaries, unions and the federation. But while Rwanda continues with the four tier unified model of co-operatives, Tanzania, has been shaken by market liberalization where the federation and unions are practically weakened.

The basic question which comes in, is the fact that with the observed problems caused by tendencies of unitary governance, how do we introduce pluralistic governance in co-operative and rural development in the two countries?

International research carried out by Universities in Tanzania, Rwanda, Uganda and Canada, tried to give general reflections on how the implementation of the integrated co-operative model, has the possibility of introducing the needed action, for the expansion of pluralistic governance for co-operative and rural development in the countries.

4.2 The Integrated Co-operative Model

The basic features of the co-operative integrated model do encourage the introduction of the pluralistic governance in agricultural marketing co-operatives. When tested against good governance, research had the following findings:

First the features of the integrated co-operative model, invite the introduction of pluralistic governance. At a theoretical level, the decision to enter into horizontal integration is a decision of the members under conditions where the legal system recognizes the vertically integrated co-operative structures. The independent decision of going horizontal, means members can cease the opportunity of embracing the integrated co-operative model.

Second, at an empirical level, our integration research, had the following findings;

Rwanda

Currently the co-operatives are operating under the vertical integration. However, our research (Chambo *et al*, 2016), observed two important elements of the movement towards horizontal integration. First, at a policy level Rwanda is using the vertically integrated system in order to mobilize membership and inclusive of all commodities rather than confining Rwanda to export

crops only. The policy allows the government to provide medium term assistance and thereafter, the co-operative movement will be free and independent working through the complementary system where co-operatives will be seen as partners in development. The movement towards horizontal integration will demand pluralistic governance because by then, the co-operatives will need to be strong and competitive depending on the participation of the members.

The second element, is where co-operative leaders we interviewed in Rwanda, pointed out that currently the unified model is still new and they needed time to work with it. While they accept the horizontal integration, they were of the opinion that the vertically integrated unified model needs to be tested first and see opportunities for the institutionalization of the horizontally integrated model. But when time comes for the implementation of the integrated co-operative model, the process may start with currently competing specialized unions. For example, union handling the paddy crop, instead of competing, they may need to integrate at the district or regional level and go into value adding agro processing for the advantage of their members. But when they integrated on a single commodity as such, they may need to form a union level savings and credit and co-operative insurance structures to complete the integration process. The second possibility for the implementation of the integrated co-operative model will be at the primary co-operative society level. Again, such integration will be achieved successfully if the members determine the integration and link it with savings and credit co-operatives to offer sustainable financial services. While the research observed higher levels of governance it is our position that when such an option is tested in Rwanda, pluralistic governance will become a possibility, through agro processing and value addition. Apart from members demanding more information and accountability under the integrated co-operative model, the system of communication will be strengthened and inviting more accountability.

Tanzania

While in Tanzania is been implemented by the members as a response to market liberalization, there was double membership as a reflection of horizontal integration, secondly, the integration is taking place between agricultural marketing and financial services co-operatives. These are structures which are currently demanded by the members of co-operative societies, thru the integrated model the primary societies are assuming more responsibilities than the time of the

unified model. Fourthly, primary societies are now carrying the ability to export their commodities directly and gain better prices and revenue. Fifth there is an opportunity for the integrated model to accommodate other crops including food and vegetables. These activities will be successful if the operation is supported by pluralistic governance.

5.0 The Way Forward

A conducive environment for pluralistic governance to happen inside the co-operative enterprise, the following aspects are critical, first conducive policies and legislation for the promotion of integrated co-operative model, secondly education and training that will enhance ownership capability of the members, member based processes of electing and monitoring performance of leadership, continuous leadership training for the members to build capacity and ability for them to monitor and audit the activities of elected leaders, about achievements and the implementation of governance. This can successfully be implemented if members are also trained in leadership skills.

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