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# THE BENEFITS AND CHALLENGES OF AGRICULTURAL MARKETING CO-OPERATIVES IN MOSHI DISTRICT, TANZANIA

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## Abstract

The agricultural and marketing co-operatives societies (AMCOS) in Tanzania deal with production, processing, transporting and marketing of various crops. Given the changes in the natural, economic and business environment in the world, the changes have created both benefits and severe challenges to the AMCOS dealing with coffee. What are the existing benefits and challenges facing AMCOS today? To address this question, this paper aimed to assess the challenges and benefits of coffee agricultural marketing co-operatives in Moshi District. Specifically, the paper focused on three issues being; determining the social benefits of AMCOS; determining economic benefits of AMCOS and also identified the challenges facing AMCOS. A cross sectional design was applied where data were mainly collected through focus group discussion (FGD) method. The data were analysed using content analysis method. Three coffee AMCOS of Mweka Sungu, Mruwia and Uru North Njari were studied. It was found that AMCOS have been useful in promoting social and economic development to the members and the general community. However, the AMCOS also face numerous challenges affecting their effectiveness in serving members. The study has gone further on recommending on some viable strategies to overcome challenges and increase more benefits to the membership.

Key words: *Benefits, challenges, co-operatives, agricultural marketing co-operatives*

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## 1. INTRODUCTION

The International Co-operative Alliance defined a co-operative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise. Co-operatives are internationally recognized as enterprises democratically owned and controlled by their members (Bibby, 2006). Historically, agricultural co-operatives have been a successful and common aspect of rural life (Brennan and Luloff, 2005). To survive in this increasingly complex world, poor producers and workers need to become more competitive, to be aware of their rights, and to have voice. One of the most effective ways to do so is to join forces through their own democratic organizations. Co-operatives represent one viable form of a member-owned and controlled organization that can help the poor compete in the market and bring significant social benefits and voice (ILO, 2012),

Co-operatives have been an important part of the development of Tanzania for many years. While they have seen many successes and failures during this period no other institution has brought so many people

together for a common cause. Following the Arusha Declaration, co-operatives became the main tool for building a spirit of self-reliance during the Ujamaa period. The rise of free markets, made co-operatives struggle to compete with the private sector and many has not been able to provide their members with services they need. The Government has responded to this problem by introducing a new Co-operative Development Policy (2002) to help co-operatives to regain their importance in the economic lives of the people (TFC, 2006). To meet their full potential, Tanzania's co-operatives need to have members who feel able to participate and actively engage in the life of their organization (Bibby, 2006).

For several years, co-operatives have remained crucial to enable people to exercise control over their economic life. They offer means to achieve economic development in an ever more competitive economy. In the current environment where market access is poor and market information is inadequate, not being involved in collective organizations, the individual small farmer is left in a weak position. This effect is not only felt by individual farmers but also the whole economy (Ainebyona and Tiruhungwa, 2012). If well managed, co-operatives in rural areas have great potential to build local development and boost performance of the agricultural sector. Bello, (2005) argue that today in an era where people feel powerless to change their lives, co-operatives represent a strong, vibrant and viable economic alternative where people can meet their common needs..

The history of the coffee sector is closely linked to the cooperative movement. During the 1920s expatriate coffee growers formed a union to market their coffee. The first marketing cooperative of native cultivators was established in the Kilimanjaro area in 1932, primarily to promote coffee as a cash crop among peasant farmers. Subsequently, cooperatives grew in size and number, but they were confined to regions producing export crops (Baffes, 2003). The coffee co-operatives comprised of among the most dominant kind of agricultural co-operatives in Tanzania. Tanzania Coffee Board figures in 2015 indicate that directly coffee is grown by about 450,000 families. This constitutes 90% of the total coffee producers. The remaining 10% comes from the estates. Indirectly coffee make a living for 6% (2.4 million) of the country population which is currently estimates to be 40 million. Tanzanian Arabica coffees are grown on the slopes of Mount Kilimanjaro and Mount Meru in the Northern areas, under the shade of banana trees, truly an exotic location for this east African coffee, also in Southern Highlands of Mbeya and Ruvuma regions where coffee is both intercropped with bananas and some areas are pure stand. The Arabica coffee makes up to 70% of total country production. The robusta coffee is grown in the western areas along Lake Victoria in Kagera region. This constitutes 30% of the total coffee production in Tanzania. Co-operatives are the mostly engaging in coffee productivity compared to individual producers.

In Moshi district, agricultural marketing co-operatives (AMCOS) have existed for years, mainly dealing with production and marketing of coffee. In their operations to serve members' socio-economic interests, the AMCOS help in improve social and economic conditions of members and community at large. However in their efforts to serve the interest of the poor, they experience various challenges retarding their capacity to serve their member. Furthermore, the capacity of any co-operative to achieve its goals and benefit its members as well as being able to overcome its challenges depend on the key success factors that lead overall operation of the given co-operatives. This paper aimed to assess the benefits and challenges in agricultural marketing co-operative societies in Moshi district. The specific reference is made from the three co-operatives of Mweka Sungu, Mruwia and Uru North Njari co-operatives. Therefore, this paper provides a clear picture to various stakeholders' co-operative societies and their member, policy makers, NGO's and government to have an understanding of the benefits brought by agricultural marketing co-operatives as well the main challenges that face them. The current study is

organized into three main areas. First is start with description of the material and method part, followed by findings and discussion. The final part is about the conclusion and recommendations.

## **2. MATERIAL AND METHODS**

The paper is written based on the findings collected during the field visits to three agricultural marketing co-operatives (AMCOS) of Uru Njari, Mruwia, and Mweka Sungu. The cross sectional design was applied where data were collected once at each AMCOS. The data were collected through Focus Group Discussion (FGD) and documentary review. The FGD guide with specific themes was used to lead the discussion in the three AMCOS. The review of documents was also done to collect data which existed in the AMCOS. This included data on the; revenue from investors who leased co-operative farms, community support given by the AMCOS and historical information about the AMCOS. In total 30 respondents were involved in the FGDs where in each AMCOS, one FGD of 10 people was conducted. These respondents comprised of Board members, staff and ordinary members. Content analysis has been used to analyse the qualitative data obtained from the FGDs.

## **3. FINDINGS AND DISCUSSION**

### **3.1 Profiles of the selected case studies**

#### **Uru North Njari AMCOS**

Uru North AMCOS is among the agricultural and marketing co-operatives found in Moshi district. Its history can be traced back from the year 1954, when this co-operative society started. It is in this period when the all villagers were the co-operative members (as provided by the Ujamaa and Ujamaa village Act of 1975).The co-operative existed for some decades until it was divided into three separate societies namely: Uru Ngoma, Msumi and Uru North Njari AMCOS. Uru North Njari AMCOS was formed in 1993 with a registration number KLR 422. The management of the AMCOS consists of the Board (5 members), 2 employed staffs (i.e. 1 secretary/clerk and 1 security guard) and the AGM that consists of all members. The co-operative also have 500 hectares of coffee that are now operated by settlers. The farm is divided into two main farm i.e. Machari estate and Usagara (Uru) estate. The settlers pay Tshs 2 million annually, where 60% goes to social services (health, education etc) and 40% is given to the members

#### **Mruwia AMCOS**

Mruwia AMCOS originated from the old co-operative called Uru East Co-operative Society. The increase of demand for new co-operatives in the area resulted into formation of Mruwia AMCOS in June, 1995. The society was formed with a registration number KLR 482 and it has been a member of KNCU. The increase in quality and productivity of coffee, members found the need to be independent from the union (KNCU). After being dissatisfied with the role played by the union, the society joined the new union named Kilimanjaro New Co-operative Initiative Joint Venture Enterprise (KNCI JVE), also called G-32. When this study was conducted, the society had about 707 active members.

## **Kibosho Mweka Sungu AMCOS**

Mweka Sungu AMCOS originated from the existed co-operative named Kibosho East Rural Co-operative Society (now called Kimasio AMCOS). Mweka Sungu AMCOS started in 1955 and was named Kibosho Mweka Sungu Rural Co-operative Society. Mweka Sungu AMCOS serves two villages of Mweka and Sungu. The co-operative society is dealing with production of coffee (through its members) and also supplying farm inputs to the co-operative members. The current membership of the society is 778 active members.

### **3.2 Benefits of Coffee Agricultural Co-operatives to the Members**

Benefits of co-operatives are difficult to measure. Some are tangible or direct as in the case of income or savings. Others are intangible or indirect such as co-operatives' effect on market price levels, quality, and service. Benefits are greater for some types of co-operatives or in specific areas. Most benefits are evaluated in economic terms but some also may be social (USDA, 1990). Based on the three AMCOS, the following benefits of co-operatives were identified.

#### **3.2.1 Social benefits of Agricultural Marketing Co-operatives**

##### ***Increase in members' (and families) capacity to access social services***

The improvement of income among the co-operative members has led to other trickle down effects to the members. The income from coffee sales enable members (and families) of Mruwia, Mweka Sungu and Uru North Njari co-operatives to access better social services such as paying for health services and paying educational expenses for their family members/children at secondary schools, colleges and vocational training centres. Also the members are able to pay for other services like electricity and water bills. This relates to Birchall and Simmons, (2009) that some co-operatives run low-cost insurance schemes for members to cover medical treatment or funeral expenses or form welfare committees to finance medical expenses. They help members to access education to develop their skills and knowledge of young people and encouraging them to save. Birchall, (2004) argued the co-operatives raise members' incomes and promote the status of women and encourage girls to complete their education. The AMCOS also assist in providing other services like water supply, building dispensaries/hospitals and availability of medicine and equipments

##### ***Improved housing conditions***

The respondents revealed that the income they receive from sales of coffee, help to improve their housing conditions. However it was found that, recently co-operative members cannot build new houses using the income from coffee only, but combine with other sources of income like selling food crops, small businesses and livestock keeping. Mostly, they can repair their houses like roofing new iron sheets, painting and other decoration as well as buying furniture and installing water and electric supply systems. By comparing the older and younger members, it was found that the older members were previously able to build new houses (in 1970s to early 1990s) compared to members who have joined recently from around early 2000s up to date since there were higher outputs of coffee from members' individual farms, conducive climate as well as minimal competition and better prices. The study by Birchall and Simmons, (2009) found that in the provision of improved housing and living conditions, co-operatives are there to provide loans for building new homes and improving the condition of members' houses. Co-operatives often give special loans for the development of water supplies and sanitary facilities; this has been popular,

### ***Provision of agricultural education***

The co-operative societies are like schools, they are organization for equipping members with various kinds of skills and knowledge in order to do their work properly and be active co-operative members. It was found that in Mruwia, Mweka Sungu and Uru North Njari co-operatives are providing agricultural education to the members like teaching better farming methods for both coffee and food crops, animal keeping skills as well as how to treat coffee with various environmental friendly methods and/or chemical, spacing, planting, processing of coffee, crops that are unfriendly or friendly to coffee, storage of coffee and other issues arising from day to day. All these efforts aim to increase productivity from members' farms. The non-farming education is also being provided to members like encourage them to attend various seminars on entrepreneurship and encourage them to establish or engage in small business and other farm and off-farm activities.

### ***Improved food security***

The agricultural co-operatives help to ensure members' food security. The income received from the sales of their coffee help also the members to access (buy) enough foods. The three co-operatives are also providing members with education on better farming practices for both coffee and food crops (like banana, beans, maize etc) which help members to get good harvest to accommodate their personal and family food consumption needs. The co-operatives contribute to food security by helping small farmers, fisher folk, livestock keepers, forest holders and other producers to solve numerous challenges that confront them in their endeavours to produce food, (ICA and ILO, 2014). The co-operative enterprise is also relevant in addressing the problem of food insecurity, (Birchall, 2008). Also Chambo, (2009), indicated that, there is close correlation between food security in the countries with their long history and large size co-operative organizations. This correlation however, was made possible on account those small farmers had disposable cash income earned from co-operative activity, to buy food from ordinary village markets.

### ***Increase in solidarity and extending social protection***

The presence of a co-operative society promotes solidarity among members and gives them protection from various risk/problems that are difficult to overcome on individual bases. The co-operatives do provide a new framework or re-enforce traditional mutual support habits which are mostly event or hazard related (Develtere *et al*, 2008). It was revealed that co-operatives help to build strong bond/social capital among the co-operative members. The members are cooperating in personal lives like working together in their farms, finding foods for their domestic animals, helping each in various personal and family problems like failure to pay school fees, accidents, sickness, burial and marriage ceremonies and other good and/or bad moments experience by any co-operative members. This has been possible as members having a shared vision, common goals hence solidarity and spirit of helping each are their common ways of life as true cooperators.

### ***Co-operatives' concern for the communities***

The findings identified that the three co-operatives of Mruwia, Mweka Sungu and Uru North Njari AMCOS set part of their annual budget for social responsibilities in their areas. In specific cases, Mweka Sungu AMCOS has supported more than 50 secondary school students who are from poorest families and orphans in the two villages (Mweka and Sungu), and these students include children/relatives of co-operative members and non-members. The co-operative is also operating a business of selling affordable

farm inputs to both members and non-members at similar prices. Also both the three AMCOS are getting a share of the lease fee from settlers (Chibo estates, now Kilimanjaro Plantations) that are farming their lands. These societies, from such lease fees paid, they have set 60% of it for supporting social services in the communities (education and health) and 40% is going to the co-operative members. Uru North Njari AMCOS receives Tshs 2 million from settlers for Machari and Usagara (Uru) estates and Mruwia AMCOS receive about Tshs 3.5 million from the settlers. The study by Maghimbi, (2010) provided that in some areas, such as Uru North, the co-operative provides services to the community that increase the community's quality of life, for example, building of schools, water development and a dispensary as well as caring of orphans. It is not only the co-operative members who are benefiting from the presence of the co-operative societies in their areas, but also the non-members.

### **3.2.2 Economic benefits**

#### ***Improved members' income***

The respondents from Mweka Sungu, Uru North Njari and Mruwia AMCOS indicated that the establishments of their co-operatives have played a major role in improving the general levels of income among the co-operative members. The co-operatives have enabled their members to get a place to sell their crops (coffee) and get money from such sales. This has enabled members to get money to support their family and personal needs, access services, buy assets and other basic needs hence are able to transform from poverty to a good living standard and live above the income poverty line. The works of Mather and Preston, (1990), Birchall and Simmons, (2009) provided that co-operatives conduct various business activities to help improving the incomes and help members escape from income poverty traps of their members. Birchall (2003) argued that cooperatives have the potential to reduce poverty and increase income, provided that their values and principles are respected.

#### ***Easy access and availability of affordable farm inputs***

The co-operatives of Mruwia, Mweka Sungu and Uru North Njari AMCOS have enabled to reduce burden of members' access to farm inputs. Previously, the co-operative members had to travel up to Moshi Municipal or Himo in search for affordably price inputs or otherwise had to buy at higher prices from the local retailers in their areas. Having understood the demand of their members, these co-operatives, through working with government and other stakeholders, they are helping their members to get affordable and high quality and quantity of farm inputs like fertilizers, agrochemicals (pesticides and fungicides), storage facilities, seeds and other necessary inputs). These efforts have resulted into increase in coffee productivity by the three societies. The study by Chambo, (2009) revealed that agricultural co-operatives create the ability for the supply of required agricultural inputs so that production of commodities is done timely to enhance productivity. Also USDA, (1990) described farm supply cooperatives have been noted for providing supplies giving the greatest value-in-use to the farmer.

#### ***Increase in assets/properties of the co-operatives and their members***

The increase of assets was also identified in this study. The FGD revealed that the three AMCOS managed to acquire various assets using the profits obtained from their activities since they started to operate. Such assets are almost similar to the three co-operatives, including the warehouses, vehicles (like minibus, tractors and lorries at Mweka Sungu AMCOS), rental houses for business and the office facilities of the co-operatives. On the other side, the profit obtained from coffee sales and other dividends

shared, have enabled the co-operative members to buy both movable (furniture, TVs, radio, and other home assets), immovable assets (mainly plots of land/farms). As provided by Nembhard, (2002) the successful co-operative businesses create wealth and help their members accumulate wealth, one way to enhance an individual member's wealth and to provide easier access to the member's investment is through the use of a revolving payment system or minimum vestige.

### ***Provision of employment***

The co-operatives provide employments to the people, both members and non members (staffs, secretaries and security guards /watchmen. Maghimbi, (2010) argued that the quality of employment in co-operatives may be low. However, the standard of living of co-operative members in villages (peasants) is low, but better when compared to those who are not members of cooperatives. The standard of living of co-operative members was observed in terms of their housing, dressing, and schooling of their children, freedom from debts and ownership of bicycles, radios and mobile phones. It was also measured by looking at the socio-economic activities in which they engaged. ICA and ILO, (2014) indicated that co-operatives play a significant role in employment creation and income generation. ICA, (2015) Co-operative enterprises generate partial or full-time employment involving at least 250 million individuals worldwide, either in or within the scope of co-operatives. The employment opportunities provided by co-operatives help to build socio-economic development of both urban and rural areas (Ibrahim, 2001). Similarly, Madane, (2002); Gordon, 2004) indicated that the tangible benefits of using co-operatives as a community and economic development tool include increased economic traffic, employment opportunities, support for essential community structures, and potential declines in out-migration.

The co-operatives also need to employ people with various skills, knowledge and experience. Apart from professional, co-operatives also employ semi-skilled people capable of doing some non-professional works such as the security guard (watchmen). In Mweka Sungu, Mruwia and Uru North Njari AMCOS, it was found that the co-operatives have some employed staffs to assist the Board member in professional works. However the number and type of employed staffs differ from the co-operatives based on varying needs and financial wellbeing of the three co-operatives. For instance, Uru North Njari AMCOS has employed a manager, treasurer (volunteering) and one security guard while Mruwia AMCOS has 4 staffs who are; the accountant, manager, coffee inspector and a security guard. However this study also found that all the staffs employed in both the three co-operatives are coming from within the co-operative members and are not paid regular salaries but just honoraria except the security guard (watchmen) are paid wages. This is because, these co-operative has no enough financial capacity to employ full time salaried staffs like professional accountants, clerks, managers, marketing officer and other staffs so they just use available internal skilled personnel such as retired professional. Also for the case of Mweka Sungu AMCOS, their lorry and minibus have provided jobs to youths in the area as driver and conductors.

### ***Marketing of members produce***

The AMCOS are also useful in facilitating access to market for members' coffee. Members enjoy economies of scale by selling through their co-operatives and benefit due to low cost incurred as they do all processes using their co-operative as one economic unit. The marketing co-operatives help their members increase sales volume by reaching new and bigger markets with greater bargaining power. As a result, members receive better prices for their goods and increase personal profit (Zeuli and Cropp, 2004). Also Borzaga and Calera, (2012): Nembhard,(2014) described that, when co-operative address market



failure, they improve “functioning” of the economic system and well-being of large group of people and improve market competitiveness. Chambo, (2009) described that; co-operatives also provide an assured market for commodities produced by isolated small farmers in the rural areas.

### **3.3 Challenges Facing Agricultural Marketing Co-operatives**

In this study, the authors also managed to identify various challenge facing the agricultural and marketing co-operatives (AMCOS) specifically in Moshi district. The following are the challenges identified form the study area.

#### ***Fall in coffee productivity and quality challenges***

The accessibility of markets and better price agricultural marketing co-operatives depends much on the level of productivity and quality of the produce. In the both Mweka Sungu and Uru North Njari AMCOS, the respondents indicate the fall of productivity of coffee from members. This was found to be the result of climate change in the region accompanied with intensive solar radiation and little rainfall, coffee diseases, inadequate capacity to get farm inputs at right quantity and time as well as domination of old (more aged) coffee plants that having low yield. Members have also decided to grow other crops instead of coffee due to price uncertainties in local and foreign markets. The study by Ponte, (2001); Baffes, (2003) indicated that, there had been a clear shift from high to low qualities well before the policy changes of the 1990s. The reasons for the declines appear to be nationalization of estates; aging coffee trees, rundown central pulperies, forcing farmers to do their own primary processing; the spread of coffee berry disease after 1975 to all Arabica growing areas of the country; and the failure to introduce new disease-resistant high-yielding varieties.

#### ***Old system of farming***

The traditional farming system is still dominant in Moshi district. The mixed farming system is dominant among the natives mostly due to land scarcity to grow different crops at different farms. Since in the same farms, coffee plants are mixed with beans, maize and banana plants, it causes congestion and competition for nutrients hence coffee do not grow well. During the field visit, it was identified that that farmers did mixed farming due to scarcity of land to grow coffee and food crops separately and also members are not certain with the trend of coffee prices in world markets so they fear to get loss if decide to grow much coffee than food crops. This has also created a serious challenge in adapting organic coffee farming practice that demand for reduces number of banana plants and avoid growing other crops in the same farm.

#### ***Cost implication in planting new or replacing old coffee***

Among the efforts aimed to increase productivity from coffee co-operatives in Moshi district was to introduce new coffee seedling/species that have high yield and also tolerant to drought and diseases. However the initiative to make this transformation depends much on members’ willingness to adapt and be ready to incur the costs associated with this initiative. In this study it was identified that one of the major challenge preventing members to accept organic farming are the costs related to transforming from inorganic to organic coffee farming. The respondents from Mweka Sungu and Uru North Njari and few from Mruwia provided that members are being challenged by high cost for cutting and digging out old

coffee plants, reduce number of banana plants to allow more space for coffee and then digging the new pits for planting new coffee and time taken to plant these new coffee plants.

### ***Late payment of members' money after selling coffee***

The members of Mruwia, Mweka Sungu and Uru North Njari AMCOS found to face the challenge of late payment for their coffee once they sell through their co-operatives. For the case of Mruwia, such complaints are mainly short lived since the co-operative used bank loans (from KCBL) to buy coffee from the farmers instead of depending on the union it belongs (KNCI JVE also called G-32). In Uru North Njari and Mweka Sungu AMCOS, such problem is very serious these co-operatives depend on the Union (KNCU) to be given funds to buy coffee from members. Given financial problems (due to huge debt) of the Union, it failed to pay adequate amounts of money for coffee collected from members. This discouraged the members to sell their coffee through their co-operatives and decide to sell to private buyers hence minimize revenues of their co-operatives.

### ***Price fluctuation in local and foreign markets***

Price fluctuations in the local and foreign markets are another challenge facing the co-operatives and have discouraged production. As a result some members diversify into growing more food crops, keeping livestock and/or engage in small businesses. Low prices brings little profit (and sometime losses) to members as it cannot effectively cover the costs of production like preparing the farms, labour work applied, harvesting and transport expenses and access to farm inputs (like fertilizers, agrochemicals, storage facilities etc. Also members' incomes found to be largely affected by such price instabilities as they find themselves only covering production cost with little surplus remained. The prices also fall due to low quality of their produce. Milford, (2004) provided that constantly changing prices mean that coffee farmers all over the world live in a situation of uncertainty in which it is difficult to make plans for the future Therefore, in most cases, the reason for the low prices is overproduction and low quality. Similarly, Kodama, (2007) indicated that coffee farmers were particularly exposed to the international economy, in comparison with domestic staple food farmers. They suffer from export price fluctuations determined by foreign markets which are out of their control.

### ***Debt burden after being required to contribute for the Union's debts***

The respondents from Mruwia, Uru North Njari and Mweka Sungu AMCOS have provided that their co-operatives are faced with the need to pay a share of the Union debts for funds taken from banks (especially, CRDB bank). Currently the Union has a debt of about Tshs 3 billions. Each primary co-operative is required to contribute in paying the Union's debt. For example, Uru North Njari AMCOS was allocated to pay Tshs 16,774,660/= where Tshs 16,624,210 is the debt due to members' advanced payment. This happen when the Union bought coffee at higher prices from members then when sent to the world market, the price suddenly dropped, hence created loss and failure to repay bank loan. Also Tshs 150,450/= is the debt for sugar that the Union given on credit to be sold to the primary societies including Uru North Njari AMCOS. Since Mruwia AMCOS has left KNCU and joined G-32, it refused to contribute to debt. The heavy debt reduces the co-operatives' net surplus and increase burden to the co-operative members. The respondents also indicated the presence of the Union leaders who didn't serve interests of members of the primary societies. The puzzle of the Union still remains unsolved up to date as its presence is highly disconnected from the primary co-operatives.

### ***Inadequate provision of education and training***

The scarcity of enough budget for training the co-operative members, board and staffs is creating a challenge for the development of AMCOS. With uncertain profitability (due to low productivity) the co-operatives are not getting enough revenues to do all activities including training and provision of education to members, Board, committee members and staffs. It was clearly detected that members' co-operative education is not well acquired like understanding of member rights and responsibilities and their power and presence of overdependence on leaders for all affairs of the co-operative instead of participating directly. As provided by Tanzania Federation of Co-operatives (TFC), (2006) co-operative education is necessary for developing enlightened and responsible co-operative leaders who can maintain co-operative values and operate efficient business enterprises, improve the management, business and entrepreneurial skills of co-operative employees and committee members and ensure that co-operative members are informed and aware of the nature of co-operative economic activities, their duties and responsibilities and the benefits co-operative membership brings. Ainebyona and Tiruhungwa, (2012) indicated that educating, training and re-training of members in general, and officers in particular, are always a challenge to co-operatives especially in developing countries. Also Nyoro and Komo, (2005) indicated, as main decision makers of cooperatives, farmers should be trained and be well sensitized on important issues to ensure that they make informed decisions. Financial constraints hinder the organizations from carrying out training to their members.

### ***Too many deductions on members' coffee sold***

Respondents also complaints about many deductions on coffee sold which discourage production and reduce profit/income from coffee sales. These include: deductions for Coffee Research Institute (TaCRI), cost of transport and escorting coffee to the curing machine, insurance charges, empty bag fees, processing fees at coffee curing machine, union and primary societies' levies, Moshi district levies, health insurance, overpayment charges, price stabilization fund and bank charges and loan interest etc. These deductions gave burden to farmers hence even some decide to sell to private buyers.

### ***The "free-rider" effect***

The respondents, particularly in Mweka Sungu and Uru North Njari indicated to face the challenge of free riders. Free riders are basically dormant co-operative members who have not yet paid the minimum required number of shares and other contributions, but they still sell their coffee through the co-operative and enjoy other benefits like access to subsidized farm inputs like fertilizers, storage facilities and agrochemicals (pesticides and fungicides) for coffee production and even getting various education/training services when opportunities arise. Free riders affect make a co-operative to have dormant members, loss revenues due to unpaid fees and other contributions and selling coffee to private buyers in case of low price in co-operatives. Also they reduce close relations among members and use resources freely. FAO, (1998) established that in most cases when the co-operative becomes a large group, there are increased chances of occurrence of the so called "free-rider" effect, i.e. some members trying to get as much as possible from the cooperative without contributing a fair share. The co-operatives need to establish effective management systems to depress the free-riders.

### ***Poor record keeping and accounting systems***

The success in co-operatives also depends on properly record keeping concerning the co-operative and its members. The failure to keep records properly such as financial, sales records, contracts and other vital

documents make lead to poor recording of transactions made daily, sales, income and expenditures and agreements made with other organizations or individuals. Poor record keeping was identified from the three cases. In Mweka Sungu and Uru North Njari co-operatives it was found they do not keep their financial records properly including writing financial reports following better financial (reporting) standards. This is mainly attributed by the presence of few skilled staffs to do these professional works like accountants, managers, loan officers and other leader/staffs. Also low financial capacity in co-operatives to pay for external auditors, lack of professional accountants and/or managers lead to failure in prepare audited financial reports and keep updated financial reports. Mruwia AMCOS has indicated good progress in financial records due to the presence of a professional accountant. As Bruynis *et al.*, (2001), indicated, accurate financial statements need to be prepared and distributed on a timely basis to the management team. The financial problems are happening due to poor accounting systems applied and lack of proper records on transaction made by co-operative as a result funds are lost or get misused without notice by members. Also TFC, (2006) indicated that, proper records and performance reports were not kept and audited accounts were not presented regularly at Annua General Meeting (AGM).

### ***Low women and youths participation/membership***

Apart from other things, achievements in co-operatives depend on the level of participation and membership of the youths and women. The experience from Mweka Sungu, Mruwia and Uru North Njari AMCOS indicates the presence of many adult men members. These are caused by; the customary land laws which prevented women and youths from accessing land and utilize it for coffee production. The men are the one enjoying full access to land, and use youths and women to prepare the farms, dig pits and plant coffee, applying agrochemicals and harvesting. The older men become during the selling and collection of the sales revenues. This relates to the study by Ainebyona and R.M. Tiruhungwa, (2012) who found that, women participation both in membership and leadership of primary co-operative society activities in Kilimanjaro region was limited.

### ***Technological constraints***

In all the three studied co-operatives, they were found to be lacking computers to use in their operations. They are still using manual systems in operating their activities, for example keeping financial records and other reports. This may lead to a risk of loss of information, possibility of fund misappropriation like staffs/leaders taking authorized loans and stealing co-operative funds. Similarly, in the comparative study of 450 co-operatives in Tanzania and Sri-Lanka, Birchall, (2008), identified also among the main constraints of co-operatives in Tanzania include lack of technical knowledge and access to new technology.

### ***Limited capacity to supply adequate and timely farm inputs to members***

Among the main targets of the co-operatives in Moshi district is to maximize coffee productivity (and certainly, food crops) from members' farms. The co-operatives are supplying farmers with affordable/subsidized farm inputs such as fertilizers, agrochemicals (pesticides and fungicides etc), storage facilities, seeds and other farm equipments. The main challenge observed from Mruwia, Mweka Sungu and Uru North Njari AMCOS is that, the kind of some inputs supplied (especially agrochemicals and fertilizers) are not meeting the demand of members and also mostly are not coming on time and reach the co-operative members. Most farmers lack information on the right type of farm inputs to use and the appropriate time of application of the same. The cost of key inputs such as seed, pesticides, fertilizers and

equipments are still not affordable to majority of rural farmers. Low affordability reduces application of these farm inputs and eventually reduces the yield that the farmers get from their coffee farms.

### ***Management challenges***

Proper management practices and capacity are essential in bringing achievement in co-operative societies. Poor management leads to failure of various goals/ plans, losing direction due to lack of clear vision and even problems in management of funds and other resources and poor planning lack of strategic planning. Management problems have been identified from the cases, especially Mweka Sungu and Uru North Njari co-operatives. The problems exist in form of poor planning for the co-operative, failure to diversify into other income generating activities, poor recording keeping, failure to influence changes among members (like convincing them adapt organic coffee farming) and inadequate trainings on managerial skills. All these delay the delivery of expected benefits to members. Baka, (2013) identified that, due to weakness in management, co-operatives will require assistance in hiring qualified and experienced employees, who could meet the new challenge of competition with other businesses.

### ***Free market challenge (Competition)***

Market liberalization, just as to other local enterprises, it has affected the co-operative societies mostly in terms of price instability and competition. The situations from Mweka Sungu, Mruwia and Uru North Njari co-operatives have indicated that these co-operatives are facing the challenge of competition from other large coffee producers. This creates a big challenge for the co-operatives to ensure they are maintaining quality and producing large quantities of coffee. Furthermore, the presence of private buyers are affecting volume of sales of coffee through co-operatives as the members sometimes decide to sell all or part of their coffee to individual private buyers and organizations. The private buyers sometimes offer better prices (slightly) above the indicative buying prices offered by co-operative societies. This causes loss of revenues (primary society levies) by the co-operative societies. Not all co-operatives acquire the leadership and financial abilities to deal effectively with other firms in the marketplace. Many agricultural co-operatives have little or no influence on the basic price level for the farm products or supply of items (Mather and Preston, 1990).

### ***Financial Deficit***

The study has also revealed that the studied co-operative societies especially Mweka Sungu and Uru North Njari are facing the challenge of inadequate financial resources. The budget deficit is making it difficult for these co-operative to diversify their income-generating activity to add more income-benefits to the members. The shortage of funds has been mostly due to overdependence on revenue (tariffs) from coffee sales, existence of many members who have not yet met the minimum number (amount) of shares as well as existence of non-trustful members selling coffee to private buyers hence reduce revenue amount to their co-operatives. Zeuli and Radel, (2005) indicated that co-operative members are required to own a portion of their organization. Equity constraints are a challenge for all cooperatives, but they might be especially severe for cooperatives in limited resource communities where members do not have the surplus financial resources to invest in a business venture, cooperative or otherwise. The URT, (2005) identified that lack of adequate capital and sustainable financing are challenges facing co-operative societies.

### ***Other challenges***

The other challenges identified in the field by this study are: presence of union leaders who are not serving interests of co-operative members, lack of entrepreneurial skills among co-operative members, resistance to change, decline in the size of arable land due to need of space (land) for building houses and burial activities for the families of co-operative members inadequate understanding of co-operative laws and policies, members do not understand well their rights and responsibilities and low educational levels of leaders (e.g. committees and Board members) and the staffs as well as limited capacity of the co-operatives to employ professional staffs.

## **4. CONCLUSION AND RECOMMENDATIONS**

### **4.1 Conclusion**

The agricultural marketing co-operatives (AMCOS) have been useful in transforming socio-economic status in rural areas. Socially, AMCOS have helped in enhancing access to social services, improve housing conditions, access to agricultural educations, and promote food security and solidarity. They have also been useful in supporting community development efforts in areas they operate. The AMCOS have also assisted in building household economies by contributing to; income, access to farm inputs, increase in assets as well as creating employments and markets for members' produce. Although co-operative have been useful in socio-economic development, still they face numerous challenges in their operations such as; declining output, coffee prices, old farming systems, debt burden, free riding and poor accounting and record keeping, just a few to mention. The AMCOS impact on socio-economic development could be higher provided that they develop capacity to address and adapt to such challenges. Such in-built capacity can put them in safe position to operate, strategize well their operations, compete and bring more benefits to its members and to the wider community and nation.

### **4.2 Recommendations**

Based on the above challenges identified, this paper recommends the following to be done;

#### ***Co-operative joint venturing***

The competition in the liberalized makes cooperatives vulnerable to various economic shocks and lack influence in the market. Apart from strengthening capacity of unions there is a need to emphasize "Co-operative Joint Ventures" i.e. two or more co-operatives join and do some business/activities together, share resources and surplus/profits acquired. The joint ventures will help in increasing the bargaining power of the jointed co-operatives, acquire more power to influence the market (e.g. influence prices and increase supply/quantities of coffee sold), and minimize costs of operations (e.g. share transport, warehousing, insurance, processing costs and other expenses) and so generally the co-operatives will benefit from the economies of scale.

#### ***Warehouse Receipt Systems (WHRS)***

From the study area, it was found that Mruwia AMCOS is practicing the warehouse receipt system. The co-operative uses its coffee preserved in the warehouse as collateral to take loans from banks hence find its own funds to finance its activities itself such as buying members' coffee when the harvest season is

due. Therefore, same practice could be initiated and be applied effectively to other AMCOS so as to secure funds for their operations and for the members. The WHRS also prevent co-operative from getting losses/little surplus due to lower prices and even increase safety for members' coffee until they get better prices.

### ***Promoting co-operative entrepreneurship***

Co-operative entrepreneurship is a form of joint entrepreneurship. Since co-operatives aims to fulfill the needs of the members, one of the better strategies for sustainability and benefiting more to the members is through creating a new co-operative enterprises. This may attract commitment of members and feel sense of collective ownership, rather than purely self gaining. However, starting business require members to be ready to take and share risks and benefits to be generated. Following bylaws, co-operative values and principles and proper management are essential for the business to be successfully. The co-operatives in Moshi district and in regional and national level need to design the business to produce goods and services that are competitive and get profit.

### ***Understanding the role and limits of the Union***

The Kilimanjaro Native Co-operative Union (KNCU) is found to causes problems to the coffee co-operatives in Moshi district. From the three co-operatives visited, with exception of Mruwia co-operative society, the two societies of Mweka Sungu and Uru North Njari AMCOS as members of the KNCU. These two societies has indicated some of the Union-based challenges such as misuse of union's funds, poor involvement of primary co-operatives in making major Union decisions such as decision to borrow, using primary societies to pay union's debts. Also it acts as middleman instead of being representative of co-operatives in marketing coffee of co-operative members while co-operative acts only as buying posts. Also the Union has become more powerful than the primary societies formed it. In order to reduce/remove the complaints from members, it is better for the co-operative to be retain their fully autonomy to do most of the functions performed by the Union including supervising processing and marketing of coffee, be able to borrow directly without using the Union. The union (KNCU) should only be overseer/supervisor and adviser of the primary co-operative and not a final decision maker.

### ***Extended training and education programmes***

The co-operatives need to invest in provision of training and education. The training and education programmes need to address the specific capacity building needs of the Board, staffs and members of the co-operatives. There must be various seminars and sending members or staffs for short term and long term training programmes in various institutions like colleges/university and other institutions so as to equip members, Board and/or staff with necessary skills and knowledge required for smooth operations of co-operatives. For example be given training of strategic and business planning, financial management and accounting skills, risk management and marketing skills. Also training on awareness of rights and responsibilities of members, Board and staffs as well as legal issues like co-operative policy and laws.

### ***Diversification of coffee products***

In order to overcome the risks of price fluctuations and unreliable coffee markets, there is need for agricultural (coffee) co-operatives to diversify coffee business. For example the co-operatives whether individually or jointly may form coffee bars at various areas where people may sit and drink the locally processed coffee. Also they may establish units for coffee roasting to provide material for coffee vendors.

### ***Extend credit services and supply of subsidized farm inputs to members***

Improving productivity from coffee farms of co-operative members, among other factors, depends much on availability of funds to finance members' agricultural activities (coffee production). Therefore, the co-operatives through working with the co-operative banks and government need to see how best the farmers can be assisted with agricultural credits. If there could be adequate supply of subsidized farm inputs like fertilizers, pesticides, fungicides, storage facilities, chemical pumps/sprayers and tools, then farmers may adequately buy and apply these inputs hence increase coffee productivity Moshi Rural district.

### ***Government interventions***

The intervention of the government is needed to rescue co-operatives. There should be more supportive business environment including policies to enable co-operatives to flourish. For instance, co-operatives should be supported to access foreign markets, engage in value addition and access better prices. Financing sources should be available to help co-operative business to grow such as strengthening co-operative and agricultural banks. Better co-operative policy should be in place to accommodate changing business environment where co-operatives operate.

### ***Inclusion of women and youths in Co-operative Development***

It will be vital for cooperative efforts to incorporate women and youth in their activities and management. This will effectively bring on board the majority of the population and enhance the realization of a high multiplier effect. Efforts need to be done to attract youths and women. This includes; removing biased cultural issues hindering their participation and developing attractive business activities and extension of value chain where youths can engage.

### ***Terminating "free-riders" in co-operatives***

The co-operative development and sustainability depend much on the activeness of the members. It is vital for agricultural co-operatives to eliminate the free-riders. This can be through regular inspection of the membership registry and omit names of inactive members, prevent inactive members from voting and making decisions as well as from getting other benefits.

### ***Involving in Fair Trade Agreements***

Fair-trade is often called "alternative trade" because it aims to establish an alternate trade network to the commercial market. Once the co-operatives receive their fair trade certification for their coffee, they will be able to obtain better prices for their coffee exports in various markets among Fair trade members. As argued by Barratt Brown, (1993), Fair-trade builds "a system of trade where partners seek deliberately to establish a more direct relationship between groups of producers and consumers in the two worlds and a greater understanding among consumers of the need of the producers for support for their independent development".



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