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Attention: Helen Davidson

Enclosed are two copies of "Report on and Recommendations for the Cooperative Sector of Uganda" prepared by the ACDI team of consultants Fred R. Marti, Bernard F. Runnebaum and James F. Torres.

The report is a contribution under the Food Production Support project in Uganda, AID Project No. 617-0102.

Sincerely,

S. M. Rucker

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Director of Publications

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REPORT ON AND RECOMMENDATIONS
FOR
THE COOPERATIVE SECTOR
OF UGANDA

Prepared by
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as a contribution under
The Food Production Support Project

to

The Government of Uganda

December 1984

TABLE OF CONTENTS

TABLE OF CONTENTS
PAGE 2

Explanatory Notes

1. The rate of exchange between the Uganda shilling and the U.S. dollar is subject to change every week. When the Study Team began its work in mid-June, this exchange rate was 317 shillings to the dollar. The rate of exchange at the time the Team completed its work at the end of August was 350 to 1.

Unless otherwise specified, the exchange rate used throughout this report to convert shilling values to dollar amounts is 317 to 1.

2. The board of directors of a cooperative in the United States is called "the committee" in Uganda. The two terms are used interchangeably in this report.

3. The general manager of a cooperative in Uganda is called the "secretary-manager".

TERMS OF REFERENCE

This report presents the findings of the three-man Study Team that spent the period from mid-June to the end of August 1984 examining Uganda's cooperatives and related institutions.

This study was requested and the Team invited to Uganda by the government's Agricultural Secretariat. The Terms of Reference drawn up by the Secretariat for the team describe its scope of work as follows:

1. To describe and analyze in detail the organization, management and financial/capital structure of Uganda cooperatives, and to make recommendations on ways to strengthen the capital base of cooperatives, including management and accounting systems.

2. To define and make recommendations on appropriate inter-cooperative relationships, and relationships between the cooperative sector on one hand, and marketing boards, government and private sector, on the other.

3. One of the problems facing the cooperatives today is that they operate under an environment of governmental control and official price regulation, and consequently they have little flexibility in responding to market forces. The consultants will therefore study and make recommendations on ways the cooperatives can improve their marketing and service operations in an environment of a "mixed economy". They will also recommend ways to strengthen the district cooperative unions and primary cooperative societies more directly, with emphasis on promotion of private enterprise initiatives and economic/financial viability.

4. The study will identify potential areas where cooperatives can make the greatest contribution to national economic development in the next five to ten years.

5. One important area where Uganda could achieve the greatest growth and earn large benefits is in the production and marketing of foodstuffs. The consultants will study and design means to encourage the production and export of agricultural production.

6. The study will design and develop a set of policies and strategies for cooperative development in the next five to ten years, indicating priority areas for cooperative investments.

I. EXECUTIVE SUMMARY

A. Foreword

This report deals with the cooperative sector of Uganda, its strengths and its weaknesses, its present condition and its prospects for the future. For the reader to understand the objectives sought by this study and the recommendations set forth, the cooperative position or "philosophy" of the Team which carried out the study should be made clear:

Cooperatives are business enterprises. The principal difference between a cooperative and non-cooperative business enterprise lies not in the nature of property ownership, but rather in the manner in which the surplus from the business operations is distributed. In a cooperative enterprise, this surplus is returned to the owners of the cooperative (who are also the members) on the basis of their patronage or use of the cooperative, in addition to a certain return on their investment in it. In a non-cooperative business enterprise, surplus distribution is made to the owners solely on the basis of their investment in the enterprise.

To grow and succeed, cooperatives must be managed and operated as efficient business enterprises. The first and foremost role of cooperatives is to perform an economic function. Sociological purposes are far less important, and in no case should cooperatives be thought of or used as a tool for political purposes.

Neither can cooperatives be studied or analyzed in isolation from the socioeconomic milieu in which they exist. Thus, for the reader to obtain as accurate an understanding as possible of Uganda's cooperatives, a word or two is in order here to describe briefly the overall socioeconomic context in which the country's cooperatives are now functioning.

The entire economy--the entire society--of Uganda, including the cooperative sector, suffered serious reverses during the Idi Amin years and the "War of Liberation" which deposed him. That war of 1979-'80 has been followed by several years of political instability, personal insecurity for many, and frequent armed clashes between the national army and the forces of the political opposition. There are several hundred thousand refugees and displaced persons who have fled or been driven from these areas of conflict. Many people were killed during the Amin years and many have died since then.

During this same total period, roughly from the early 1970s up to the present time, the nation's infrastructure has suffered badly as a result of neglect and purposeful damage and destruction.

Communications and transportation, perhaps, have been affected most adversely. Telephone service within and between cities is frequently interrupted for hours or days at a time. Streets and roads in and around the capital city of Kampala are in unbelievably bad condition. Roads in many parts of the country are in an equally miserable state of repair. As a result, travel time between any two points is considerably increased and the useful life of automobiles, trucks, and buses is considerably reduced. Electric power failures in Kampala, and in many other cities as well, are frequent and lengthy.

It is true that some progress has been made in ameliorating these conditions during the past year or so. Today, the average Ugandan citizen is perhaps a bit better off than he was a year ago, yet much worse off than 10 or 12 years ago. So much remains to be done that it is difficult to estimate the enormous cost of restoring the nation's infrastructure to the condition it was in 20 years ago.

Future growth and progress of Uganda's cooperative sector will inevitably be linked to the progress realized in repairing and restoring the nation's infrastructure--particularly in the areas of communication, transportation, and electric power.

B. Summary of Findings

1. Seventy-five percent of Uganda's primary cooperative societies are agricultural, and most of these are engaged in the marketing of coffee.

2. The primary cooperative societies belong to district cooperative unions, 36 in all, engaged in the marketing and/or processing of coffee, cotton, tobacco, livestock, vegetables, hides and skins.

3. District cooperative unions, in turn, are members of national cooperative organizations. These are the Central Union, Transport Union, Savings and Credit Union, Cooperative Insurance, Ltd., the Cooperative Bank, and the Cooperative Alliance. The quality and quantity of services provided to the district unions by these national organizations ranges from fairly good to very poor.

4. Average cash income of the farmer-members of the primary societies is approximately $150.00 per year. Annual business volume of these primary societies ranges from zero to hundreds of thousands of dollars. It appears that less than half of Uganda's primary cooperative societies are in sound financial condition.

5. The annual business volume of the 36 district cooperative unions ranges from less than fifty thousand to almost ten million dollars. A number of district unions, and primary societies as well, are too small ever to become economically viable.

6. The entire cooperative sector is drastically undercapitalized. Member equity is negligible. Cooperative facilities are old and deteriorated. At all levels, cooperatives lack crop finance and adequate working capital.

7. Few cooperatives are sufficiently creditworthy to borrow funds directly from commercial banks. Almost all obtain funds only via the marketing boards which act as guarantors for the loans.

8. All coffee produced in Uganda must be sold to the Coffee Marketing Board and all cotton to the Lint Marketing Board. These boards then sell these commodities both domestically and on the world market.

9. Most farmers believe the marketing boards set the price they receive for their coffee and cotton. This is no longer true. The price-setting process is a complex one, involving other high-level government agencies.

10. The relationship of all cooperatives to government is fixed by the Cooperative Societies Act of Uganda which specifies that all cooperatives must operate under the regulation and control of the Ministry of Cooperatives and Marketing. This governmental influence seriously impedes cooperative progress and agricultural development.

C. Summary of Recommendations

1. To strengthen the present weak capital base of Uganda's agricultural cooperatives, current pricing policies must be changed so that district cooperative unions, primary cooperative societies, and their farmer-members receive a larger, more equitable share of the final sales price of their produce, the societies use the resulting surplus to build capital and members receive an equivalent distribution of equity shares.

2. The cooperative training-educational programs now underway in cooperative principles, management and accounting should be significantly increased. For a specific plan on how this can done, see the section of this report entitled, "Timetable for Cooperative Development in Uganda" immediately following this Summary.

3. To strengthen the operation of the nation's cooperatives, the present cooperative law should be amended to grant them greater autonomy. The amendments now being proposed move in the opposite direction.

4. The present field staff of the Ministry of Cooperatives and Marketing should be consierably reduced, and the competent personnel thus released should be absorbed as employees of primary societies and district unions to strengthen their management teams. The functions now performed by this Ministry and the Ministry of Agriculture and Forestry should be combined within a single government agency.

5. To strengthen cooperatives' accounting systems, cooperatives must employ competent accountants. Cooperative accounts should be kept by cooperative employees and the auditing of these accounts should remain as a function of the Cooperative Department, at least for the present.

6. The entire cooperative structure should be divorced from political boundaries. Cooperatives should not have a monopoly claim to serve a given area.

7. To reduce undesirable political use of cooperatives, the cooperative law should be amended to include this provision: "As soon as any cooperative committee member, manager, or senior staff person assumes political office or takes political employment, he shall be required to take leave of absence, or resign, from his position in the cooperative, so that he will not be simultaneously engaged in cooperatives and politics."

8. The present pattern of farmer-cooperatives and inter-cooperative relationships is too rigid. Farmers should be

permitted to join any cooperative they prefer and primary societies any district they prefer. Also, primary societies should be allowed to purchase their inputs from those sources which provide the best service and best prices, not necessarily from their district unions.

9. The product processing, storage and transport functions of the marketing boards should be turned over to district cooperative unions or federations of unions.

10. The majority of members of the marketing boards should be elected by district unions. The boards should also include representatives of the Ministers of Finance and Commerce.

11. The annual budgets of the marketing boards should be made public as well as the audited annual accounts of board operations.

12. The marketing boards should progressively divest themselves of their role as guarantors of crop finance loans for agricultural cooperatives.

13. Single-purpose cooperatives should be permitted and encouraged to reorganize as multi-purpose societies so as to engage in the marketing of additional types of commodities and also function as farm supply cooperatives for their farmer members.

14. The procedure for issuing trading licenses for maize, beans, fruits and vegetables, etc. should be streamlined so as to provide more efficient and timely service to license applicants.

15. A production credit scheme to aid to small farmer is long overdue and should be activated.

16. A "Statement of Affairs" for all cooperatives should be prepared as soon as possible to determine which are bankrupt or moribund, and then action taken promptly to liquidate them.

For the rationale behind these summarized recommendations, see the section of this report entitled "Conclusions and Recommendations", pages 74-89.

D. Timetable for Cooperative Development in Uganda...

The development potential of Uganda's cooperative sector is severely limited for two reasons: (1) under-capitalization, and (2) constraints imposed by the cooperative law and governmental interference.

The first of these, under-capitalization, can be corrected and the cooperative sector provided with a sound financial base in only one way. This is by a revision of the present agricultural price structure so that farmers, primary societies, and district unions receive a larger share of the final sales price of their commodities.

The Agricultural Secretariat already has made excellent progress in working toward this end. Its professional and detailed studies of the true costs of production of coffee, cotton, and other crops are now being put to use to assure that primary cooperative societies and district cooperative unions will receive payments at least sufficient to cover their costs of operation--which has not always been true in the past. Yet more needs to be done in this direction.

The Study Team strongly recommends that the Agricultural Secretariat and other high-level government agencies now commence planning how to more adequately compensate the agricultural cooperative for the services they perform.

Other definitive steps can be taken now to build and strengthen Uganda's cooperative sector so that it can make greater contributions to national progress and prosperity. To this end, the following plan of action is proposed:

1. Amendments to the Cooperative Societies Act of Uganda now under consideration should be scrapped.

2. A five-member panel to be named by the Agricultural Secretariat should be convened no later than January 15, 1985 to revise the present cooperative law along the lines set forth in this report, pages 79-81. Particular attention is called here to the recommendation that these revisions of the law include this restriction: "The entire cooperative structure should be divorced from political boundaries. Cooperatives should not have a monopoly claim to serve a given area."

"As soon as any cooperative committee member, manager or senior staff person assumes political office or takes political employment, he shall be required to resign from his position in the cooperative so that he shall not be simultaneously engaged in cooperatives and politics."

3. This five-member panel should consist of representatives of the Agricultural Secretariat, the district cooperative unions, and national cooperative organizations, and it should have the advice and counsel of a specialist in cooperative law with international experience. Such an adviser can be obtained through: The International Cooperative Training Center, University of Wisconsin-Madison; or Agricultural Cooperative Development International--headquarters in Washington, D.C.

This panel shall complete its work by March 30, 1985, forward its recommended revisions of the cooperative law to the proper government authorities on April 1, 1985, and the revisions should be approved by the legislative and executive branches of government not later than June 30, 1985, so as to go into effect with the beginning of the 1985-'86 fiscal year.

4. At the same time, commencing not later than January 15, 1985, the Agricultural Policy Committee should appoint a second panel to revise the present laws governing the Coffee Marketing Board, the Lint Marketing Board, and the Produce Marketing Board--along the lines recommended by the Study Team in its report, pages 81 - 84. This panel should proceed according to the same timetable set forth in item No. 3 above, so that the revised laws governing the marketing boards may go into effect with the beginning of the 1985-'86 fiscal year.

5. By January 15, 1985, the Agricultural Policy Committee should appoint another committee to draw up plans for restructuring the present Ministry of Cooperatives and Marketing along the following lines:

a. A reduction in the present staff of this Ministry of approximately 50 percent, the best-qualified of the released employees to be absorbed by those primary cooperative societies and district cooperative unions most in need of managerial and accounting assistance.

b. The role of this ministry in respect to cooperatives to be limited in accordance with the recommendations of this repot.

c. The functions of this revised cooperative agency and those of the Ministry of Agriculture and Forestry should be combined within a single government body.

Specific benefits to be realized from this restructuring of are:

a. Cooperatives would benefit from employing the management capabilities of the released staff.

b. The reduced, streamlined agency would operate more efficiently than is now possible.

c. Money savings realized through the staff reduction could be used to pay for transport and provide travel allowances for the remaining field personnel--so they can better carry out the work for which they are qualified.

d. Those cooperative societies still needing assistance would receive better and more timely assistance and advice from these field personnel.

e. Limiting the functions of this new government cooperative agency to registration, education and training, and assuring compliance with cooperative principles would give cooperatives the much needed autonomy they now lack.

The work of this committee to restructure the Ministry of Cooperatives and Marketing should be completed by March 30, 1985, and this new and revised cooperative agency commence operation with the beginning of the 1985-'86 fiscal year.

6. Commencing immediately, the present field staff of the Ministry of Cooperatives and Marketing should prepare a "Statement of Affairs" for every cooperative society in the country to determine which are bankrupt and should be liquidated. The Study Team strongly recommends that these societies should be dissolved as soon as possible. Preparation of these statements of affairs should be completed no later than March 30, 1985 and then appropriate action taken immediately.

The elimination of weak, non-viable cooperatives would permit the smaller number which remain to grow and prosper at a faster rate. Attention is called to the last sentence of the Study Report's section entitled "Final Remarks", page 90:

"In Uganda where managerial resources are limited chances for success of cooperatives in large numbers are reduced."

7. Some of the savings which will be realized from the actions prescribed in item No. 5 above, as well as probable technical and financial assistance provided by foreign donors, should be utilized in the following manner:

a. To recruit a cadre of specialists who will provide intensive training for a task force of 50 to 100 personnel of the unions and the restructured cooperative department--in the fields of cooperative principles, cooperative management, and cooperative accounting systems.

b. This cadre of specialists should be in-country and begin a three-month training program no later than April 1, 1985, to be completed by June 30, 1985.

c. From July 1st to October 1st 1985 this task force of 50 to 100 will be deployed throughout the country, working with primary societies and district unions, instructing members, committees, and staff in cooperative principles, management, and accounting procedures.

The result of these efforts would be a much greater member-understanding of their responsibilities and obligations as members, and better cooperative management--both of which are essential in building strong and successful cooperative societies.

8. A production credit facility for the Ugandan farmer is a "must" for improved and increased agricultural production. The benefits to be realized from the implementation of a successful production credit scheme are many:

a. It would raise the income level of the small farmer.

b. It would broaden the role of the primary cooperative societies, increasing their earnings through the sale of inputs and the larger volume of produce it would handle.

c. It would serve to increase Uganda's gross national product.

d. It would make possible a larger tax base and provide increased revenue for government.

The Study Team firmly endorses the proposed production credit scheme of ACDI Credit Advisor, Mr. Lew Clark. Immediate and definitive action should be taken to move ahead in this essential area.

It is recommended that the production credit scheme function within Uganda's cooperative sector. It is known that at present there are serious problems within the Cooperative Bank (see pages 35 - 37. The Study Team recommends that the present Cooperative Bank be reorganized with a sufficient injection of capital to resolve its financial crisis. The proposed production credit scheme then would be incorporated into the restructured bank. If the government of Uganda takes the necessary affirmative action and makes the necessary financial commitment, it is possible that donor assistance for the new bank will be forthcoming.

It is recommended that this assistance take the form of much-needed equipment and technical advisers working with each of the bank's 13 regional branches. The implementation of the production credit scheme must be done very carefully, for it cannot be permitted to fail.

The reorganization plan for the bank should be drawn up by a task force composed of, but not necessarily limited to, representatives from the Bank of Uganda, the Uganda Commercial Bank, the Agricultural Secretariat or the Agriculture Policy Committee.

II. REVIEW OF UGANDA'S COOPERATIVE SECTOR

A. Introduction

As of the first of August 1984 there were 3,799 primary cooperative societies in Uganda, exactly 75 percent of which are agricultural marketing cooperatives. The great majority of these deal in coffee and cotton--primarily the former; only a few market vegetables.

The remaining 25 percent are engaged in a variety of activities, such as dairy farming, livestock ranching, transport, hides and skins, consumer goods, handicrafts, fishing, etc.

Because agricultural cooperatives are so predominant, this report places major emphasis on them. Other types of cooperatives are not ignored, but most of the discussion that follows relates to the country's agricultural cooperatives.

The primary cooperative growers societies belong to district cooperative unions which collect the coffee or cotton from the primaries, process these crops, then sell them to the marketing boards. The district unions, in turn, are members of national cooperative organizations, such as the Central Union, the Transport Union, etc. Altogether, there are 16 coffee district unions (seven of which also deal in cotton), 10 cotton district unions, and 10 others which deal with such things as livestock, tobacco, vegetables, hides and skins, etc., for a total of 36.

The section of this report which immediately follows provides an overview of Uganda's primary cooperative societies. This is followed by a overview of the district unions. Then, each of the national cooperative organizations, as well as of the marketing boards and other agencies involved with cooperatives, is described in some detail. Finally, there is a review of the cooperative societies Act of Uganda and of the currently proposed amendments to it.

Locations of Cooperative Societies
and District Unions Visited by the
Study Team

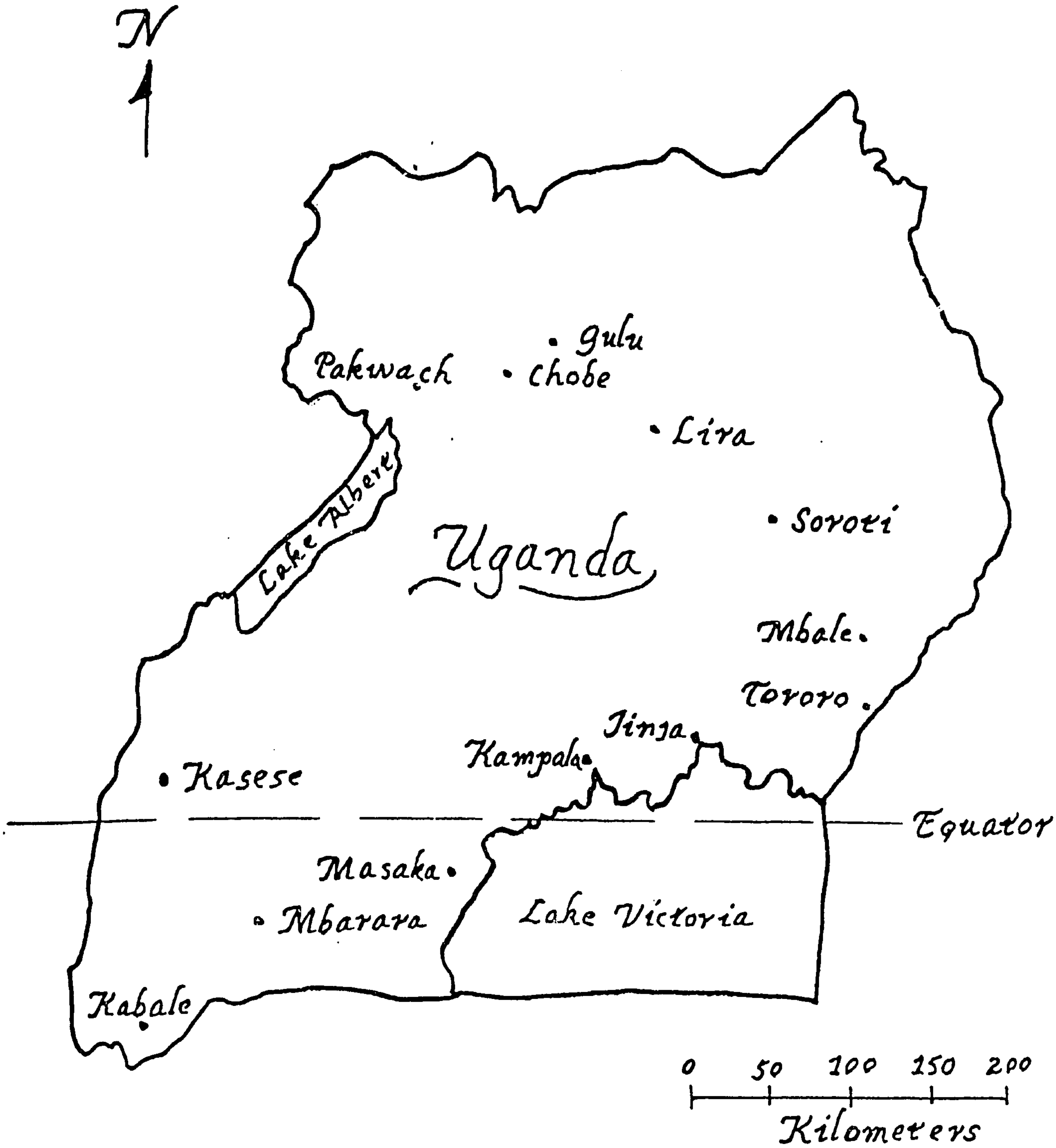

Figure 1

B. Overview of Uganda's Primary Cooperative Societies

During its stay in Uganda, the Study Team traveled widely throughout the country, covering over 4,000 kilometers to interview in depth the secretary-managers, senior staff members, and committee chairmen of 25 cooperatives--14 primary societies and 11 district unions. The 13 locations visited are shown in Fig. 1.

To insure compatibility of data gathered, the same interview procedure was followed in each case, based on a questionnaire form the Team prepared initially.

The 14 primary societies studied included four coffee cooperatives, three savings and credit societies, two cotton co-ops, one handling both coffee and cotton, and one each of the following types: vegetable marketing, fishing, hides & skins, and multi-purpose. The smallest of the societies visited had only 76 members and the largest had 5,000. Average membership was 920 persons.

In the case of nine of the cooperatives it was possible to determine the individual member's average annual cash income. This is 49,444 shillings. Based on a rate of exchange of 317 shillings to the dollar, this is an annual income of $156.00. In addition to this cash income, practically all of these individuals also grew their own food for themselves and their families. The market value of this domestically consumed produce is approximately $400 per year, so the real annual income of the average member would be about $550.

Seventy-one percent of the societies employ a salaried secretary-manager; 29 percent are managed by a member who volunteers his services. Aside from the management position, 50 percent of the co-ops had no paid employees at all. Of those societies which did have employees, their payrolls ranged from a low of one to a high of 250. Average number of paid employees for all of the 14 societies comes to 20.

Eleven of the 14 cooperatives visited were engaged in marketing. Excluding just one of these--the fisheries society--the average annual value of commodities marketed by each cooperative was 22.9 million shillings, or $72,239.

Averages, of course, can be most deceiving. A man who could not swim drowned while wading across a stream whose average depth was only three feet, two inches. The actual annual business volume of the 10 societies from which the 72-thousand-dollar average is derived ranged from a low of zero (in the case of a cooperative which at present is completely dormant), to a high of $473,186 (in the case of a large and successful marketing cooperative).

Much more homogeneity is found in the case of the average amount of share capital held by the individual cooperative member. This is generally very little--an average of only 4,473 shillings per member, or $14.10.

For the most recent complete fiscal year, nine of the 14 societies realized a small to modest net surplus, one of them managed just to break even, and four operated at a loss. If these operating results are translated into percentages and applied to the entire cooperative sector, then 64 percent of Uganda's primary societies are operating in the black, 29 percent in the red, and 7 percent are breaking even.

A major problem facing all of the 14 cooperatives visited is insufficient working capital, particularly for crop finance: At certain seasons of the year the societies need sizable amounts of money to purchase the coffee, or cotton, or vegetables from their farmer-members. There also is a general need for investment capital--to construct adequate crop storage facilities, acquire vehicles for transport, office equipment, etc.

One of the 14 societies has no working capital at all. It is moribund. Three of the co-ops borrow funds from a national organization, such as the Uganda Cooperative Savings and Credit Union or the Cooperative Bank. In another three cases the only source of funds is the meagre share capital paid in by members. Six of the societies obtain loans from their district cooperative unions. Only one is able to borrow directly from a commercial bank.

Regardless of the source of funds, 12 of the 14 societies--86 percent--report that they <u>never</u> are able to raise sufficient funds to meet their needs, and the funds they do acquire invariably are late in coming. This is why some farmer-members do not sell their crops to their cooperative society but to private traders instead, who are able to pay cash on the spot. The price paid by the trader usually is less than the farmer would receive from his co-op, but he is forced to sell because of his immediate need for money--perhaps to pay school fees for his children. He cannot wait a month or more for payment from his cooperative. Nevertheless, in spite of this member loyalty remains very high; on average, 90 percent of all farmer-members sell their produce to their cooperatives.

At the time the Study Team visited Uganda, there were approximately 3,800 primary cooperative societies in the country, 75 percent of which were engaged in the marketing of coffee, cotton, or vegetables-- with coffee predominating.

These primary societies visited by the Study Team represents only a very small sample of the total. Nevertheless, even with this small sample, it is possible to carry out statistical analysis and reach qualified conclusions concerning the totality of Uganda's primary cooperative societies. This is what was done:

A multiple linear regression analysis for nine of the primary cooperative socities was performed. The three savings and credit societies, the fishermen's cooperative, and the vegetable cooperative were not included in the analysis because the nature of their operations is different from the others which are dealing in coffee and cotton.

Net profit (negative if a loss) was used as the dependent variable, for this is a major concern of these primary societies. The following were chosen as independent or explanatory variables:

1. Annual dollar sales
2. Annual amount borrowed
3. Number of employees
4. Number of employees (including the manager)

These would seem to be the most important quantitative factors for determining a cooperatives net profit or loss position. A priori, one would expect a direct (i.e., positive) relationship between the dependent variable and each of the independent variables--except for the annual amount borrowed. An increase in the amount borrowed would tend to reduce the cooperative's net profit because of the additional interest cost for financing the debt.

The results of the total model were poor. Even though the adjusted R^2 value was .8795, none of the independent variables was significantly different from zero at the 10 percent level of significance. This, no doubt, is due to a very high degree of multicollinearity among the independent variables.

Since the use of all four independent variables together in the multiple regression analysis did not provide a good model for estimating net profit, other models using different combinations of these independent variables were employed. Several of these showed interesting results.

Four simple linear regression models were examined, using net profit as the dependent variable and only one independent variable at a time. The results of these four analyses are shown in the table below:

Independent Variable	Adjusted R^2	Est. Coef.	Std. Error of Coef.	Degrees of Freedom	Computed T-Value
Number of Employees	.73	103.51	23.36	7	4.431
Annual Sales	.70	.06	.01	7	4.450
Annual Borrowed Amount	.48	.14	.05	7	2.894
Number of Members	.31	13.42	6.28	7	2.137

Each of these four independent variables shows a direct (i.e., positive) relationship with net profit. The strongest relationship (highest R^2) with a significant t-value is between net profit and number of employees. However, several of these cooperatives had only one employee--the manager--so these results are somewhat questionable.

There is also a highly significant relationship between net profit and annual sales, with an R^2 of .70 and a t-value even more significant than that for the number of employees.

It is difficult to explain why increases in the annual amount borrowed would tend to increase net profit. Since the R^2 value is less than 50 percent, it is quite possible that the results are showing an indirect impact of borowing upon net profit. In other words, increased borrowing may directly affect annual sales which then causes profits to rise.

The number-of-members variable revealed the expected positive relationship with net profit. But, by itself, it explained only 31 percent of the variation in the dependent variable. Furthermore, it is not significant at the five percent level, whereas the other three variables are even significant at the three percent level.

This result would suggest that although more members can lead to an increase in net profits, there are other factors more important than this which affect the level of profits. The opinion of the Study Team is that most significant amoung these "other factors" is the quality of management. Cooperatives with competent managers, certerus paribus, do better than cooperatives with poor management.

Several other multiple regression models were examined as well, using different combinations of two or three independent variables. Most of these models provided unsatifactory results, either because the estimated coefficients were not significant or there was a high degree of multicollinearity in the model. This problem of multicollinearity occurs when two or more of the independent variables are closely correlated with each other. As a result, an estimated coefficient may appear to be significant when actually it is not, or the sign of the coefficient may be incorrect (i.e., positive when it should be negative, or vice-versa).

There are two models that did not suffer from these problems. The first used annual sales and number of members as independent variables. The adjusted R^2 value was .66, but only annual sales (with a positive coefficient) was significant at the five percent level. These results seem to reinforce the conclusion that annual sales are an important factor in determining net profits, while the number of members has relatively little effect.

In other words, a cooperative might have a large membership but many of the members grow only very small quantities of produce to deliver to their cooperative, or perhaps they sell their crop to traders because their cooperative lacks cash to pay the farmer at the time of delivery. Thus, annual sales of the society would be adversely affected.

The second model, using the number of employees and the number of members as independent variables, showed an adjusted R^2 value of .68. Both variables again had positive coeffecients, but only the number of employees was significant at the five percent level. Thus, there does not seem to be a tie between more employees and more profits.

A plausible explanation for this connection may be this: As shown above there is a significant relationship between annual sales volume and net profit. The greater the annual volume of business done by a cooperative suggests that more employees are required to handle this greater volume. Thus, the positive relationship between employee numbers and profits.

All of the primary societies visited by the Study Team suffer from some or all of thes problems. It is believed they are prevalent throughout most of Uganda's cooperative sector.

Name of Cooperative	Type	Paid Mngr.	No. of Employees	No. of Members	Average Share Capital Per Member Cooperative	Ave. Annual Cash Income Per Member	Annual Volume of Coop's Business
Nakabago Growers Cooperative	Coffee	yes	10	500	N.A.	$450	$58,000
Nakayaga Growers Cooperative	Coffee Jaggery	yes	250	1,400	26.59	$300	$473,000
Buyala Growers Cooperative	Coffee plus cotton	yes	11	1,360	.63	$150	$55,000
Namalere Growers Cooperative	Coffee	no	0	182	.63	$100	$11,000
Busamaga Grower's Cooperative	Coffee	yes	2	400	.63	$125	$21,000
Maknai Growers Cooperative	Cotton Coffee	yes	N.A.	922	37.85	$95	$46,500
Akia Growers Cooperative	Cotton	yes	0	490	N.A.	N.A.	$17,000
Odic Growers Cooperative	Cotton	no	0	300	.79	$47	$12,600
Ioito Aweno Ioito Gweno Cooperative	Cattle, hides & goat skins	no	0	420	$10	$95	$31,500
Lusmec Savings & Credit Society	Credit Union	yes	0	500	N.A.	N.A.	N.A.
Nytil Savings & Credit Society	Credit Union	yes	13	5,000	N.A.	N.A.	53,600
Abeggaba Fishing Cooperative	Fish	no	0	76	$3.15	N.A.	N.A.
Muchani Savings & Credit Society	Credit Union	yes	1	970	.63	N.A.	$14,807
Muyumbu Vegetable Growers Cooperative	Credit Union	no	0	365	.32	$47	N.A.

Name of Cooperative	Profit and Loss	Sources of Capital	Bonus Paid	Annual Amount Borrowed	Present Debts	Credit Rating/ Financially Sound	% of Member Cooperative that Patronize Union	MCM
Nakabago Growers Cooperative	Loss ($12,000)	Coop Bank	No	$46,000	$28,000	Bad/No	75%	No opinion
Nakayaga Growers Cooperative	profit (25,000)	Barclays Bank	No	$158,000	$28,391	Good/Yes	N.A.	Hampers
Buyala Growers Cooperative	profit (2,700)	Busoga District Union	No (MCM)	$5,400	N.A.	50-50/50-50	100%	Hampers
Namalere Growers Cooperative	loss ($1,600)	Busoga District Union	No	$7,600	$6,000	Bad/No	100%	N.A.
Busamaga Growers Cooperative	small profit (1,200)	Bugisi District Union	No	$12,000	N.A.	Bad/50-50	95%	Helps
Makhai Growers Cooperative	small profit ($630)	Bugisi Union & Massaba Cotton Union	No (MCM)	$14,000	N.A.	Bad/50-50	50%	Hampers
Akia Growers Cooperative	Broke Even	District Union Cooperative	No	$23,000	N.A.	Good/50-50	100%	N.A.
Odic Growers Cooperative	small profit ($120)	Lango District Union	No	$1,262	N.A.	Bad/50-50	90%	Helps
Ioito Aweno Ioito Gweno Cooperative	small profit ($3,150)	Government Tannery	Yes	$2,208	N.A.	Good/Yes	95%	Helps
Lusmec Savings & Credit Society	N.A.	N.A.	No	N.A.	N.A.	Bad/No	100%	N.A.
Nytil Savings & Credit Society	loss $6,300	National Savings & Credit Union	No	$1,400	$1,400	Bad/No	90%	N.A.

Name of Cooperative	Profit and Loss	Sources of Capital	Bonus Paid	Annual Amount Borrowed	Present Debts	Credit Rating/ Financially Sound	% of Member Cooperative that Patronize Union	MLM
Abeggaba Fishing Cooperative	N.A.	N.A.	No	N.A.	N.A.	Bad/No	95%	N.A.
Muchani Savings & Credit Society	small profit ($2,524)	Member's Savings	No	N.A.	N.A.	None/Yes	100%	Hampers
Muyumbu Vegetable Growers Coop.	N.A.	N.A.	No	N.A.	N.A.	Bad/No	N.A.	N.A.

As a group, these societies visited by the Study Team are confronted with a number of problems--including insufficient capital, lack of transport, poor storage facilities, inadequate office facilities and poor member education.

At the same time, the farmer-members of these cooperatives are faced with serious constraints of their own: lack of bicycles and wheelbarrows to transport their produce to their co-op; lack of tools for farming--particularly hoes, which are the most important agricultural implement of Uganda; and lack of ag-inputs such as fertilizer, insecticides, etc. And these handicaps of the individual farmer-members of course directly affect the health of their cooperative societies.

Finally, these cooperatives' secretary-managers and committee members were asked their opinion of the Ministry of Cooperatives and Marketing, under whose jurisdiction they must function. In five of the 14 instances (36 percent), the responses to this question were very negative--the feeling was that the heavy hand of the MCM, the tight control it exercises, its inexplicable delays in responding to cooperatives needs--all serve to hamper rather than help these societies in their day-to-day operations. Only two of the societies (14 percent) reported that they found the MCM to be quite helpful to them; they said they appreciated its services. The other seven societies (50 percent) were indifferent; they expressed no strong feeling toward the MCM, pro or con. The following tables summarize the data gathered by the team from the societies visited.

Appendix C of this report contains detailed information on each of these 14 primary cooperative societies from which this overview has been compiled.

C. Overview of Uganda's District Cooperative Unions

As the Study Team traveled about the country interviewing officials of primary cooperative societies, it also met with and interviewed managers, senior staff, and committee chairmen of 10 district unions--engaged in the marketing and processing of agricultural products--coffee, cotton, tobacco, and vegetables.

All but one of these 10 district unions--90 percent--employ a salaried manager. As for other employees, the payrolls range from a low of 27 persons to a high of 1,650. Average number of employees per union is 496.

Primary cooperative societies are the member-owners of these district unions. On average, each union has 117 such members, with the largest union having 270 member cooperatives and the smallest only 18. The average primary cooperative society holds $3,300 of share capital in the union to which it belongs, but this average is derived from a very wide range.

The average member cooperative of one district union owns only $22.00 in union share capital, while at the other extreme the average share capital held per member cooperative is $25,000. Member patronage of these unions averages 77 percent. In the majority of cases--that is, six of the unions--member patronage is 100 percent. In the poorest case, only 35 percent of the union's member cooperatives sell their crops to their union.

The volume of business done by these unions also varies widely, from an annual sum of only $41,000 to a high of $9.46 million. Average annual business volume for the 10 unions is $3,523,000. Nine of the ten operated at a profit during the most recent complete fiscal year. Only one showed a loss of $6,900. Average annual profit for the others was $279,000. But this also represents a wide range. Least profit earned was $9,500. The highest was $946,000.

All of these district unions borrow money each year, principally for crop finance purposes. Their sources of working capital are as follows: three of them obtain loans from the Lint Marketing Board, two from the Coffee Marketing Board, and one from both of these boards. Capital sources for the other four unions are the National Tobacco Corporation, the Uganda Commercial Bank, Barclay's Bank, and the Cooperative Bank.

In only two instances (20 percent) did union officials state that the capital available to them was adequate for their needs. Eight of the unions (80 percent) report that the working capital they are able to obtain invariably is inadequate. Average annual borrowings for the 10 unions comes to $2,753,549. Least amount borrowed by any union was $9,500. Largest sum borrowed was $8.8 million. Only four of the 10 (40 percent) state they have a good credit rating. The majority (60 percent) admit they are not credit worthy.

In the opinion of the Study Team, three of these unions (30 percent) are in a healthy, robust condition. One of them (10 percent) is very weak. Six (60 percent) fall somewhere in between. Specific comments of district union managers are included in the descriptions of the district unions visited by the Study Team, Appendix D of the report.

The problems confronting the district unions are remarkably similiar to the problems faced by the primary societies. Almost all of the district unions visited by the Study Team report the same problems, the same handicaps they face in trying to carry out their day-to-day operations. These include, of course, insufficient working capital. Other serious constraints are lack of transport facilities, lack of spare parts for vehicles, as well as for coffee and cotton processing machines, lack of agricultural inputs, need for better management, and much needed education at all levels.

After in-depth interviews of the personnel of 10 district unions and 14 primary societies, the Study Team was able to discern the variable which significantly determines the success or failure of a cooperative organization--and this finding is not at all surprising: Those cooperatives with good management personnel are, certerus paribus, more successful than cooperatives with weak management. The solution, of course, is to staff all cooperatives with good managers. But, again, the problem is that so many cooperatives do not have sufficient income to offer salaries which will attract competent managerial personnel.

When asked about their opinions of the Ministry of Cooperatives and Marketing, whether it helped or hampered their operations, officials of six of the unions (60 percent) responded negatively. Officials of four unions (40 percent) responded positively, saying they found the MCM helpful to them.

All of these 10 district unions are members of several (or all) of the national cooperative organizations--the Central Union, the Transport Union, the Cooperative Bank, the Cooperative Alliance, the Insurance Cooperative, etc.

When district union managers and senior staff members were asked for their opinions on the national cooperative organizations, their responses were predominately negative. They cited examples of the poor service (or lack of any service) which their unions are receiving from the Central Union, the Transport Union, the Cooperative Alliance, etc.

Sixty-three percent of the responses were negative, 25 percent positive, and 12 percent neutral. In respect to the Cooperative Alliance, all responses were negative. Specific comments of district union managers are included in the descriptions of the national cooperative organization.

The disparity among these 10 district unions is so great that it is not possible to arrive at any meaningful conclusions through the use of either single or multiple regression analyses, as was done with the primary societies.

Appendix D of this report contains detailed information on each of the 10 district unions from which this overview is compiled.

The following tables summarize the data gathered by the team from the district unions visited.

Name of Cooperative	Type	Paid Mngr.	No. of Employees	No. of Members	Average Share Capital Per Member Cooperative	Annual Volume of Business
East Mengo Growers Union	Coffee Cotton	yes	1,250	270 P.S. coops	$467.00	N.A.
Busoga Growers Union	Coffee Cotton	yes	N.A.	250 P.S.	N.A.	$9,450,000
Bugisu Growers Union	Coffee	yes	500	133 P.S.	N.A.	$5,677,200
Massaba Coop Union	Cotton	yes	199	43 P.S.	$176	$83.000
Lango Coop Union	Cotton	yes	331	139 P.S.	$67,823	$1,890,000
Southwest Nile Coop Union	Cotton	yes	269	33 P.S.	N.A.	$110,000
Middle North Tobacco Union	Tobacco	yes	27	30 P.S.	N.A.	$44,000
Banyankole Kweterana Growers Union	Coffee	yes	1,650	250 P.S.	$91.35	N.A.
Nyakatonzi Growers Union	Coffee Cotton	yes	N.A.	50 P.S.	N.A.	$42,300
Kigezi District Vegetable Growers Union	Vegetables	no	N.A	18 P.S.	$9.45	$61,175

(DISTRICT COOPERATIVE UNIONS)

Name of Cooperative	Profit and Loss	Sources of Capital	Annual Amount Borrowed	Present Debts	Credit Rating/ Financially Sound	% of Member Cooperative that Patronize Union	MCM
East Mengo Growers Union	profit	via CMB	$3,155,000	N.A.	Not Good/OK	70%	Hampers
Busoga Growers Union	profit $945,000	Barclays Bank	$6,000,000	$3,300,00	Good/OK	100%	Hampers
Bugisu Growers Union	profit $41,000	Uganda Commercial Bank (via CMB)	$4,731,000	N.A.	Good/OK	90%	Hampers
Massaba Coop Union	profit $10,600	Uganda Commerical Bank (via LMB)	$315,000	$252,000	Not Good/OK	N.A.	Hampers
Lango Coop Union	profit $173,250	Uganda Commerical Bank (via LMB)	$1,975,000	N.A.	Good/OK	90%	Hampers
Southwest Nile Coop Union	profit $38,000	Uganda Commerical Bank (via LMB)	$568,000	N.A.	Good/OK	100%	Helps
Middle North Tobacco Union	N.A.	National Tobacco Corp.	N.A.	N.A.	Not Good/NO	90%	Helps
Banyankole Kweterana Growers Union	profit $312,000	Uganda Commerical Bank (via CMB)	$3,785,000	N.A.	Not Good/OK	98%	Helps & Hampers
Nyakatonzi Growers Union	loss ($7,145)	Uganda Commerical Bank (via MKG.B)	N.A.	N.A.	Not Good/No	N.A.	Hampers
Kigezi District Vegetable Growers Union	profit $17,237	Cooperative Bank	$9,464	$5,645	Not Good/No	50%	Helps

D. National Cooperative Organizations

1. Uganda Cooperative Central Union, Ltd.

This national cooperative organization, employing 215 persons, was founded in 1961 but did not begin actual operations until 1963. At that time it was engaged in several disparate activities: coffee brokerage, produce marketing, insurance brokerage, and supplier of baling materials to cotton ginneries. Later, in 1970, this union started a cooperative transport service which was spun off as an independent entity in 1978. A couple of years ago the insurance function was taken over by Cooperative Insurance, Ltd.

The Uganda Co-op Central Union now retains the functions of bulk purchasing and distribution of farm inputs, such as fertilizer, chemicals, implements, hoes, seeds, and veterinary supplies; it also purchases machinery and spare parts for coffee processing and ginnery cooperatives.

Thirty-three district unions make up this national central union, as well as the cooperative insurance organization; in addition there are four primary societies which are dealing in hides and skins; they are associate members. This union also is part owner of a leather tannery--it owns 14% and the government of Uganda owns the rest.

This central union pays some of its surplus funds to its member district unions in two ways: a partronage refund, based on the volume of business the district union did with the central; and a bonus, or dividend, based on the number of shares the member district union holds in the national organization.

Some 25 primary societies throughout the country buy their inputs directly from the Central Union, but because they are not members they do not receive any patronage refunds. Sales to these non-member cooperatives amount to about 10% of the national organization's total annual volume of business.

To become a member a district union must pay an entrance fee of 2,000 shillings ($6.31) and purchase 10,000 shillings of share capital ($31.55). Total share capital of the Central Union now is seven million shillings ($22,082). The average district union member holds $652.00 in shares.

The fiscal year of this union commences July 1st. Operating results for the past three fiscal years are as follows:

Year	Volume of Business	Net Profit
1981-'82	547 million Sh.	142 million Sh.
1982-'83	700 million Sh.	63 million Sh.
1983-'84	940 million Sh.	30 million Sh.

Converted to dollars, these are the figures:

Year	Volume of Business	Net Profit
1981-'82	$1,725,552	$447,950
1982-'83	2,208,202	198,738
1983-'84	2,965,300	94,637

The central union's source of operating capital is the Uganda Commercial Bank, to which it presently owes 470 million shillings ($1,483,000). Its payments on this outstanding loan are up to date; the union is credit worthy and deals directly with the Bank, without the need for any sponsor or guarantor. Its maximum line of credit with the Bank comes to 3.5 billion shillings ($11,041,000). It pays 26% annual interest on the money it borrows from the bank.

The International Development Association, a branch of the World Bank, has loaned the government of Uganda $70 million, and this union is permitted to use some of this foreign exchange for importing goods; however, what it imports must be on the government's "Positive List"--a listing of economically desirable imports, such as tractors, hoes, etc. Items on the "Negative List" cannot be imported with these IDA funds.

Another foreign donor is the European Economic Community (EEC) which has given the Ugandan government a loan to rehabilitate the nation's hoe factory which, because of bureaucratic delays, is still not functioning. Among other problems is the ownership of the factory, which is presently in dispute. It originally was owned by a British firm, then taken over by the Idi Amin regime.

There is a "Government Verification Committee" which convened for the first time in the Spring of 1984. Its task is to evaluate the losses suffered by firms whose properties were nationalized by Amin, make proper compensation to them and/or return their assets which were seized. But this Committee has a great deal of such work to do, and it no doubt will be some years before all reparations are concluded.

This central union is constrained and hampered by the "strings" attached to the use of funds borrowed from foreign entities, such as IDA or EEC. Only certain imports are permitted with the use of this foreign exchange, and these may not always be the imports that are most needed at the moment.

The major lines of business of this union are the following: The sale of ginnery spare parts accounts for about 20% of its total business volume; spare parts for coffee processing machinery, 10%; jute bags for coffee and cotton seed, 20%, and hoes and miscellaneous ag-inputs account for the remainder. The union maintains an inventory of goods worth approximately 700 million shillings ($2,208,000) at all times.

There seems to be a perpetual shortage of hoes throughout the country, and this is the farmers' most important agricultural tool. One reason for this shortage is due to the policies of the Ministry of Cooperatives and Marketing: it sets the prices at which hoes may be sold to the farmer--a price well below the true market value--and it also determines the allocation of hoes to various parts of the country.

Because the price at which hoes can be purchased is artificially low, and they can be resold on the black market for a considerably higher price, many hoes have a way of "disappearing" at the grass-roots level and at higher levels of the distribution chain, as well. Many find their way to neighboring countries, where they fetch an attractive price.

The same problem exists in the case of bicycles, whose prices and allocation also are determined by the MCM.

According to the "statute books", this central union is supposed to be 100 percent autonomous, but in reality this is not true. The Central Union's management would like to see the cooperative law of the country rewritten to give more autonomy to the country's cooperatives; they feel the cooperative division of the MCM should limit its activities to registration and regulation of the nation's cooperatives.

The Central Union pays 1% of its annual surplus to the Cooperative Alliance, of which it is a member. For the fiscal year ending June 30, 1983 this amounted to approximately $2,000--in return for which this union receives no service from the Alliance. The Cooperative Alliance is supposed to fulfill the educational function for committee members of the primary societies of the country, which it is not doing. Also, it should represent the entire cooperative movement to the government, defend it, and promote it. It fails to perform this function as well. If it performed this role properly, the management of this Central Union feels that the national cooperative organizations would enjoy greater freedom to operate independently, with less government intervention and control.

This union borrows no funds and has no relationship with the Cooperative Bank; it will not deposit its funds there because this bank is in such a poor financial condition.

The relationship between this union (as well as cooperatives generally) and the Ministry of Agriculture is not the best.

Originally, the whole cooperative sector was part of the Ministry of Agriculture, and the power and authority that entailed now belong to the Ministry of Cooperatives and Marketing. The Ministry of Agriculture feels the Ministry of Cooperatives and Marketing is disrupting agricultural production in the country, and the MCM feels the same way towards the Ministry of Agriculture. Among other disputes, at the present time there is a conflict between the two sectors over the matter of seed distribution to farmers; this is now handled by MCM, whereas the Ministry of Agriculture feels that it is the proper agency for this purpose.

As far as the national cooperative transport union is concerned, this Central Union does not use its services at all; the Central Union has its own fleet of seven lorries, which is sufficient. However, the Central Union does purchase all of its insurance from the Insurance Cooperative, Ltd.

This union's Management feels that its first priority is to adequately supply the nation's farmers with the inputs they require--the supply function is paramount. However, when this has been adequately taken care of, and when funds are available, future plans of the Central Union include going into the actual production of some of the inputs it is now purchasing from others--such as starting up a seed-production scheme, setting up its own tannery for hides and skins (at present the government tannery can handle only 50% of available hides); and building an oil mill, as well as getting into feed formulation for livestock.

At the present time, 80% of the annual business volume of the Central Union is done with cooperatives about the country, and 20% with others.

Mixed responses were received from the managers of district cooperative unions concerning the services they receive from the Uganda Cooperative Central Union. Fifty percent were negative, 40 percent positive, and 10 percent neutral. The principal complaints were that the service provided by the Central Union is much too slow. Some managers reported that when they order spare parts from the Central Union for their vehicles or other machines, it often is a year before they receive delivery. Others complain that the prices the Central Union charges are too high.

Those who spoke favorably of the Central Union said they liked it because they were permitted to buy spare parts and supplies on credit, rather than having to pay cash.

2. Uganda Cooperative Transport Union, Ltd.

This national cooperative organization came into being in 1973 as the result of a national transportation crisis at that time. That was the year when Idi Amin expelled all Asians from Uganda, and most transport services in the country had been provided by trucking firms and freight companies owned and operated by Asians.

District cooperative unions throughout the country got together to organize this cooperative transport union. These district unions are the member-owners of the transport union, and there are 31 of them. In addition, 195 cooperative primary societies are "associate members" of the transport union. (The only difference between these two categories of membership is that associate members do not have a vote at the transport union's annual meetings.) Both types of members must pay an entry fee of 100 shillings (31 cents) and purchase one share in the transport union for 10,000 shillings ($31.55); however, at the next annual meeting these amounts will be raised to 1,000 ($3.15) and 100,000 ($315.00), respectively. Total share capital is 23,315,799 shillings ($73,551).

The original purpose of this transport union was to provide transport service for the many cooperatives of Uganda, as well as providing spare parts, tires, etc., and importing vehicles for cooperative use. It still performs this function, but by far the greatest portion of its revenue comes from non-cooperative sources. A large part of the transport union's income is paid by the Coffee Marketing Board for the union's hauling of coffee to the port city of Mombassa, Kenya for shipment overseas. Although the CMB is not a cooperative, the transport service provided to it by this transport union is essential for the many coffee cooperatives of Uganda. Without it, Ugandan coffee could not be exported.

The transport union owns 194 trucks of two makes only: The Man Truck, manufactured in West Germany, and the Scania Truck which is made in Sweden. At any given moment, 30 or so of the 194 are in the garage for repair, and 10 of the 194 are beyond repair; thus the union is able to operate no more than approximately 150 trucks at the same time. This fleet of 150 is not sufficient for the work to be done, so the union contracts with other trucking firms, some in Kenya, to help out with the coffee transport to Mombassa. The fee charged by these sub-contracting trucking firms is paid by the Coffee Marketing Board, and the transport union receives a commission equal to 15% of this for its role as contractor and intermediary.

In addition to the 150 trucks owned by the union, it also has one British Leyland bus which serves as a public carrier for passengers travelling between the capital city of Kampala and the town of Kabale in the southwest corner of the country, about 250 miles away. A few Land Rovers and two Mercedes Benz complete the vehicle inventory of this union.

Additional trucks--approximately 60 more--are needed by the transport union, particularly for the Mombassa coffee run. Actually, it would be cheaper to transport coffee from Uganda to Mombassa by rail, but the Ugandan national railway system is not capable of performing this function. The railway is now in the midst of a rehabilitation program, and sometime in the future may be up to the task. This transport union would welcome the rail system taking on this job, for it would free the union's trucks for much needed other work. The union does not regard the railway as a competitor, but rather as a needed supplementary transport service. Two-thirds of all Ugandan coffee now moves by truck, and only one-third by rail. The union would like to see these shares reversed, for then it would be able to provide better transport service for the country's cooperatives.

The transport union is now in the process of constructing a very large and modern truck depot in Kampala, completely equipped with the tools, machines, and staffed by competent mechanics, for the servicing of all the union's vehicles. Construction of this depot was commenced several years ago and is proceeding slowly--for the union has lacked sufficient funds to complete it more quickly; it is paying for the construction as best it can, out of current revenue, not borrowing for this purpose. The depot is approximately 35% completed; when completed and fully equipped the total cost will be approximately five million dollars.

The freight rates paid for hauling coffee are determined by the Coffee Manufacturing Board, and the rates for hauling cotton are set by the Lint Marketing Board. As for freight rates charged for other types of cargo, the transport union is free to determine these on its own. At the present time the general freight rates it charges are slightly higher than competitive trucking firms. Nevertheless, the general manager of the transport union estimates that his union handles 80 to 90 percent of all highway transport in the country.

The basic purpose of the transport union is to serve cooperatives, but it also is expected to operate in a business-like manner and earn a profit. Thus, it serves others than cooperatives, and now is operating a small bus service for the general public--which it would like to expand. Also, when funds are available, it would like to set up a tire-retreading plant to repair tires of its own vehicles as well as those owned by the district unions.

Within the entire Ugandan cooperative sector there are now approximately 500 trucks, including those owned by this transport union. At present, all tire-retreading of these vehicles is done by private firms. The transport union would like to provide this service and keep these funds within the cooperative movement. In addition, the union would like to set up a bicycle assembly operation, in order to provide quality bicycles at modest cost to the many farmer-members of Uganda's cooperatives--for the bicycle is the most important form of transport in the nation. An imported Raleigh bike from England costs about $200, which is twice the annual cash income of many farmers.

The fiscal year of this cooperative runs from August 1st to July 31st. As a business enterprise, the operating results of this transport union are most impressive. A perusal of its financial reports for the past few years reveals the following: (All figures are in millions of shillings).

	YEAR			
	1978-'79	1979-'80	1980-'81	1981-'82
Net profit or (loss):	(4.5)	12.4	38.9	182.2
Assets:	36.3	38.8	73.8	298.1
Share capital:	9.5	9.7	11.4	20.5
Long-term loans:	19.5	17.9	17.8	14.4

Financial data for the 1982-'83 fiscal year was not available at the time the study team visited this union. Ten months of this fiscal year's financial picture was available, however. An extrapolation of these 10-months' data for a full fiscal year shows a net profit for the 1982-'83 fiscal year of 390 million shillings ($1,230,000). The union's management estimates that profit for the fiscal year of 1984-'85 will be 730 million shillings ($2,303,000).

The management of this union feels it does not receive sufficient foreign aid for its operations. It feels that the transport sector of Uganda is neglected by foreign donors in favor of other sectors--such as agriculture--and, yet, the agricultural sector cannot survive without adequate transport from farm to market and to the outside world. The union would greatly favor "soft loans" which it could use to purchase additional vehicles and generally expand its operations.

Opinions of the district union managers concerning the Uganda Cooperative Transport Union were split right down the middle: 50 percent of the responses were positive and 50 percent were negative. Those who responded positively said that they received good service from the Transport Union, and those who responded negatively said that the rates charged are higher than other trucking firms and the service provided is poor.

3. <u>Uganda Cooperative Savings and Credit Union, Ltd.</u>

Over 600 primary credit and savings cooperative societies originally constituted this national savings and credit union, but 200 of these are now dormant. They were "killed" by the "War of Liberation" which devastated the country from approximately May 1979 to May of 1980.

This national credit union was founded in 1971. It serves as a depository for, and a lender to, its member societies. To become a member of the national union, a primary society must pay an entrance fee of 2,000 shillings ($6.31) and purchase one share in the union for 10,000 shillings ($31.55), and then each month deposit 10% of its members' monthly savings with the union.

The union operates 21 district offices throughout the country, each staffed by two union employees. their job is to assist the primary credit and savings societies in their area with their accounting, audit the books, and promote savings and credit cooperatives among the people.

The primary societies have purchased 2.98 million shillings ($9,400) worth of shares in the union. Primary societies' savings deposits in the union now total 22.5 million shillings ($71,000), on which they receive a return of 8% interest. Loans outstanding from the union to the primary societies are 32 million shillings ($101,000), on which they pay an interest charge of 12%. The savings/loan ratio for the primaries is 1:2--that is, they can borrow from the union up to twice the amount of their savings on deposit with the union, and they have 12 months in which to pay off the loan. (In the case of loans made to the primaries for investment purposes, the repayment period is extended up to 18 months.)

The smallest loan the union will make to a primary society is 100,000 shillings ($315.00), and the largest loan it has made thus far was for 3.5 million shillings ($11,000). This money was used by a primary society to build a hospital in 1978-'80, and the loan has been repaid. The union also has loaned 2.3 million shillings ($7,255) to another primary society to purchase sewing machines and construct a brick factory, and it has made similar loans to other primaries for similar purposes. All primary-level credit and savings societies in Uganda are members of this union.

Work of the union is carried out by 53 employees, including the 24 stationed about the country in the branch offices. The union also owns land in Kampala on which a carpentry shop is located, employing 12 carpenters who produce furniture. The union operates this shop as a source of additional revenue, and it encourages borrowers to make "furniture loans": instead of receiving money from the union to purchase furniture, the union's carpentry shop provides the furniture directly to the borrower. Last year the shop produced nine million shillings worth of furniture ($28,391), 65% of which was sold to members of credit and savings societies, and 35% to the general public. Estimated net profit of the shop for this fiscal year is 800,000 shillings ($2,525).

As for this Union's overall financial situation, the most recent accounts available are for June 30, 1983. Some noteworthy figures for that date are these:

Total assets were 37,139,047 ($117,158)
Members' share capital: 750,000 shillings ($2,366).
Disposable income for the '82-'83 fiscal year:
-472,274 shillings (-$1,490)
Total income for the '82-'83 fiscal year:
15,540,279 shillings ($49,024)

Of the total income, over 50% came from the sales of supplies, a sum of 8,813,862 shillings ($27,804), and approximately 30% of the total income came from "donations"--in the amount of 4,418,940 shillings ($13,940). Sufficient data were not available to draw firm conclusions, yet it is apparent that this union is in serious financial condition. The bulk of its income is derived either from donations or from areas not related to its stated function of savings and credit.

Furthermore, if the negative disposable income is deducted from the members' share capital, a mere 277,736 shilling balance remains ($876.00). This calls into question not only the viability of the organization, but also the nature and scope of its operations.

This Savings and Credit Union is not fearful that the Insurance Co-operative will take over the function of providing credit and savings insurance for the members of the primary savings and credit societies throughout the country--a function now handled by this national credit union. It feels this way because it is in a much better position to handle these claims and serve the individual members, for it has a number of branch offices around the country, which the insurance co-op does not possess.

The present loan delinquency rate is 16%, with some loans as much as three years overdue; much of this due to the "War of Liberation". However, some delinquency is due to deductions from employees pay for loan repayments not being forwarded to this union by employers--including Ministries--whose workers are members of primary savings and credit societies. Delinquencies in the rural areas are minimal.

Major problems facing this union are lack of funds, security (lack of safes for guarding funds), lack of trained staff and committee members, lack of accounting machines and calculators for both the main offices and branches.

4. Uganda Cooperative Insurance, Ltd. - Kampala

This is the youngest of the national cooperative unions of Uganda. Originally, it was a small department or section of the Central Union which acted as an insurance broker between the cooperatives of the country and the National Insurance Corporation. In 1982 it was spun off from the Central Union and now is a separate and independent entity.

It is a multiple-line insurance organization offering a variety of insurance coverages to the cooperatives of Uganda: fire insurance, burglary insurance, vehicle insurance, marine insurance, bond insurance, workmen's compensation, personal accident insurance, and insurance on goods and cash in transit. At present, it does not offer any life insurance, although soon it will provide loan protection and life savings insurance for the members of the credit and savings cooperative societies throughout the country. (This coverage is presently provided by the Uganda Cooperative Savings and Credit Union.)

Ninety-five percent of the district unions in the country are insured by Uganda Cooperative Insurance, Ltd. Some carry a full line of insurance coverage, others only certain coverages. Some of the primary society members of the district unions also have insurance coverage via their unions; only four or five primary societies purchase their insurance directly from this insurance society.

Thirty-one district unions and 45 primary societies are the owner-members of this insurance society. To become a member, a primary society must purchase 10 shares in Uganda Co-op Insurance, Ltd., and district unions must buy 20 shares, at 10,000 shillings each ($31.55). Some unions hold as many as 50 shares, but no cooperative member is permitted to own more than 10% of the total shares issued. The insurance society has 14.3 million shillings in share capital ($45,100).

Each union-member sends a delegate to the insurance society's annual meeting, and these delegates elect the board of directors--the Committee--of the insurance cooperative, a Committee of seven members.

For the fiscal year which ended June 30, 1984 the insurance society had an amazingly low loss ratio of only 10%--that is, of the 200 million shillings it received in premium income ($631,000), it paid out only 20 million shillings ($63,100) in claims. Operating expenses for the year--salaries, office supplies, transport, etc.--amounted to another 10% of premium income. The remaining 80% has been put into claims reserve. This is held largely in the form of government bonds which pay an interest return of 22%. Some--52 million shillings ($164,000)--is invested in real property, in order to take advantage of its appreciation in value. In the future, the society plans to invest more of its funds in realty, for this is one of the safest and most lucrative investments to be found. Projected premium income for the 1984-'85 fiscal year is 260 million shillings ($820,000), and projected operating expenses are 70 million shillings ($221,000).

For the fiscal year which has just ended, the society paid a "bonus"--a dividend--to its member cooperative unions in proportion to the amount of premium each had paid during the year. Total dividends paid out came to 3.4 million shillings ($10,725).

The insurance society carries its reinsurance with the International Cooperative Insurance Bureau, which is affiliated with the International Cooperative Alliance. And, at the same time, this society provides reinsurance for a cooperative insurance society of Norway, SAMVIRKE. (The society pays 5% of its own premium income for the reinsurance coverage it receives from the ICIB.)

The training and qualifications of the senior staff of the society are quite impressive. The General Manager, Mr. George Rujojo, holds a bachelor's degree in actuarial science and statistics; he has worked and studied insurance in West Germany, and he served 10 years as the Insurance Commissioner of Uganda. Assistant General Manager, Mr. Patrick Olweny, studied insurance at the University of Wisconsin-Madison and has 15 years of insurance experience both in the United States and Uganda. The Chief Accountant served in the same capacity for another insurance company for some years before joining this insurance cooperative, and he is a Fellow in the Life Office Management Association (LOMA). Other staff members have received insurance training in Switzerland and have attended insurance seminars offered by the Tanzania School of Finance and the International Cooperative Insurance Bureau.

This insurance society does not operate any branch offices about the country, but it does have insurance representatives located in the district unions. These men are not employees of the insurance society; they are paid by the unions, and their task is to handle insurance matters for the unions. However, many of them are not properly trained for this task.

Future plans of the insurance society include the opening of four branch offices around the country and building a force of its own representatives and sales agents. It also intends to offer life insurance to individual cooperative members through their primary societies and unions, as well as provide crop insurance and home insurance for the farmer-members of these societies.

The society maintains good relationships with other cooperative organizations and the Ministry of Cooperatives and Marketing. It has purchased shares in the national unions and the Co-op Bank as a gesture of goodwill. However, the management of the insurance cooperative feels strongly about Uganda's marketing boards. Management feels the marketing boards should be abolished and replaced by a "Marketing Union" which is owned and controlled by the country's agricultural cooperatives. Individual farmers, cooperative societies, and this insurance cooperative all would benefit greatly from such a change.

Some of the district unions visted by the Study Team carry all of their insurance with the Uganda Cooperative Insurance, Ltd. Some have only part of their insurance coverae with the cooperative insurance agency, and others have none. The Study Team heard no strong opnions from district union managers, pro or con, concerning Uganda Cooperative Insurance, Ltd.

5. <u>The Cooperative Bank, Ltd.</u>

Since early 1983 five separate studies of this bank have been carried out by different task forces and study teams, and at least three of these were conducted by or for USAID. At the present time two other studies by VOCA representatives are nearing completion and will be made available to ACDI.

The Terms of Reference for the present study team call for a description and analysis of Ugandan cooperatives, and since the Cooperative Bank is part of the cooperative sector here, it deserves mention. However, in view of the various studies mentioned above, only a brief description of the Bank will be given here.

It was founded nine or ten years ago by the Ministry of Cooperatives and Marketing. Its purpose was to mobilize the financial resources of the cooperative movement by encouraging thrift and savings and provide credit financing for cooperative societies and their members, particularly in the rural and agricultural sectors.

It has succeeded in mobilizing funds from both rural and urban Uganda, but it has not succeeded in its intended role of serving as a lending institution for cooperative societies and their members. It is primarily engaged in commercial banking; approximately 90 percent of the Bank's loans are made to non-cooperative organizations and individuals and for non-agricultural purposes.

Present assets of the Bank are nine billion shillings ($28,391,000), and present liabilities are the same. Net worth of the Bank is zero. Technically, or legally, the bank is owned by cooperatives. Only cooperatives own shares in the Bank, but the amount of share capital invested by cooperatives is negligible, only 65 million shillings ($205,000).

A regulation of the MCM states that a certain percentage of agricultural cooperatives' statutory reserves must be invested in the Cooperative Bank, and all agricultural cooperatives must deposit their surplus funds in the Bank. This is not being done, and even if it were, these cooperative funds would provide only a small fraction of the funding requirements of the bank.

The Bank operates 13 branches throughout the country, including the main one in Kampala--but one of the 13 is now dormant. There are only seven operating office machines in the entire system, four in the Kampala branch and three elsewhere. The 400 to 450 employees of the Bank keep all records by hand--paper and pencil--which leads to inaccuracies and delays and facilitates fraud.

In recent months there has been much shifting of bank personnel from one office to another--particularly moving managers of the branches around the country into the main bank in Kampala, and moving personnel from the main bank out into the branches. This has been done in an attempt to reduce fraud in the branches; many of these branch managers have made "loans" to themselves and their families. In fact, they had a good example to follow: About three years ago the General Manager of the Cooperative Bank made a loan to himself of nine billion shillings ($28,391,000) and then fled the country.

Total deposits in the Bank at present are approximately two-and-one half billion shillings ($7,886,000), and present loans outstanding are the same. Approximately 50% of these are what might be called "non-performing loans". The Bank's reserve for loan losses should immediately be increased by 1.3 billion shillings ($4,101,000).

The Ministry of Cooperatives and Marketing has broad authority to appoint members of the Bank's board of directors--or "Management Committee" as it is called here. Three members of this Management Committee are elected by cooperatives, and the Ministry of Finance also has a representative on the Committee.

It is true that within the Bank there is a basic cadre of experienced officers and branch personnel who, with proper direction and control, should be capable of conducting reasonably sound banking operations. However, they are severely handicapped by lack of both working capital and investment capital, lack of proper equipment, and inaccurate records. Current financial statements do not represent the true financial status of the Bank, not only because of inaccuracies in the accounts, but also because of failure to adjust the Bank's assets to their realistic value.

Most of these problems could be largely remedied if the Bank were able to obtain proper funding, although this does not appear likely in the near future. Given the Bank's present condition, it is most unlikely that foreign donors--such as USAID--will come to its assistance. Nor does it appear that the Government of Uganda is able or willing to rescue the Bank. The Bank's only source of funding now is the Bank of Uganda, the nation's central bank, and the Co-op Bank has been in a deficit position with the Bank of Uganda since December 1982.

The Cooperative Bank never was able to meet the credit needs of the nation's agricultural cooperatives for it never had a sufficient capital base. A real need still exists for the Bank to serve the purposes for which it was originally created, yet at present it is far from clear how this might be accomplished.

The district unions visited by the Study Team have little or no dealings with the Cooperative Bank--simply because it has no funds to loan to cooperative unions. (See the section of this report entitled, "The Cooperative Bank, Ltd.") Comments by district union managers concerning the Bank were negative. The general feeling is that it is badly disorganized and provides practically no service to cooperatives and this was the very reason for which it was organized in the first place.

6. Uganda Cooperative Alliance, Ltd.

This Cooperative Alliance, founded in 1961, is the apex cooperative entity of all the cooperatives of Uganda, is supposed to be the spokesman for the entire cooperative movement, defend the movement against unwarranted interference by government, and be responsible for the overall cooperative education program. With such a burden of responsibilities the Alliance should be the strongest, most effective cooperative organization in Uganda. Unfortunately, just the opposite is true. According to Mr. Yoswa Ekojot, General Secretary of the Cooperative Alliance, "we are the weakest."

The member-organizations of the Alliance are the district cooperative unions and the national cooperative organizations, such as the Central Union, the Transport Union, etc. Share capital contributed by these member-organizations totals only 700,000 shillings ($2,208). The Alliance's sources of operating capital are supposed to be as follows: A levy on all cotton sold (2 shillings per bale) and a levy on all coffee sold (4 shillings per ton), to be paid by the district cotton and coffee unions. However, only about 20% of Uganda's 41 district unions are making these payments. Also, each district union is expected to make annual payments to the Alliance of .2 shillings (20 cents of the Uganda shilling) for each individual member of each primary society which belongs to each district union--but no such payments have been made to the Alliance since 1978.

The Alliance is unable to carry out its assigned cooperative education function because of lack of funding; it needs educational materials--literature, audio-visual equipment, transportation, and funds to travel about the country. Because of lack of funding this 1983-'84 fiscal year, the Alliance has been able to complete only ten to 20 percent of the educational activities it planned to carry out at the beginning of the year, last September. The 1983-'84 fiscal year ends in August '84.

The Alliance employs a senior staff of six persons, a junior staff of 19, and 10 workers in the printing shop operated by the Alliance which prints office forms and stationery for some of Uganda's cooperative societies. It earns some revenue from the sale of these things to cooperatives, but its major source of revenue is what it receives from foreign donors, most notably the Swedish Cooperative Center.

All primary societies and district unions throughout the country are supposed to make annual payments to the Ministry of Cooperatives and Marketing equal to one percent of their net surplus, but many cooperative societies never realize any net surplus, and one percent of nothing is nothing. These one-percent annual payments are supposed to go into an "educational fund" established by the Ministry, and then money from the fund is supposed to be paid by the Ministry to the Alliance to help finance its educational activities--yet for some time the Alliance has not received regular payments from this fund, partially due to lack of funds, and partially due to other reasons as well.

All of the responses received from district union managers concerning the Cooperative Alliance were strongly negative. They regard it as a weak and ineffective organization with poor management and without the right personnel to do the job. One manager said, "We do not feel its presence."

7. <u>Uganda Wholesale Consumer Cooperative Union, Ltd.</u>

Mr. A. Kanyankole is Secretary-Manager of this national society, for which he receives a salary of $40.00 per month.

This co-op union was founded in 1965 in a top-down manner. The manager and board members were selected by MCM, and the society was to commence operations with a government loan. This, however, did not materialize--so this union commenced to start up primary consumer societies around the country which would contribute share capital to the union. Requirements for membership in the union are a 50 shilling (16 cent) entrance fee for the primary society plus the purchase of one share in the union for 200 shillings (63 cents).

There are now about 200 primary consumer co-ops in Uganda, but not all of them are members of this Wholesale Union; at present it has only 67 member-societies--both unions and primary societies. Some of the union-members have contributed 100,000 shillings ($315) each in share capital. The Wholesale now has about three million shillings ($9,500) in share capital.

The Secretary-Manager says that the MCM does not run this Wholesale co-op; he says it is autonomous in its operations.

At the present time the Wholesale has on hand a very limited inventory of kitchen utensils, plastic plates and cups, and bicycle tires. However, it also deals in textiles, mattresses, cement, and soda pop.

The Wholesale places orders with the factory producing the merchandise, and then it goes directly by public transport from the factory to the primary society which requested the delivery. The primary society must pay cash to the Wholesale at the time of placing the order, and the Wholesale, in turn, must pay cash to the factory. To cover its costs of operation, the Wholesale marks up the price it pays the factory by 5 to 10%--and this is the price paid by the primary societies which buy through the Wholesale.

Most primary societies are not able to buy directly from the factory for they do not have the necessary "agency license" to do so. Thus, they place their orders through the Wholesale. However, some union-members and some primary societies can deal directly with the factories; and they do so, by-passing the Wholesale organization.

The reason some member societies deal directly with the factory is so that they can save the 5 to 10 percent markup, and thus in turn sell to their individual members at a lower cost which is competitive with private merchants in the community.

The average primary society which belongs to the Wholesale consists of 300 members. The motivation of this Wholesale society is to provide service to its members, not to make a profit.

E. National Marketing Organizations

1. Coffee Marketing Board

The forerunner of this marketing board came into being in the 1920s during the colonial period as an advisory body to the government on coffee matters. Later, it became a full-fledged marketing board, and it is now operating under the Uganda Coffee Marketing Act of 1967. Its functions are to buy all coffee produced in Uganda and export it, as well as reprocess the coffee and grade it. Its nine-man board of directors is appointed by the Minister of Cooperatives and Marketing and includes coffee farmers, representatives from district cooperative coffee unions, and government officials. Board members serve two-year terms.

The Coffee Marketing Board employs 1,843 persons--most of whom are located in Kampala. A few are stationed upcountry at Mbale, Tororo, Jinja, etc., and a few work in the Board's offices in Mombassa, London, and New York.

Ugandan coffee stocks on hand as of September 30, 1983, as verified by agents of the International Coffee Organization, were 2.84 million bags of 60 kilos each. Estimated production for the coffee year that will end September 30, 1984 is 3.36 million bags. This adds up to a total available coffee supply of 6.2 million bags for the current coffee year.

However, Uganda's coffee export quota as set by the ICO is only 2.54 million bags for this year, which will mean an excess stock on hand of 3.66 million bags on September 30, 1984. This "closing balance", as it is called, will be verified by representatives of the ICO at the end of September, and this stock will be carried forward for sale during the 1984-'85 coffee year.

Production for the 1984-'85 coffee year is expected to be 3.34 million bags. This expected production plus the carry-over stock of 3.66 million will give a total available supply of 7 million bags for the 1984-'85 coffee year. Uganda's ICO export quota has been approximately the same for the past couple of years--although it is slightly higher this year than the 1982-'83 coffee year. If Uganda's export quota is not increased next year, the 1984-'85 coffee year will end up with a surplus stock of approximately 4.46 million bags to be carried forward to the next coffee year.

At the same time there is underway an EEC-financed "Coffee Rehabilitation Program", the purpose of which is to improve the quality and increase the quantity of Ugandan coffee. What will be done with this continuing surplus is not clear. Top management of the Coffee Marketing Board does not appear to be able to provide a satisfactory answer to this question. They say that the surplus can be sold on what is called the "non-quota market", but the price that can be obtained there is only one-half to two-thirds of the price that can be realized on the ICO's quota market. This quota price has been fluctuating between $1.00 and $1.40 per pound. At the time of this writing the price is $1.38 per pound, or $3.03 per kilo.

Uganda's government--the Treasury--is now taking for itself 57.165 percent of this coffee export price, leaving slightly less than 43 percent to be divided among the coffee farmer, the primary coffee cooperatives, the district coffee unions, and the Coffee Marketing Board. Management officials of the CMB state that the original intention of government was to give the coffee farmer approximately 50 percent of the price realized on the export market, but at the time of this writing the farmer's share is less than half of this.

The general impression throughout the country seems to be that the Coffee Marketing Board determines the price the farmer receives for his coffee, but this is not true. The actual procedure that has been followed until quite recently is this:

CMB officials calculate their operating expenses for the coming year, estimate the amount of coffee that will be produced and sold, then notify the Minister of Cooperatives and Marketing that the CMB must receive "X" shillings per kilo of coffee to meet its expected operating expenses. The primary coffee cooperatives and the district coffee unions do the same thing.

If the Minister does not agree with these figures, he has the power to alter them. He then passes his recommendations on to the President's Economic Advisory Committee (PEAC). The President or his personal representative is a member of this committee, and the President himself is the one who has the final word on what the farmer receives for the coffee he produces.

In recent months the Agricultural Secretariat has been playing an increasingly important role in the determination of coffee prices--and other agricultural prices as well--and the role of the CMB has been considerably reduced.

Thirty to forty percent of Uganda's coffee exports go to the United States. Approximately 45 percent goes to the European Economic Community, which includes the 15 percent or so that goes to the United Kingdom. The remainder is sold to various other countries.

The Coffee Marketing Board obtains approximately 60 to 65 percent of the coffee it sells abroad from the country's coffee cooperatives and 35 to 40 percent from private traders. If more crop finance were available, the CMB would be able to acquire more of its coffee via the cooperative sector. CMB officials estimate that the amount of crop finance now available is only about 30 percent of what is needed.

members of parliament, the Permanent Secretary of the MCM, the Permanent Secretary of the Ministry of Industry, a representative from Makerere University, one farmer, and the director of the National Teachers College. Members serve two-year terms, and the Board is required to meet at least four times a year--although it usually meets more often than this, perhaps eight or nine times annually.

The LMB employs approximately 300 persons, including those in the Mombassa facilities and those stationed upcountry in Uganda: 10 in Gulu, 10 in Lira, 1 in Soroti, 5 in Bali, and 5 in Jinja. The job of these field personnel is to check on the quality of cotton grown and the weight of the cotton bales. They also are responsible for maintaining and operating the cotton seed dressing stations.

Primary societies buy cotton from their farmer-members, and then district unions purchase it from the primary societies. For buying purposes there are only two grades of cotton, AR cotton which comes from the first picking and is of higher quality, and BR cotton which comes from the second picking.

Then, for selling purposes, these two types of cotton are graded more finely, into six different categories: There are five separate grades of long-fibre cotton, called "BPA cotton", and one grade of short-fibre cotton, called "Satu".

Cotton was the main source of Uganda's foreign exchange up until the late 1960s. It was then replaced by coffee which brought a considerably higher world market price. For a number of reasons, during the 1970s Uganda's cotton industry almost died out entirely. In 1969 the cotton farmers of Uganda produced 500,000 bales of 185 kilos each, but by 1980 production totaled only 25,000 bales. It is on the increase now, and the LMB expects an output of 100,000 to 150,000 bales for the 1984-'85 season.

For a brief period a year or two ago, district cotton unions were permitted to sell cotton directly to Uganda's textile mills instead of to the LMB. Most of the country's textile mills are government-owned, and they were expected to provide the crop finance for the cotton growers, via the district unions and primary societies--a function that up until then had been performed by the LMB.

However, as it turned out the textile mills were unable to provide this financing and so the LMB had to continue to do so. It borrows funds for this purpose from the Uganda Commercial Bank, and the Bank requires that the LMB pledge the lint cotton as collateral for the loan. Thus, the LMB had to require the district cotton unions to once again sell all cotton to it, instead of selling some directly to the textile mills.

The LMB's latest crop finance loan from the Uganda Commercial Bank totaled 2.2 billion shillings ($6,940,000). For the fiscal year which ended October 31, 1983, the LMB's revenue from the sale of cotton totaled approximately 3.6 billion shillings ($11,356,466). Payments by the LMB to ginners came to 3.5 billion shillings, leaving 100 million shillings for administrative expenses of the LMB, such as salaries, office expenses, transport, etc. These administrative expenses totaled 124 million shillings. However, the LMB realized some revenue from other sources, such as its rental property in Mombassa, so with this added to the 100 million shillings mentioned above, it just about broke even.

As a matter of fact, the General Manager of the LMB does not know if his organization realized a slight net gain, or a net loss, or broke even for the fiscal year which ended in October of 1983. Neither does he know the LMB's annual operating results for the three previous fiscal years. He reports that because of the LMB's ill-trained bookkeepers and accountants, the accounts for the organization are four years in arrears. It is amazing that this marketing board is able to function at all with such a deplorable accounting system.

According to personnel of the LMB, the average price it received for cotton lint during the 1983-'84 season was approximately 88 cents U.S. per pound. To convert this to Uganda shillings, an exchange rate of 278 shillings to the dollar was used.

Thus, converting pounds to kilos and dollars to shillings, the LMB received revenue of 538 shillings per kilo of lint cotton. this sum was then distributed as follows:

For these calculations, it is necessary to distinguish between seed cotton (as it comes from the plant) and lint cotton (after the seeds have been removed by ginning). It takes 3.2 kilos of seed cotton to yield one kilo of lint cotton. The cotton farmer delivers seed cotton to his local cooperative and is paid 90 shillings per kilo. Converting this to lint cotton for the purpose of this tabulation, (90 shillings x 3.2), the payment the farmer receives for 1 kilo of lint cotton would be 290 shillings.

The local cotton cooperative, or primary society, receives a commission of 10 shillings per kilo of lint cotton for its services. For ginning and baling the cotton, the district union is paid 102 shillings per kilo of lint cotton, and the Lint Marketing Board receives 38 shillings per kilo for its services. The government Treasury, by law, receives at least 9 shillings per kilo of cotton sold. Adding all of the above figures gives a total of 449 shillings, but to this must be added the value of the cotton seed which was removed from the cotton and which has a value of 26 shillings per kilo. Multiplying this by 2.2 gives a sum of 506 shillings.

The original price received by the LMB on the world market was 538 shillings. The difference between 538 and 506--or, 32 shillings--is taken by the Treasury in addition to the 9 shillings it must be paid. So, in this example given, the Treasury's total portion of the cotton revenue would be 41 shillings per kilo.

Also, all gains resulting from a favorable turn in the rate of exchange between the shilling and the dollar are absorbed by the Treasury. This can be considerable as evidenced by the current exchange rate of approximately 350 shillings per dollar, as compared to the 278 rate used in the calculations above. This difference represents a gain of more than 25% for the Treasury.

Officials of the LMB assert that the cotton farmer receives 70% of the world market price for the cotton he produces. If this were true, he would be receiving 377 shillings per kilo instead of the 290, as in the example above. The 290 payment represents 54% of the world market price, not 70%.

During the current cotton season, 61,000 bales have been produced. The LMB has sold 60% of this crop in the export market. The LMB sells cotton to domestic textile mills at a lower price than it receives for exported cotton--about 20% less--so the mills are receiving a subsidy of this amount.

Formerly, the LMB paid the district unions for the cotton seed extracted from the cotton ball, and then the LMB distributed this seed to the farmers for planting next year's crop--free of charge. Now, this procedure has been changed: The LMB no longer pays the district unions for cotton seed. District unions are required to supply free seed to the farmers for planting. Then, if a district union is not in debt to the LMB, it is free to sell any surplus seed it possesses to oil mills and keep this revenue for itself.

The flaw in this new system is that it tends to discourage cotton production, for the district unions would seem to have the incentive to give away less free seed to the farmers, retaining more for sale to oil mills and thus obtain increased income for the district union.

It is admitted by officials of the LMB that the payment district cotton unions have been receiving for their ginning and baling and handling services is less than their costs of operation--but there is no immediately apparent solution.

LMB officials also admit that the primary reason for creation of this marketing board and for its continuing operation today is to obtain revenue for the government--foreign exchange--as well as to control all cotton activity of Uganda. It seems most unlikely that the Uganda government would be willing to relinquish this important source of revenue.

3. Produce Marketing Board

Mr. Frank K. Nyanzi, Marketing Manager of this Board, was transferred from the Lint Marketing Board to this position a year and one-half ago. For reasons related to breakdown of the country's economy caused by the War of Liberation, this Board was functioning poorly--so the Ministry of Cooperative and Marketing removed the former management staff and brought in new personnel, including Mr. Nyanzi.

This Board was founded in 1968 by the UPC government; its stated purpose was to protect the farmer--to see that he received a fair price for his produce and was not cheated by unscrupulous traders. Its seven-man board of directors is appointed by the Minister of Cooperatives and Marketing.

The Produce Marketing Board (PMB) maintains buying centers in Kampala, Gulu, Kasese, Tororo, Jinja, and one or two other places about the country. it employs about 300 persons--100 in Kampala and 200 in the other locations.

The major crops bought by the PMB, in descending order of importance, are maize, beans, groundnuts, simsim, soybeans, rice, and millet. It does not set the prices of any of these items; rather, their prices are determined by the forces of supply and demand. Since 1982 the PMB's volume of business has been about three billion shillings per year ($9,464,000). It has working capital of about $3,155,000, and for the past two years it has operated at a profit equal to about 10% of annual sales, which is ploughed back into operations. Prior to 1982, the PMB was in bad shape; it owed 92 million shillings ($290,000) to the Treasury. But now it has paid off this debt and appears to be doing quite well.

The PMB buys the agricultural produce mentioned above from licensed traders who, in turn, purchase it from the farmers. It is now exporting maize, beans, and simsim; last year 35,000 tons of maize were exported, and this year the total will be about 50,000 tons. There is much demand for maize because of the general and severe drought in neighboring countries (and in parts of Uganda, as well).

The board does not deal in any perishable items, for it does not have the facilities to do so--the necessary cold storage, refrigerated transport, etc. However, in the future it would like to commence dealing in pineapples and sell them on the export market.

The PMB has little to do with the agricultural cooperatives of the country because, as a rule, they do not produce the types of products the PMB purchases.

4. National Tobacco Corporation

Mr. A. A. Ong'om, Managing Director of this corporation, has held this position for the past five years, but his experience in the tobacco industry goes back 20 years, for he joined the British American Tobacco Company in 1964 and has been working with tobacco ever since. He was able to provide the Team with an excellent account of the development of the Tobacco industry and tobacco cooperatives in Uganda.

The organization of tobacco cooperatives originally was encouraged by the British American Tobacco Co. (BAT), but since their inception they have had their "ups and downs"; among other things, they were very adversely affected during the late Amin years and the War of Liberation, 1979-'80.

After a few tobacco cooperatives came into being approximately 25 years ago, the government of Uganda began to take an interest in encouraging tobacco production. BAT helped by encouraging tobacco farmers, and in 1969 the "Small Growers' Tobacco Project" was conceived, and a loan from the World Bank was obtained to promote tobacco production in Uganda. However, this program really did not "take off", because just as it was getting started the military coup led by Idi Amin took place.

But because the World Bank had already committed itself and had disbursed some funds, the program was continued and was managed by the Ministry of Cooperatives and Marketing; the Ministry supplied its own personnel to run the tobacco cooperatives--they were called "Supervising Managers", were civil servants and were paid by their employer, the Ministry. Unfortunately, most of them did not conduct themselves properly. Money entrusted to them was not used for the purposes intended and today still cannot be accounted for. Many of the managers who embezzled funds fled the country and have not returned.

After the War of Liberation, by 1981, Uganda's tobacco cooperatives had no money whatsoever. They had virtually ceased to function.

During the earlier Amin years, however, some progress was made. The present Blue and White tobacco collection sheds were built at that time with funds from the World Bank loan, and BAT provided extension services for the small tobacco grower. BAT later withdrew--its assets were confiscated or "nationalized" by Idi Amin. The extension service was taken over by the Small Holders' Tobacco Project, financed by World Bank funds. At that time, the tobacco cooperatives sold the tobacco they collected to the Produce Marketing Board which, in turn, sold it to BAT.

The government of Idi Amin organized what was called the Uganda National Tobacco Company which took over the assets of BAT, including its cigarette factory at Jinja. Later, in 1978, this company, the Small Growers Tobacco Project, and a department of the Produce Marketing Board were all merged to form what is now the National Tobacco Corporation--but no sooner than this had taken place, the War of Liberation occurred. From 1979 up thru 1981, tobacco production in Uganda and tobacco cooperatives almost disappeared.

During the tobacco-buying season, which commences in August of one year and runs thru July of the next, only 65,000 kilos of tobacco were produced during the 1981-'82 year. This increased substantially to slightly less than one million kilos during the 1982-'83 year. The 1983-'84 year which has just ended saw tobacco production increase to 1.7 million kilos, and the NTC expects 2.3 million kilos for the 1984-'85 tobacco year. Maximum tobacco production ever achieved by Uganda's growers was five million kilos in the late 1960s.

During most of the year the NTC has about 1,200 employees, but at the height of the tobacco season this number is temporarily increased. Because the NTC is presently operating its facilities at far less then full capacity, its fixed costs per kilo of tobacco handled are very high. The NTC's fiscal year coincides with the calendar year, and for 1982 it operated at a loss. For 1983 it realized a small profit or surplus.

The NTC is accountable to the Minister of Industry, but since the War of Liberation the Ministry of Cooperatives and Marketing has been setting the price that NTC can pay the tobacco farmer for his crop; formerly, this price-setting was done by the Ministry of Agriculture. The NTC has little voice in determining the price the farmer receives.

There are many different grades of tobacco which bring different prices on the world market. The average price Uganda received for its tobacco during the 1983-'84 year was $2.50 per kilo, f.o.b. Mombassa. During this same period the average price received by the Uganda tobacco farmer was 165 shillings per kilo. At the current rate of exchange of 350 shillings per dollar, this represents only 19% of the world market price of $2.50. However, at a more favorable rate of exchange, which prevailed during the latter part of 1983 and early 1984, say 250 or 200 shillings per dollar, then the farmer's share of the world price was greater--ranging from 26 to 33 percent.

World tobacco prices generally have been rising in recent years, about two percent per year. In setting the price paid to the small tobacco farmer, the price the co-op tobacco unions should get, and what portion should go to NTC, the Ministry of Cooperatives works "backwards". It assumes a certain world market price for the coming tobacco season; then, taking cost factors into consideration, decides what percentage of this price the farmer should receive, what share should go to the unions, and to the NTC.

The government of Uganda does not directly tax raw tobacco nor impose any export levy on it. Instead, the government gets its tobacco revenue from a high excise tax and a sales tax on each package of cigarettes sold in Uganda. Two-thirds of the price the Ugandan smoker pays for a pack of cigarettes goes to pay the taxes on it.

Approximately half the tobacco produced in Uganda is consumed domestically and half exported. Of course, Uganda's production of tobacco represents only a small fraction of total world production. The United States is by far the largest tobacco producer, followed by Brazil.

An agreement between the government of Uganda and the British American Tobacco Company was recently signed by which the government agrees to return to BAT the assets taken from it by Amin and otherwise make reparations for BAT's losses.

There is now under discussion between the two parties a plan for entering into a joint tobacco venture: A new tobacco corporation would be created, replacing the present National

Tobacco Corporation, in which BAT would own 70% of the stock and the Uganda government 30%. In the opinion of Mr. Ong'om, this probably would not affect the nation's tobacco cooperatives one way or the other; the new company most likely would continue to buy their tobacco as the NTC is doing now.

F. Government Agencies

1. Department of Cooperative Development, Ministry of Cooperatives & Marketing

This department of the Ministry of Cooperatives and Marketing employs 2,000 persons only a few of whom work in the main office at Farmers House, Kampala. All the other employees make up the field staff who operate out of the district offices throughout the country. The head of the department is called the Commissioner for Cooperative Development.

The department receives its operating funds in this manner: The Commissioner prepares a budget for the forthcoming fiscal year, submits it to the Minister of Cooperatives and Marketing who, in turn, forwards it to the Minister of Cooperatives and Marketing who, in turn, forwards it to the Minister of Finance who then decides how much the department will receive. For the current fiscal year the department received 595 million shillings ($1.87 million), which was 25% more than the previous year but considerably less than the one billion shillings the department requested. ($3.15 million). This $1.87 million is what is available this year to pay the salaries of the employees and cover all other operating expenses of this department.

Beginning with the "War of Liberation" in 1979 the entire Cooperative Development Department was immobilized, paralyzed, because of lack of funds--no money for transport or travel allowances or office supplies, etc. It had barely enough funds to cover salaries. Commencing in 1982 it received some additional funds with which to pay overdue travel allowances to field personnel--but then it was discovered that the vouchers or records for these travel allowances, showing what was owed to whom, had been stolen--so no allowances were paid. Only now is the Department beginning to pay travel allowances to its field personnel.

The Commissioner and others have been working on a plan since before Christmas 1983 to restructure the Cooperative Development Department and reduce its staff by approximately one-third, about 700 employees. Soon this plan will be submitted to the Minister of Cooperatives and Marketing for his approval.

The plan is for these 700 employees to be absorbed by the primary cooperative societies around the country where their experience and training is badly needed. They would be employees of the primary societies and paid by them.

A committee within this department has been drafting a series of amendments to the 1970 Cooperative Societies Act of

Uganda and plans to submit them to the Minister of Cooperatives and Marketing at the end of September 1984 for his approval. The major purpose of these amendments is to transfer some of the powers of the Minister now holds to the Department of Cooperative Development.

According to key staff members of this department, more attention should be given to the training of committee members of the nation's cooperaives. At the same time, the cooperatives must employ competent staff members, pay them well, and retain them--prevent them from being ousted by committee members who may be threatened by their competence. A major problem of Uganda's cooperatives is political in nature, --that is, many politicians feel that the way to entrench themselves in power, wield more influence, and otherwise better themselves is through the nation's cooperatives--by penetrating them, influencing them, and controlling them. They do this by becoming members of the cooperatives' committees.

Another weakness of Uganda's cooperative sector, according to the same department officials, is that so many cooperatives or societies are dependent on only one crop--coffee. No matter how efficiently these coffee cooperatives might be run, they could be financially ruined by a significant and sustained decline in world coffee prices. The solution lies in diversification; societies which not deal only in coffee should reorganize as multi-purpose cooperatives. Then they could branch out into ranching and dairy operations, as well as the marketing of fruits and vegetables. Also, more fishermen's cooperatives should be organized there are now only 37 in all of Uganda.

In addition to these steps to strengthen and improve the country's cooperatives, the weak and failing primary societies should be encouraged to merge with other, stronger units or liquidate.

The overall purpose of this department is to form viable cooperative societies, then guide them and advise them in their operations so that eventually they can become autonomous business enterprises. Because government agencies such as the Coffee Marketing Board and the Lint Marketing Board act as guarantors for cooperative loans, government officials feel they must maintain some control over how cooperatives handle their finances. The stated aim of government is to see that, in time, the nation's cooperative achieve complete autonomy--but not timetable has been established within which this cooperative autonomy is to be realized.

2. Marketing Department, Ministry of Cooperatives and Marketing

A major function of this department is to supervise the activities of the country's marketing boards--the Coffee Marketing Board, the Lint Marketing Board, and the Produce Marketing Board. The role of this department in respect to these boards is the same as the role of the Cooperative Development Department of the MCM in respect to the country's cooperatives.

Other responsibilities that fall under the jurisdiction of this department include pricing--that is, helping to determine what portion of the final sales price of coffee or cotton shall be paid to the farmer, to the primary cooperative societies, and to the district unions--the licensing of domestic buyers, the administration of this department, and serving as Uganda's representative to international bodies, such as the International Coffee Organization.

This department was spun off from the Ministry of Agriculture in 1976, as was the Cooperative Development Department. All of the functions now performed by the MCM previously were handled by the Ministry of Agriculture.

There are only 40 persons employed by this Marketing Department; all the other employees of the MCM--some 4,000 of them--are employed by the Cooperative Development Department. The country is divided into 10 marketing zones and there is a regional marketing office in each of them, staffed by members of this marketing department.

All domestic buyers of agricultural produce must be licensed. To obtain a buyer's license, one must pay an annual fee of 15,000 shillings ($47.00). If a buyer also wants to engage in the processing of agricultural produce--such as operating a maize mill--then he must have a processing license which costs 10,000 shillings per year ($31.55).

There are at the present time 186 licensed coffee buyers in the country who buy coffee from farmers and sell it to the Coffee Marketing Board. There are many hundreds of buyers who are licensed to buy other produce--maize, beans, simsim, etc. They may sell these to whomever they please. They are not required to sell to the Produce Marketing Board as private coffee buyers are required to sell to the Coffee Marketing Board. These private buyers of general agricultural produce are even permitted to export these commodities, provided they have an export license.

At the present time, approximately 60 percent of all coffee purchased by the Coffee Marketing Board comes from the cooperative sector and 40 percent comes from the 186 licensed private traders. Because coffee and cotton are such important sources of government revenue, the feeling is that the marketing boards are essential government agencies. Government officials believe it would be very difficult for government to obtain this revenue if these two important export crops were sold through a variety of channels rather than through the marketing boards.

Another reason for the boards' existence is the fact that they support the nation's coffee and cotton sectors by providing the financing to purchase ag-inputs, lorries, etc. and act as guarantor for crop finance loans made to cooperatives by the banks. And a final reason is the fact that most district cooperative unions are not capable of exporting directly by themselves.

Plans are now underway to change the structure of the marketing boards so that they are truly owned and controlled by the district cooperative unions, rather than by government as is presently the case. District unions now have only a small equity and a smaller voice in the two major marketing boards. These plans call for the district unions to run the Boards, not the government, but the government would continue to obtain its necessary revenue by way of tax on either the unions' income or the Board's income.

This plan for such a radical change is so new that the district coffee and cotton unions are not yet aware of it. Plans also are underway for the creation of another marketing board which would handle edible oils and soaps.

This Marketing Department of the MCM works closely with the Agricultural Secretariat in determining the price that is paid to the farmer, the primary cooperative societies, and the district cooperative unions. This pricing process begins by assuming in advance the least favorable export price that probably will be received. Then, combining this assumption with production cost figures, the determination is made s to what portion of the final selling price will be paid to the farmer.

The expressed intention of government is to reward the coffee farmer with approximately 50 percent of the export price. The Study Team was told that when the export price of coffee was $1.15

per pound, and the exchange rate was 278 shilling to the dollar, the farmer ws paid 130 shillings per kilo of coffee, which represented 49 percent of the export price.

The calculation of the coffee farmer's share of the final export price must be done carefully in order to arrive at a correct figure. This is due to several factors:

First, world coffee prices are always expressed in terms of so many dollars-and-cents per pound, but the Uganda farmer sells his coffee by the kilogram and receives payment in shillings, not dollars.

Second, the world coffee price of so much per pound refers to "clean coffee"--that is, the coffee bean after it has been removed from the hull. But the farmer sells kilos of unhulled coffee--here called "kiboko"--and one kilo of kiboko yields an "outturn" of only 52 percent of a kilo. The other 48 percent of the original weight consists of hulls, stems, and chaff.

Because coffee export prices are stated in terms of clean coffee, then the coffee the farmer sells must be expressed in the same way, in order to correctly calculate his true share of the export price. With an outturn of .52, the farmer must produce 1.92 kilos of unhulled coffee to end up with one kilo of clean coffee.

Keeping these points in mind, and working with the figures above which were given to the Study Team, the farmers true share of the final export price can be arrived at in this way:

An export price of $1.15 per lb., multiplied by 2.2 gives a price of $2.53 per kilo. At an exchange rate of 278 shillings to the dollar, this is the equivalent of 703 shillings.

Now, the 130 shillings per kilo the farmer receives for his kiboko must be multiplied by 1.92 to arrive at what he really receives per kilo of clean coffee. This is 249.6 shillings. A simple calculation then reveals that this represents 35.5 percent of the export price, not 49 percent. It may well have been the intention to reward the farmer with a 49-percent share, but as these calculations show, what he actually received was substantially less than this.

At the time of this writing, the export price of coffee is $1.38 per lb., not $1.15--and the rate of exchange is 350 to 1, not 278 to 1. However, the farmer is <u>still</u> receiving 130 shillings per kilo of kiboko. Running through the same calculations as above, we find that now the coffee farmers are receiving considerably less than the 35 percent they were formerly getting.

An export price of $1.38 per lb. is $3.03 per kilo, and with an exchange rate of 350:1, this comes to 1,060.5 Uganda shillings. The farmer's share of 130 shillings per kilo of kiboko still comes to 249.6 shillings per kilo of clean coffee. In respect to the export price of 1060.5 shillings per kilo, the farmer's share now is only 23.5 percent of the export price.

These calculations clearly show that as the rate of exchange becomes less favorable for Uganda--that is, more shillings required to acquire one dollar--and as export price increases, then the coffee farmer's share of this price becomes less and less, unless his share in terms of shillings is increased commensurately.

3. Ministry of Agriculture and Forestry

The Commissioner of Agriculture reports that prior to 1968, the functions now handled by the MCM--namely cooperatives and marketing--were handled by the Ministry of Agriculture. Co-ops and marketing were split off from Agriculture in 1968, brought back under the Ag-Ministry in 1972, then split off again in 1976 where they now remain under the Ministry of Cooperatives and Marketing. Now all ag-production activities are the responsibility of the Ministry of Agriculture, and all marketing activities are handled by the MCM.

In order to meet production targets, a close liaison is maintained between the two Ministries--including the formation of inter-ministerial committees. In 1980 a Cotton Task Force was formed to coordinate production and marketing of cotton and meet the predetermined goals. This cotton group is made up of the Permanent Secretaries of the Ministry of Agriculture and the Ministry of Cooperatives and Marketing, the Commissioners of Agriculture and of Marketing, and representatives from district cotton unions and the Lint Marketing Board.

Another group, called the Steering Committee for Coffee, has been formed to promote and coordinate the production and marketing of that important crop. This coffee committee consists of the Permanent Secretaries of the Ministries of Finance, Planning, the MCM, Agriculture, the Cooperative Bank, the Coffee Marketing Board, and the various Commissioners. Other agricultural products which are not traditionally thought of as cash crops have no formal committees to look after them.

Licenses for domestic traders and for exporters of agricultural products are issued by the MCM, although the Export Advisory Board of Trade is also involved in the issuing of export licenses. Prices are set only on the export crops, i.e., coffee, cotton, tea, tobacco, and cocoa. Other produce, referred to as "food crops", are left to find their own prices via supply and demand.

Maize is much in demand by all of Uganda's neighboring countries, but at present the Produce Marketing Board is not structured to handle maize exports efficiently. Maize farm plots are very small and maize production is scattered over large areas. Storage, collection, and transportation are major problems confronting the maize industry. Masindi is the largest maize-growing district with some farms of 200 to 300 acres. Uganda's maize crop this year has been hard hit by drought, yet even so there seems to be a gradual shift in production out of cotton and into maize.

Average maize yield is about 1,000 kilos per acre; prices currently are about 50 Shillings, giving a gross income of 50,000 Shillings per acre. Cotton yields are running about 200 kilos per acre, and the cotton price is now about 120 Shillings per kilo. The resulting income is about 24,000 Shillings per acre. If the costs of production of the two crops are somewhat similar, then the economic reason for the shift from cotton to maize is obvious. On the other hand, cotton has a guaranteed market, via the Lint Marketing Board, and this is not true in the case of maize. All maize is bought by private traders and, depending upon the activity of these traders, the marketing of maize can be a problem for maize farmers in some areas.

Uganda's economy for some time has been heavily dependent on coffee, as it is today. Given the soil, climate, and rainfall, the country is capable of growing a variety of crops--and as economic incentives change, it seems likely there will be more shifting of crop production.[1]

At the present time, tobacco growers are required to be registered. This is done for a number of reasons, but principally so that the government knows where tobacco is being grown and what quantity is being produced. All of the activity related to tobacco, from extension services to marketing of the crop, is handled by the National Tobacco Corporation.

As for tea production, the Uganda Tea Growers Corporation came into being in the 1960s. It is encouraging small holders to produce tea by providing them with seedlings and related inputs.

The idea behind this scheme is to have these small tea growers eventually organize tea cooperatives and then to take over ownership of the tea corporation.

The Ministry of Agriculture today employs about 3,000 persons, scattered throughout 10 regions. There are 400 agricultural officers, 1,200 assistant ag-officers, and 1,200 ag-assistants. The Ministry also operates three research stations and three colleges.

The Commissioner of Agriculture states that agricultural cooperatives are supposed to assist small farmers and help them to realize more from their own efforts. In earlier years, cooperatives seemed to be quite responsive to the farmers' needs and working in their best interests, but this does not always seem to be true today. A number of factors have intervened to change the picture somewhat--including military rule, monopoly marketing (cotton and coffee), lack of cooperative autonomy, and a great need for education and training at all cooperative levels. Also, much more attention must be given to accurate and timely accounting procedures and audits--so that those responsible for cooperatives' financial affairs can be held accountable.

Members of many cooperative societies do not feel the managers of their societies are employed by them, that they--the members--have the right to control and supervise the managers' activities, because these managers have been assigned to them, or imposed on them, by the Ministry of Cooperatives and Marketing.

The Commissioner of Agriculture suggests that it would be much better if a cooperative's members were able to ratify--or not--the manager assigned to them at their annual meeting. In this way, the members could better identify with him and feel that they, not the MCM, was in control of their society. They would feel they had more control over their own destiny.

When asked to comment on the separation of the Ministry of Agriculture and the marketing and cooperative activities, the commissioner replied that overall performance "was best when the ministries were together; records bear this out as a fact. All organizations were responsible to one person, and when action was required it could be taken. Production and marketing go hand in hand."

4. <u>The Agricultural Secretariat</u>

In a meeting with three top officials of the Agricultural Secretariat Lawrence E. Eturu, Deputy Director; N.S. Shetty, Agricultural Economist; and A. M. Muthee, Economist/Statistician the Study Team learned something of this body and the important role it plays in the agricultural affairs of Uganda.

In 1981-'82 the World Bank began assisting Uganda's agricultural sector. One of the conditions attached to the Bank's assistance was the creation of this Secretariat. Its functions are to:

1. Advise the government on the pricing of agricultural commodities and the amounts to be paid to the farmer and others who are engaged in processing and marketing;

2. Oversee and coordinate the several agricultural rehabilitation programs that are now underway in Uganda;

3. Coordinate training and technical assistance for the agricultural sector;

4. Serve as policy consultants to the several government ministries concerned with agriculture; and

5. Make detailed studies of the costs of production, processing and marketing for all major agricultural commodities.

The Secretariat consists of a senior staff of 12 highly qualified technicians and specialists, seven of whom are Ugandan citizens and five of whom are expatriates. With their assistants, secretaries, typists, etc. the total number of persons in the Secretariat is only about 30.

This Secretariat commenced operations fairly recently--in June of 1983--and it functions at a high level within the Ugandan government, as illustrated in the chart on the following page.

The Agricultural Secretariat

Transmits its findings and recommendations on agricultural pricing and policy directly to

The Agricultural Policy Committee

which deals with all international organizations, such as the World Bank, the International Monetary Fund, etc., and is the nation's highest authority in respect to agricultural matters. Its chairman is the Permanent Secretary of the Ministry of Planning, and other committee members are the Permanent Secretaries of the Ministries of Agriculture, Cooperatives and Marketing, Animal Industries, Finance, and Commerce--as well as the Governor of the Bank of Uganda and the Managing Director of the Uganda Commercial Bank.

This Agricultural Policy Committee transmits its recommendations on agricultural matters to the

President's Economic Advisory Committee

Which, next to the President himself, is the nation's top economic authority. It is made up of the President (or his personal representative), Ambassador Kamuntu, the Secretary of the Treasury, the Governor of the Bank of Uganda, the Deputy Minister of Finance, and the Managing Director of the Uganda Commercial Bank.

Based on the information it receives from the Agricultural Secretariat, via the Agricultural Policy Committee, concerning costs of production, world market prices expected, etc., the President's Economic Advisory Committee (PEAC) sets the prices that the farmer shall receive for his coffee and cotton--with the President himself having the final word in these matters. However, in accordance with Uganda's agreement with the World Bank, the President is required to consult with World Bank representatives before the official agricultural prices are announced.

As explained earlier in this report (page 45), the percentage share of the world price which the farmer receives for his coffee or cotton is expressed in terms of so many shillings per unit of produce. When this is calculated and announced, it may represent a respectable portion of the final selling price. But if the world price then increases and/or the shilling becomes worth less in terms of the dollar--then the farmer's percentage share of the export price decreases, even though the number of shillings per kilo he receives remains the same.

To remedy this, the Agricultural Secretariat is just now beginning to revise its price calculations and the share the farmer should receive every three months as the world price of coffee and exchange rates go up or down.

Members of the Agricultural Secretariat admit that agricultural pricing policies in the past always have have been detrimental to cooperatives. Now, however, the Secretariat is trying to correct this so that cooperatives can grow financially stronger and become more economically viable.

Secretariat members also feel that cooperatives should become more independent of Farmers House. As a step in this direction, the Secretariat has recently advocated that cooperatives deal directly with the commercial banks, rather than working through the Ministry of Cooperatives and Marketing to obtain their loans for crop financing.

Another way to strengthen cooperatives, Secretariat members suggest, is for many of the small and weak single-purpose societies, dealing only with a single crop, such as coffee or cotton or tobacco, to merge and become larger and stronger multi-purpose cooperatives.

G. Commercial Banks

1. Uganda Commercial Bank

According to Mr. A. Kayondo, Assistant Chief Credit Manager of this bank, it is the successor to the Uganda Credit and Savings Bank which was founded in 1952. The Uganda Commercial Bank in its present form began operations in 1964 with nine branches throughout the country. Since then it has expanded considerably; it is now the largest commercial bank in Uganda and has 55 branches in operation. Its 20th anniversary will be celebrated this October.

While the Bank is entirely owned by the Uganda government, it is completely autonomous--but it does operate under guidelines provided by the Ministry of Finance and by the central bank.

The Uganda Commercial Bank has been the main source of finance for the cooperatives of Uganda since 1973. Today it provides 95% of all the loans made to the country's cooperatives. This is a function that should be carried out by the Cooperative Bank, but it is--and has been--so financially weak it simply is not up to the task.

From 1973 to 1976 this bank loaned money directly to cooperatives for crop finance and other purposes. But by 1976 cooperatives of the country generally were in poor condition and the bank could not continue loaning to them without some guarantee that repayment would be forthcoming. It was then that the Ministry of Cooperatives and Marketing stepped in as guarantor for cooperative loans, but when cooperatives were unable to pay off their loans the Ministry did not follow through as guarantor. As a result, by 1981 the Uganda Commercial Bank had 381 million shillings of bad cooperative debts ($1,202,000), but this sum has now been repaid.

Today the Bank does not lend directly to either district coffee unions or district cotton unions but rather to their respective marketing boards, which in turn pass on the funds to the district unions. The Bank's interest charge on these loans last year was 18%, compounded monthly on the unpaid balance of the loan. This year the rate is 24%, also compounded monthly. Although this appears to be a substantial rate of interest, it actually is a preferential rate given to help the nation's cooperatives. A good cooperative borrower, such as Shell Oil, is charged 26% interest.

Up to 1983 the marketing boards paid up the balance of any delinquencies in cooperative loans at the end of each fiscal year. By 1983, however, the delinquency figure had grown too large for the marketing boards to handle. The Uganda Commercial Bank then was permitted to discount its crop finance loan papers with the central bank--the Bank of Uganda--in order to receive payment.

Another problem facing the Uganda Commercial Bank is this: Foreign exchange payments made by cotton and coffee importers in other countries are not all remitted to this bank, but to other banks instead--such as Barclays, Grindlays, etc. The Uganda Commercial Bank receives only about 60% of these funds coming in from abroad, yet it is the bank which provides the crop finance to the coffee and cotton sectors.

The Uganda Commercial Bank has complained about this to the marketing boards, for the boards are the ones who instruct these foreign buyers where to remit payments for coffee and cotton. The reason they do this, they say, is because they "don't want all their eggs in one basket".

The Uganda Commercial Bank does not lend to primary societies which are members of district unions, but it does lend directly to a few independent multi-purpose and produce primary societies.

Also, the Bank lends directly to private coffee processors in Uganda with good success. Last year it lent to 10 private processors about 7% of total crop finance lent out, yet these private firms handled about 40% of all Uganda coffee. Mr. Kayondo attributes this excellent performance to the fact that these private firms operate more efficiently than cooperatives; they work harder, because they are strongly profit-motivated. Mr. Kayondo also reports that of the 14 coffee unions in the country, four or five are credit worthy in their own right--whereas of the 10 cotton unions only two are in this position.

As far as the Ministry of Cooperatives and Marketing is concerned, Mr. Kayondo says that, like most ministries, it "is too slow as far as money matters are concerned." He feels it is not competent to deal with money affairs, and says the MCM suffers from great delays in arriving at necessary decisions. Also, its auditing service to cooperatives is very slow.

Would eliminating the marketing boards and permitting cooperatives to market their produce as they wished improve the economic viability of the cooperative sector? Perhaps, says Mr. Kayondo--but for political reasons the marketing boards will not be eliminated. Also, all unions are not equally capable or competent; many are not able to properly do their own marketing, especially in the export field. It is more efficient for Ugandan coffee and cotton to be marketed through single channels. At any rate, the Uganda government will not entertain the idea of disbanding the marketing boards, for they are such an important source of government revenue.

Beginning in 1975 the UCB entered into an agricultural credit scheme for the purpose of providing production credit to individual farmers. Since that year it has loaned 304 million shillings for this purpose ($959,000). In February of this year it had 106 million shillings in outstanding production credit loans ($334,385). The scheme has not been working too well, partly because the scheduling of many of the loans has been faulty--a longer time should have been allowed for repayment. During the past five years this production credit program of the bank has been greatly curtailed and presently it is almost at a halt.

Mr. Kayondo is a most capable and experienced banker, with 15 years of employment at the Uganda Commercial Bank. He also is well acquainted with the cooperative movement of Uganda and its problems.

He feels the single most important step that might be taken to improve the viability of many of the country's cooperatives would be to grant them greater autonomy; they should be free to make their own decisions, and be responsible for their own affairs, rather than continue to try to operate under the tight control of the Ministry of Cooperatives and Marketing.

2. Barclay's Bank

This British commercial bank has been operating in Uganda for 127 years; it maintains three branches in Kampala and one in Jinja and employs 300 persons. It is the second largest commercial bank in Uganda, second to the Uganda Commercial Bank and is practically the only other bank--in addition to the UCB--which makes loans to the nation's cooperatives.

For a number of years Barclay's has been lending money for crop finance to about a dozen primary coffee cooperative societies as well as the Busoga district coffee union. The Bank's experience with these loans has been very good, defaults virtually non-existent.

The minimum cooperative loan the Bank will make is for 5 million shillings ($15,773), and the average loan made comes to 50 million shillings ($157,730). It does not require a guarantor or co-signer on these loans; the Bank's security is a "bond", or mortgage, on the coffee processing plants. The cooperatives are given 12 months to repay the loans and are charged an interest rate of 20%, compounded monthly and calculated on the average outstanding balance of the month. This is a lower interest rate than others pay.

An official explained how the rate of exchange between the Uganda shilling and the U.S. dollar is determined: businessmen and others in Uganda who wish to acquire foreign exchange--dollars--submit bids stating how many dollars they want and how many shillings per dollar they are willing to pay. These various bids are submitted each week to Barclay's and other commercial banks. Then, every Tuesday the commercial banks turn over these bids to the central bank--the Bank of Uganda--which has $3 million to sell each week. The central bank opens the bids and the top bidders are the ones who acquire the dollars. The lower bidders receive nothing and perhaps are thus induced to increase their bids a bit the following week. The central bank then averages the winning shilling bids, and that average becomes the rate of exchange until the next dollar-auction the following Thursday.

This auction method of determining the rate of exchange replaced the so-called "Two-Window System" which was discontinued on June 15, 1984. The shilling-dollar rate of exchange at Window #1 was fixed by the Minister of Finance, and the rate of exchange at Window #2 was allowed to fluctuate or "float" daily. The rate at Window #1 was always set at a more favorable ratio--that is, fewer shillings per dollar--than the rate at Window #2. This was done to facilitate the importing of necessary supplies for the coffee, cotton, and tea industries and for the purchase of petroleum--and Window #1 could be used only for these purposes.

But as a matter of fact, or in recognition of reality, the rate at Window #1 was based on what was happening at Window #2 and was periodically adjusted accordingly--but always was a more favorable rate than Window #2.

H. The Cooperative Societies Act of Uganda

In an address on the occasion of the 62nd International Cooperative Day, July 7, 1984, at Kalisizo, Rakai District, G.D.K. Hirome, Chairman of the Uganda Cooperative Alliance said this:

> "I wish also to recognize and appreciate the fact that, in principle, government guides cooperatives as autonomous organizations; thus avoiding the danger which would loom if cooperatives were to develop with excessive government control."[1]

The danger of which Mr. Hirome speaks not only already has "loomed", it is pervasive and oppressive. The present Cooperative Societies Act imposes too much government control over the nation's cooperatives, and the proposed amendments to the Act give even more control to the government--specifically to the Minister of Cooperatives and Marketing.

When the Study Team inquired of Mr. A. E. Elogu, Commissioner for Cooperative Development of the Ministry of Cooperatives and Marketing, as to the purpose of the amendments to the Act now being proposed, he replied that the intention of these amendments is to transfer some of the powers the Minister now holds to the Cooperative Development Department.

This may very well be true, but it does not in any way lessen government control over the cooperative sector, for the Cooperative Development Department of the Ministry of Cooperatives and Marketing is a part of government, and the Minister of this Ministry controls the Department of cooperative Development, as he controls its sister department in the Ministry--the Department of Marketing.

Officials of district cooperative unions whom the Study Team interviewed stated that the Minister asked them to submit their recommendations for amendments to the present Cooperative Societies Act. When asked what type of recommendations they made, the Team invariably received a reply to this effect: cooperatives should be given more autonomy, more freedom to conduct their own affairs; the act should be amended to give cooperatives more control over their own business and less control to the Minister.

The Study Team examined the proposed amendments with some care, and it is evident that these recommendations on the part of the district unions were not accepted by those in the Ministry who drafted these amendments.

Here are several examples in proof of this assertion:

Section 4 of the Act states that every cooperative society shall have the powers to purchase any movable or immovable property; to sell, exchange, lease, dispose of, or otherwise deal with all or any part of the property of the society; to manage, improve, and develop the property of the society; to borrow or raise money...etc.

However, one sees that these apparently broad powers of action on the part of cooperative societies are severely restricted by following sections of the Act.

Section 73--incidentally, a new section, an amendment to the present Act--states that

> "There shall be established a Cooperative Tender Board for the purpose of regulating and controlling on behalf of cooperative societies:
>
> (a) the purchase or sale of property,
>
> (b) the award of contracts for supplies or building and civil engineering works, or any other matter incidental thereto or connected therewith."

Section 73 then continues to provide that this Tender Board shall consist of the Registrar of Cooperative Societies, or his representative, who will be the chairman; two representatives from the Union which is inviting the tender; and three persons appointed by the Minister who shall hold office for such time as the Minister may determine. In addition, Section 73 provides that there also is to be a secretary to the Tender Board who shall be appointed by the Minister "from among the officials of his Ministry."

So--it appears that cooperative societies have the power to buy or sell whatever they wish, provided the purchase or sale is approved by a Board, or committee, which is controlled by the Minister of Cooperatives and Marketing.

And if this constraint upon cooperatives were not sufficient, here is another:

Section 38 of the Act provides that each cooperative society must submit to the Registrar of Cooperatives estimates of its expected income and expenses for the next fiscal year, and these estimates must be submitted at least one month before the end of the present fiscal year.

This section then continues to state that "No expenditure on any item shall be made before the society's financial estimates have been approved in writing by the Registrar." And then, if the Registrar does not approve of these estimates he receives from the cooperative, he shall notify the society of the estimates he does approve, "and such estimates shall be binding on the society...as if they had been confirmed by the general meeting of the members of that society."

Here are a few other sections of the Act; let the reader decide whether or not these are conducive to cooperative autonomy:

Section 21 imposes a fine or imprisonment for any officer of a cooperative society who does not comply with the Minister's requests. This is a proposed amendment to the present Act.

Section 41 creates an "Audit Bureau" as a new department of the Cooperative Alliance to audit the accounts of cooperative societies, yet at the same time this section provides that this newly created bureau cannot act without the approval of the Registrar of Cooperatives--who also is the Commissioner for Cooperative Development.

The rationale behind this amendment is not clear. If the audit function is to be turned over to the Alliance, but can act only with the approval of the Registrar--why not leave the audit function where it presently is, within the Ministry of Cooperatives and Marketing?

Furthermore, it is extremely unlikely that the Alliance would be up to taking on this additional responsibility. (See the section of this report describing the Cooperative Alliance, p. 25.)

Section 46 established an "Appointments Board" for appointing the senior staff of cooperative societies, which is defined as including the following positions: General/Secretary Manager, Assistant/Deputy Secretary Manager, Legal Secretary, Accountant, Internal Auditor, Production Manager, and Engineer.

This section gives considerable power to the Registrar, and also provides that after screening and approval by this Appointments Board, the final appointment of Secretary/General Managers, Chief Accountants, and Chief Internal Auditors "shall be subject to the approval of the Minister."

Section 48 Gives the Minister the power to amalgamate or divide cooperative societies.

Section 66 provides that no society may pay dividends or bonus to its members without written approval from the Registrar.

This is not a new requirement; it appears as Section 46 of the present Cooperative Act, and it is a major cause of inconvenience, irritation and resentment on the part of cooperative societies.

In its interviews with officials of primary societies and district unions around the country, the Study Team was told, again and again, that societies which had realized a surplus during the previous fiscal year and wished to distribute bonus or dividends to their members had to wait many months--sometimes an entire year--before receiving the necessary approval from the Registrar. Such delay is keenly resented by the farmer-members of the country's cooperatives, who know they are entitled to receive a bonus or dividend from their coops but can't because approval by the Registrar is not forthcoming.

Section 75 gives the Minister or the Registrar the power to appoint an "Administrator" to manage any cooperative society for a period of up to four years...in order to protect the interests of the members. And this Administrator is responsible to the Registrar, not to the members. This section also gives the Minister or Registrar the power to dissolve a cooperative society's committee--its board of directors--and appoint a new committee of the Minister's or Registrar's choosing.

Section 76 provides that this Administrator "shall not be bound to act in conformity with any advice which may be tendered by the committee."

Section 77 - This refers back to Section 74 which says that the Registrar may hold an inquiry into the affairs of any cooperative society to determine if its affairs are in order. Then, if he deems it necessary, he may appoint an Administrator to manage the society, as set forth in Section 75. But this section--number 77--states that "notwithstanding the provisions of Section 74 of this Act", the Minister or Registrar may appoint "an Administrator to manage and administer the affairs of such society without holding an inquiry under Section 74 of this Act."

Section 107 states that the board of directors of a cooperative society cannot dismiss a senior employee of the society without the approval of the "Appointments Board" established by Section 46.

Section 113 (1) "The Minister may, at any time and on any matter give directions to the Registrar as to the exercise of his powers or the carrying out of his duties and functions under this Act or regulations made thereunder."

As stated at the beginning of this section, the fact that the intention of the proposed amendments is to transfer powers now held by the Minister to the Registrar/Commissioner is completely negated by the language of this Section 113.

Finally, Section 114, an amendment to the present Act, is perhaps the most lengthy section of the entire document. It occupies approximately three typewritten pages of the draft copy, and it gives all powers over all cooperative affairs to the Minister of Cooperatives and Marketing.

This section, by itself, obviously contradicts any assertion that Uganda's cooperatives are autonomous enterprises.

On the same occasion upon which Mr. G. D. K. Hirome spoke, there was another speaker--none other than Uganda's President, A. Milton Obote. In his speech, President Obote urged leaders of the cooperative movement "to work hard and make the movement autonomous."[1]

The fact is, cooperative leaders of the country are working hard to achieve the autonomy President Obote wishes for the cooperative movement. He indeed can help them by refusing to approve the proposed amendments to the Cooperative Societies Act which have been described here.

To better understand how Uganda's Cooperative Societies Act has evolved as it has, and why the proposed amendments provide for even greater government control of cooperatives, it is revealing to review the findings of Dr. Hans H. Munkner, Lecturer in Cooperative Law, University of Marburg, Federal Republic of Germany.

In a paper he presented at the "Open World Conference on the Role of Agricultural Cooperatives in Economic and Social Development," held at FAO headquarters in Rome May 22-26, 1972, he clearly sets forth some of the key problems of cooperative movements in the English-speaking countries of Africa, including Uganda.

He begins by tracing the development of cooperatives in these countries from the time of their independence from England. Because the governments of these states regard cooperatives as instruments for achieving national economic and political objectives, immediately following independence there was rapid formation of cooperatives in large numbers, and specific tasks were set forth which these new cooperatives were expected to fulfill. Thus, while the long-term objective was to create a self-sufficient cooperative movement, there also were the short and medium-term objectives of implementing government development plans. Dr. Munkner continues:

"Once cooperative societies were registered in great number without careful preparation, the load of work on the staff of the Cooperative Department became heavier in two respects: the number of socities under their responsibility increased, and as a result of the registration of non-viable societies the new cooperatives could only be kept alive by intensified measures of control and direct intervention."

"As the staff of the Cooperative Department was not increased at the same as rate the number of new societies to be supervised, even routine functions like annual audits and inspections could not be exercised properly. There was no time left for member education and training of committeemen. Inefficient cooperative enterprises and resulting financial losses again led to the demand for a further increase of powers of the Cooperative Department in order to exercise stricter control over the societies to prevent further losses.

"In official statements the governments of the East African states have emphasized that training of cooperators at all levels and the improvement of the efficiency of cooperative enterprises will be given first priority . . . On the other hand, the 'interim' interventionist powers of the Cooperative Department have been increased in the new laws to such an extent that most of the powers of decision-making in the field of administration and management granted by the act, the regulations and registered by-laws to cooperative societies are practically handed over to the Registrar and his staff.

"Here the conflict between the long-term objective to create a self-reliant cooperative movement and the short-term objectives to use cooperatives societies as instruments for the implementation of economic and social reforms becomes obvious. On one hand, the members of cooperative societies are to be trained to exercise their rights and obligations in a self-help organization, while on the other hand, the exercise of these rights and obligations is subject to government control that -- in many instances -- excludes decision-making by the members."

"The goverments will have to decide early which of their various objectives shall be given priority. If the original long-term objective of government policy to create a cooperative movement based on self-help and member support, without permanent dependence on government assistance still is considered to have priority then a different legal framework is needed."

"If the primary objective still is to create a cooperative movement as a self-help organization, education and training schemes alone will not be sufficient to reach this goal. Government would have to declare officially and clearly that the promotion of cooperatives based on member support is the main objective of government cooperative development policy. Incentives would have to be created for members of cooperatives to improve their educational standard, to develop leadership and to run their societies with their won elected representatives as soon as they are capable of doing so. The cooperative laws should be amended in such a way that the registration of non-viable societies is prevented as far as possible."

"There should be a possibility to grade societies according to the quality of their administration and management, and to differentiate the degree of government control for the different grades of societies . . . Another way to bring the cooperative law in harmony with the goal to create a self-sufficient movement would be to differentiate between ordinary and extraordinary statutory powers of the Registrar."

"Thus, the law could provide that extraordinary interventionist powers of the cooperative department could only be exercised in exceptional cases and under certain procedural safeguards defined in the act or in the regulations. In this way the necessary measures of government control could be taken without a permanent threat of government intervention into the affairs of the registered societies."

Dr. Munkner then describes how the functions of the government cooperative departments of these countries have changed. They have changed from the role of promoter, advisor, auditor and arbitrator to the role of administrator, assuming the functions of decision-making in matters of management on behalf of the cooperative societies.

This is precisely what the Study Team learned in its interviews with managers and senior staff members of district cooperative unions: practically all important management decisions must be approved by the Minister of Cooperatives and Marketing or his representative.

It is extremely doubtful that the concentration of all these functions in the hands of a single agency is in the best interests of the cooperative sector. Instead of a single government department filling the roles of promoter, advisor, auditor, arbitrator, administrator and decision-maker, these functions should be separated.

The Afro-Asian Rural Reconstruction Organization (AARRO), in the model cooperative societies bill presented in Nairobi in 1966, suggests that the functions of the government cooperative department be divided and turned over to four separate institutions, in this manner:

1. A Cooperative Development Service to handle the promotional and educational functions -- to be delegated to a cooperative apex organization as soon as possible.

2. A Cooperative Audit Service -- to be phased out when the cooperative movement is in a position to take over this audit function.

3. A Cooperative Department responsible for the registration and cancellation of registration of cooperative societies and for the conduct of inquiries.

4. A Cooperative Tribunal to hear appeals, review orders, and undertake revisions.

Perhaps the government of Uganda might wish to consider reorganization of its Cooperative Department along similar lines. In any case, a strong, self-sufficient, economically viable network of cooperatives in Uganda will be realized only if government reduces its extensive control of the cooperative sector, dissolves those cooperatives that are too small and too weak ever to succeed, and grants a considerable degree of autonomy to the strong cooperatives that remain.

II. CONCLUSIONS AND RECOMMENDATIONS

The ultimate purpose of this study is to set forth a series of recommendations which will serve to strengthen Uganda's cooperative sector. This will require some basic changes in the cooperative law, in the structure and organization of the cooperative sector, its relationship to government, to the marketing boards, and to the private sector, as well.

Major changes of any kind is always difficult and painful, whether it be economic, social, cultural or political in nature. It is difficult to implement and painful for some to accept. This is because although the change may benefit many, there always are a few who will be adversely affected. Nevertheless, most of Uganda's cooperative leaders, whether employed in the public or private sector, recognize the need for concerted and definitive action to strengthen and improve the overall performance of the nation's cooperatives.

The problems of these cooperatives, the handicaps they face, the difficulties they myst surmount are not unique to Uganda. They are common to cooperatives in many other countries as well.

Members of the Team which carried out this study have spent a considerable number of years working with cooperatives in other nations of Latin America and Africa. The recommendations which follow are based not only upon what the Study Team observed in Uganda, but also upon its members' experiences in many similar situations elsewhere.

The recommendations which follow are presented in response to each of the six areas of work set forth in the Terms of Reference which appear at the beginning of this report. It is hoped that these recommendations will be received in the same manner in which they are offered--that is, for the purpose and with the intention of helping to build a nationwide network of sounder, more viable, more dynamic cooperative societies.

A. Strengthening Cooperatives

This calls for the Study Team to "describe and analyze in detail the organization, management, and financial/capital structure of Uganda cooperatives . . ." The national cooperative organizations, the primary societies, and district unions visited by the Study Team have been described in considerable detail. (See Appendix B for descriptions of the primary societies, Appendix C for descriptions of the district unions and pages ____ for descriptions of the national cooperative organizations. Time and transportation constraints as well as the security situation prevented the Study Team from surveying a larger sample of cooperatives. Data gathered from the primary societies and district unions were recorded on the standard questionnaire form (Appendix A). These data then were tabulated and analyzed, and statistical extrapolations were made. This information is presented in the sections of this report entitled, "Overview of Uganda's Primary Cooperative Societies," and "Overview of Uganda's District Cooperative Unions."

1. Increase Capital Base

Next, the Team is asked to "make recommendations on ways to strengthen the capital base of cooperatives. . . "

It certainly is true that the present capital base of Uganda's cooperative secor is woefully inadequate. It also is true that there is no easy or painless way to significantly strengthen this capital base.

According to statistics supplied by officials of the Ministry of Cooperatives and Marketing, the total share capital of 29 of the country's 36 district cooperative unions is 128,971,281 shillings, or, at an exchange rate of 317:1, $406.849. Present share capital of the remaining several district unions is not known, for no figures concerning them since 1978 are available. Share capital in the national cooperative organizations (excluding the Cooperative Bank) is currently 38,501,561 shillings, or $121,456.

The same MCM officials estimate that the average share capital per farmer-member of the primary cooperative societies is only five shillings, and the average membership per primary society is 500. Thus, share capital in the average primary society would amount to only 2,500 shillings, or $7.88. Statistics compiled by the MCM show that as of January 1, 1984 there were 3,799 primary cooperative societies in the country. Therefore, total share capital for all primary societies would come to no more than $30,000.

As mentioned earlier in this report, 75 percent of Uganda's cooperatives are agricultural, and most of these are engaged in the marketing and/or processing of coffee. The average annual cash income of their farmer-members is approximately $150.00, and this is true whether they are coffee farmers or cotton growers. It thus is quite obvious why there is so little member share capital in the nation's cooperatives: the average farmer is so poor he simply cannot build any significant equity in his cooperative society.

According to officials of the Coffee Marketing Board, the intention of the Uganda government has been to see that coffee farmers receive approximately 50 percent of the coffee export price for their efforts as primary producers. At the time of this study the farmer was receiving less than one-half this amount, 23.5 percent. In respect to the then world market price of $3.03 per kilo, this amounted to only 71 cents. For the government to carry out its expressed intention, the payment to the coffee farmers should have been increased by 80 cents, or 280 shillings.

For the coffee year that ended September 30, 1984 Uganda would export 2.54 million bags of 60 kilos each. This was the current quota allotted to the country by the International Coffee Organization. At the price of $3.03 per kilo, this would yield revenue of $461,772.000.

Officials of the Coffee Marketing Board reported that in July 1984 the government treasury retained 57.165 percent of this revenue--which amounted to a very high tax on the small coffee farmer. This 57 percent figure, plus the 23.5 percent paid to the famer, left a trifle less than 20 percent of the final sales price to be divided between the primary cooperative societies and the district unions for the services they performed, and the Coffee Marketing Board to cover its expenses of operation. Officials of the CMB members of the Agricultural Secretariat and officials of the MCM all admitted that primary societies and district unions, by and large, have not been receiving sufficient fees or commissions for their services to cover their expenses of operation and/or realize any net surplus.

To strengthen the capital base of Uganda's cooperatives, the Study Team offers these recommendations:

1. Considerably increase the fees or commissions the primary societies and district unions now are receiving for their services of handling, storing, processing and transporting the agricultural commodities. This would enable them to cover their costs of operation and realize substantial net returns. This surplus should be retained by the cooperatives to be used as working capital with an equivalent distribution to farmer-members in the form of equity shares.

2. Pay the farmer a more equitable share of the final sale price of his produce and, at the same time, increase the present equity requirements for cooperative members. As mentioned earlier, present membership equity requirements are minimal.

3. Initiate a "retains" system to augment the cooperatives' share capital. For example, for each sack of coffee a farmer-member delivers to his cooperative, the society retains a

certain percentage of the price--which goes to purchase additional share certificates in the member's name.

4. Set up a "revolving fund" in this manner: An equity account is set up in each member's name. When the member delivers his produce to the cooperative, he is paid so much in cash and so much in the form of share certificates which are credited to his equity account. Suppose the payment due a member from his cooperative were $100. The member would receive, say, $70 in cash and $30 in the form of share certificates. This would continue for a period of five years and then beginning in the sixth year the member can draw out the share capital he put in five years earlier--and so on for each succeeding year. In this way, the cooperative can use these accumulated funds as short-term working capital, and with hundreds of members participating in the revolving fund plan, this would come to a substantial amount.

5. The "Fair Share" idea: Each member is expected to buy "X" number of shares in his cooperative each year, on which he receives interest payment . When he has done this, he is considered to have invested his "fair share" in his cooperative society--and the approval (or disapproval) of his fellow members induces him to do this.

6. As cooperative assets are revolved to compensate for the changing values of the shilling, individual member equity amounts should be adjusted accordingly.

Implementation of any of the first five of these recommendations is not possible unless the government of Uganda is willing to relinquish some portion of the revenue it now receives from the agricultural exports and pay a greater share to the agricultural cooperatives and their farmer-members.

At present, cooperatives are dependent on commercial banks for their crop finance loans. Only a very few primary societies and district unions are able to borrow directly from commercial banks. Government agencies, such as marketing boards, must act as guarantors for bank loans made to the many cooperatives which are not able to borrow directly on their own.

Because government agencies serve as guarantors for cooperative loans, government officials feel they must exercise control over how cooperative conduct their financial affairs. If cooperatives and/or their farmer-members were permitted to receive a larger share of the final sales price of their produce, they could greatly strengthen the capital base of the cooperatives and thus provide a substantial portion of their own crop finance. Therefore, this rationale for continued government control of cooperatives would lose much of its validity.

2. Improve Management and Accounting

The final portion of the first task set forth in the Terms of Reference asks the Study Team to make recommendations on ways to strengthen the "management and accounting systems" of the cooperatives.

The Study Team's recommendations are as follows:

1. Significantly increase the cooperatie training-educational programs now underway, specifically in the areas of cooperative principles, management and accounting. This can be achieved by developing a cadre of competent cooperative department and union staff to conduct training seminars for committee members, society managers and eventually farmer-members. For this purpose rehabilitation of the training wing is essential.

2. The Ministry of Cooperatives and Marketing should grant more autonomy to cooperatives so that local managers and committes have greater freedom in making important decisions and taking necessary and timely action in the day-to-day operations of the cooperative.

Under the present system, all important operating decisions of district unions must be approved by officials of the MCM, and this approval usually takes months. In its travels about the country, the Study Team was told by managers of district unions that the correct operating decisions they make are often overruled by someone far away in Kampala who is not aware of local conditions.

Competent managers, given greater freedom, can manage their cooperatives more efficiently. Incompetent managers should be released by the cooperative's committee and replaced by men who are competent.

3. To strengthen cooperatives' accounting systems, the Team's recommendation is simply that cooperatives must employ competent accountants. A cooperative which is doing an annual business volume of several hundred thousand to approximately a million dollars should have on its staff one professional accountant with a degree in accounting and some previous experience, and he should have one or two bookkeeper clerks to assist him. They can commence with a "manual" accounting system, i.e., ledgers, journals, pen and ink, and eventually grow into a computer-based system.

Cooperatives doing a larger annual volume of business should have the same staff described above, but with the addition of perhaps two more clerks. Cooperatives doing a small volume of business--$100,000 or less per year-- can do with one part-time accountant--but he, too, should be competent.

While these are simple and straightforward recommendations they may not be simple or easy to implement. This is because competent accountants must be paid poperly for their services, and too many of Uganda's cooperatives cannot afford to offer salaries which will attract qualified and experienced accountants. Again, the solution is to permit cooperatives to receive a larger portion of the final sales price of the agricultural produce they handle.

4. Finally, the functions of keeping accounts and auditing the same accounts should be separated. As it is now, field representatives of the MCM set up the books for the primary societies, help them in keeping the books, and then also audit the same books. With larger cooperative revenues, these field staff can become accountant and Secretary-Manager employees of the cooperative they are serving. For the present, the audit function should be retained by the Cooperative Department.

B. Structural Relationships

Here, in this second item of the Terms of Reference, the Study Team is asked to make recommendations on relationships between cooperatives themselves, between the entire cooperative sector and the marketing boards, the private sector and the government.

The present nature of all these relationships is fixed by the Cooperative Societies Act of Uganda, the cooperative law of the country. These relationships cannot be appreciably changed without changing the law. Thus, in the pages that follow, the Study Team first offers its recommendations for changes in the law. These are followed by recommendations concerning inter-cooperative relationships, and, finally recommendations are given in respect to the relationship of cooperatives and marketing boards.

1. The Cooperative Law

A rationale of government officials in support of government control of cooperatives is that because so many of Uganda's farmers are illiterate or semi-illiterate they must be guided by government or "they will lose their way." The intention to guide and protect the illiterate farmer-members of Uganda's cooperatives no doubt is sincere, but it is mistaken because it equates illiteracy with incompetence and irresponsibility.

If a real effort were made to teach these farmer-members the basic cooperative principles, then the need for government "protection" of their interests would rapidly diminish. In particular, each member must learn that he has an obligation to assume a large measure of responsibility for the affairs of his cooperative society; his duty to exercise that responsibility through his vote; and duty to join with his fellow members in electing honest and competent committee members and to rid themselves of those who are not. Once members understand these basic cooperative responsibilities, their illiteracy then becomes a matter of secondary importance. This is not meant to disparage the importance of literacy and education. These greatly affect all aspects a man's life, well beyond the management of his cooperative society.

A number of Uganda's cooperatives--both primary societies and district unions--are economically sound and successful business enterprises. In many cases, no doubt, this success was achieved with the advice and assistance of the Ministry of Cooperatives and Marketing. But now these strong and economically viable cooperatives no longer need the direction and control by the Ministry that they perhaps previously required.

The other side of the same coin reveals that many of Uganda's weak, small and failing cooperatives continue to function only because of the help they receive from this same Ministry and could not continue to exist without its support.

Many of these cooperatives should be allowed to fail, and the resources allocated to support them put to more productive purposes. Others with training and support or new management, can grow strong in time.

The law and government policy should look to autonomy of cooperative operations as the norm. Those cooperatives which are not dependent upon government as guarantor for bank loans should be completely autonomous. In respect to them the role of the Ministry of Cooperatives and Marketing should be limited to registration, audits, and assuring compliance with the cooperative principles embodied in the law. For others that have not yet achieved that status, further Ministry support should be limited to training and advice, with control and approval limited to only those cases of proven malfeasance and bankruptcy.

In the course of its investigations into the workings of Uganda's cooperative sector, the Study Team was told on more than one occasion that a major source of cooperatives' difficulties is political--in that politicians often use cooperatives to entrench themselves in power and otherwise benefit themselves.

In an attempt to eliminate or reduce undesirable political use of cooperatives, the Study Team recommends that the

Cooperative Societies Act be amended to include this provision:

> "As soon as any cooperative committee member, manager or senior staff person assumes political office or takes political employment, he shall be required to take a leave of absence or resign from his position in the cooperative so that he shall not be simultaneously engaged in cooperatives and politics."

2. Inter-Cooperative Relationships

The current pattern of inter-cooperative relationships is too rigid, too inflexible.

A farmer who wishes to join a cooperative must become a member of a primary society in his own district, even if it is poorly managed and losing money. He may be located near the border of the adjacent political district in which there is a strong primary society, but he is not permitted to become a member of it because of the district boundary he must cross.

At the same time, primary societies should be allowed to purchase their inputs where they wish, where they can obtain the best service and the best prices, not necessarily through their district unions.

The present structure of primary societies tied to district unions tied to central unions tied to national organizations set up by the British during the colonial period for the purpose of controlling the cooperative-agricultural sector. Since independence, the government of Uganda has maintained this same structure for the same reason: control.

The entire cooperative structure should be divorced from political boundaries. Farmers should be free to join the primary society which best serves their interests and primary societies should be free to join the district unions of their choice. The consequence of this will be that those societies and unions which are not providing good services will wither and die. Those which are efficiently managed will grow and prosper.

3. Relationship of Cooperatives to Marketing Boards

Uganda's marketing boards--coffee, lint and produce--are of great importance to the govvernment because they are practically the only source of foreign exchange, as well as a major source of all government revenue. They also provide jobs for people.

The Study Team concurs with the findings of a previous study, completed in November 1981, a few excerpts from which are given here:

"Governments in Africa, including the Government of Uganda, currently adopt policies that are administered so as to squeeze agriculture and thereby secure revenue and foreign exchange. The result is that aggregate production levels decline and both the farmers and the governments become poor. Moreover, the administrative stuctures which extract the revenues and foreign exchange tend to be inefficient, as a result of which both the farmers and the governments lose income . . .

"The Marketing boards consume enormous quantities of resources . . . The true costs of the boards are not only the costs they themselves pay, but also the costs that others must pay as a result of doing business through them . . Another and closely related feature of the problem of efficiency is the absence of incentives for the boards to behave efficiently. The boards simply calculate their costs and then claim them from their export earnings . . .

"Moreover, financial controls are strongly resisted by the boards, particularly those that make the boards accountable to government; the boards simply do not want their costing decisions closely scrutinized by government authorities."[1]

The findings of the present study confirm the observations of this earlier one. Officials of the Coffee and Lint Marketing Boards did not provide the Study Team with any specific information concerning their annual expenditures and revenues. Uganda cannot afford this secrecy of operation.

As far as efficiency of operations is concerned, the 1,800 plus employees of the Coffee Marketing Board are twice as many as are needed to handle the volume of coffee the Board purchases and exports each year.

Farmers, primary cooperative societies, and district cooperative unions have little faith or trust in the marketing boards because of the secretive methods used in setting the prices of coffee and cotton. The average farmer has no idea what portion of the final selling price he is receiving for his crop.[1]

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[1] "The Reorganization of the Marketing and Proessing of Crops in Uganda" - Report to the Ministry of Cooperatives and Marketing by Robert H. Bates et al., Institute of International Studies, University of California, Berkeley, Noember 17, 1981, pp. 11, 28-9, and 31.

District union officials complain that the unions do not have proper representation on the boards. Officials of the cotton unions are especially critical of the fact that most members of the Lint Marketing Board know little or nothing about cotton.

The study team offers these recommendations concerning the marketing boards

1. The marketing boards are engaged in a variety of activities, several of which could be handled more efficiently by cooperative unions. The processing, transport and storage functions of the boards should be performed by district unions or a federation(s) of unions. This currently is the case for coffee in Kenya.

2. The marketing boards' functions should be limited to international trade negotiations and government revenue collection, and the boards reorganized to be appropriate to those functions. Thus, the board should include representatives from the Ministries of Finance and Commerce, with the majority of the board members elected by the related cooperative unions.

3. Convene a task force of well qualified members to lay out a plan to achieve this reorganization. This will require virtually a full-time effort by the participants.

4. The annual operating budgets of the boards should be made public.

5. The annual revenue the boards provide the Treasury should be made public, together with audited annual accounts of board operations.

6. The boards should pay a better price per kilo of coffee or bale of cotton to those district unions that arrange for their own crop finance, rather than rely on the boards for it. This would serve as an incentive to unions to improve their efficiency and not penalize all of the unions for the bad debts of some unions which are obtaining their crop finance via the boards.

7. Allow district cotton unions to sell some of their Lint cotton directly to domestic textile mills, rather than to the Lint Marketing Board--which then sells to the mills. This would increase overall efficiency and government could obtain its revenue via a tax on these sales.

8. Review the present policy of giving cooperatives a monopoly in the buying, processing and selling of cotton. What are the merits of this policy? What are the disadvantages?

9. As soon as possible, divest the marketing boards of their role as guarantors of crop finance loans for agricultural cooperatives. When the capital base of agricultural cooperatives is strengthened by allocating a larger share of the commodity export prices to cooperatives and their members, many cooperatives will be credit worthy on their own and will not require guarantors for their bank loans.

C. Cooperatives in a Mixed Economy

This section of the Terms of Reference asks the Study Team for recommendations as to how Uganda's cooperatives might be free to operate in an environment of less government control and official price regulation.

Both of these matters have been addressed in the preceding pages, namely, the recommendations concerning the cooperative law and the relationship of cooperatives to the marketing boards.

It should be mentioned here that the Agricultural Secretariat already has completed detailed studies of the true costs of productfion of coffee, cotton and other crops and is now beginning to use this data to see that primary cooperative societies and district cooperative unions at least receive sufficient payment for their services so they do not have to operate at a loss--which often has been the case in the past. This is a step forward, but an inadequate standard, for cooperatives need a surplus with which to reconstitute capital.

This third item in the Terms of Reference also asks that the Study Team "recommend ways to strengthen the district cooperative unions and primary societies more directly . . ." The Team's recommendations in this respect are as follow:

1. Agricultural cooperatives should be paid a substantially larger share of the final sales price of their produce. This will permit strengthening of the present weak capital base of the cooperative sector, with a corresponding increase in member equity.

2. Considerably reduce the size of the present field staff of the Ministry of Cooperatives and Marketing, thereby releasing competent personnel who would then be employed directly by district unions and primary societies. This would serve to strengthen the business operations of these cooperatives.

3. Many single-purpose primary societies should be permitted and encouraged to reorganize as multi-purpose cooperatives. This would permit them to engage in the marketing of other commodities in addition to coffee or cotton--staple crops

as well as fruits and vegetables. They also could be farm-supply cooperatives.

4. In connection with the previous recommendation, the Study Team recommends that the Ministry of Cooperatives and Marketing take action to streamline its procedures in the screening of trading license applications and the issuance of these licenses.

In a recent study carried out by Gunnar Knutsson of the Swedish Cooperative Centre, he reports that an "area of concern is the issuing of trading licenses. The marketing and processing of cotton and coffee are the traditional business activities of cooperatives and licenses are normally renewed without difficulties. However, when entering into new areas of crop marketing (e.g., maize, beans, etc.) and of input supply, the acquisition of trading licenses has in many instances proven to be a slow, cumbersome process met with a bureaucratic machinery and delaying procedures. The societies suffering most are those operating a long distance away from Kampala.[1]

D. Development Priorities and Contribution

These two articles in the Terms of Reference ask the Study Team to (1) identify areas where cooperatives can make the greatest contribution to national economic development in the next five to ten years; (2) develop a set of policies and strategies for cooperative development in the next five to ten years; and (3) indicate priority areas for cooperative investments.

Because these three tasks are so closely related they can be addressed jointly:

If the recommendations presented in the pages immediately preceding are implemented expeditiously, then the next five to ten years for Uganda's cooperative sector would appear to be a period of growth, prosperity, and increasing contribution to national economic development.

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[1] "Study on Development Planning for the Cooperative Movement in Uganda," January 1984, pp. 23, 24.

If the recommendations are ignored, delayed, or emasculated, then the future of Uganda's cooperatives appears much less promising.

Taking a positive approach, and assuming that determined efforts will be made to correct the weaknesses of the present cooperative system, then the Study Team can make these statements concerning the future in the areas of (1) cooperative development (2) investment priorities, and (3) contributions to the national economy.

1. Cooperative Development

Within the next five to ten years the weakest, least viable of the country's cooperatives will have been eliminated. The resources that had been employed in trying to keep them alive can be then used for more constructive purposes.

The stronger of the nation's primary societies and district unions will have grown considerably to serve the members of the defunct cooperatives and to expand their operations into new and profitable lines of business.

During these same years the district unions should hae taken over the training and advisory functions for the primary societies, and possibly will have organized a cooperative audit agency. This would leave the cooperative department with the legal functions of registry and seeing that cooperatives operate in accordance with cooperative principles.

2. Investment Priorities

To reduce the risks so many of Uganda's cooperatives now face by being so dependent upon coffee and cotton, investment directed toward agricultural diversification should be of top priority. If most of the country's agricultural cooperatives continue to be tied to the monoculture of coffee, then a severe and prolonged drop in world coffee prices could ruin them no matter how efficiently managed they might be.

The soil and climate of Uganda are hospitable to the production of a variety of fruits, vegetables, and cereal grains such as maize and millet. Cooperatives should diversify production into these areas, perhaps concentrating on vegetables for domestic consumption and fruit for export. Maize would be sold domestically and exported as well.

The most likely export markets would seem to be neighboring countries. There is already a lively demand for many food products across Uganda's borders. Cooperative marketing arrangements should be encouraged to permit farmers to increase production in response to this demand. As transportation facilities improve, the European Economic Commission would likely market for high-value produce such as cashews, mangoes, avocadoes, etc. This type of export activity would, of course, require large investments in food processing, preserving, and refrigeration facilities.

The team felt that it would be presumptious of them to recommend specific investment priorities on the basis of their relatively brief study. Rather such investments should be based on the market opportunities identified by cooperative leaders familiar in detail with local production capabilities, and on thorough feasibility study of each such identified investment opportunity. There is included in Appendix D of this report a typical outline of such a study to assist the reader to visualize the kind of analysis which should precede a major investment in an innovative agribusiness. Of course the specifics of any Uganda feasibility study would need to be adapted to the product of local conditions involved.

3. Cooperative Contributions to the National Economy

The contributions cooperatives could make in this respect already have been mentioned in the preceding paragraphs. The fact that cooperative members would diversify into fruit and vegetable and grain production does not mean that coffee would be abandoned. Not at all. The present coffee rehabilitation program now being sponsored by the EEC is designed not only to increase coffee production, but also to improve coffee quality and increase coffee yields on present coffee land.

Increased yield from a given unit of land would free arable land for other purposes, for fruits and vegetables and cereal grains. In the likely case that Uganda's ICO coffee quota in the world market remains the same or even increases somewhat, then no coffee revenue would be lost. Instead, the additional exports of fruits and maize would serve to increase foreign exchange earnings and total gross domestic product.

The comparative advatage of cotton production in Uganda is less clear. Shifting land from cotton to other export crops could well be more profitable to the farmers and to the nation. This needs to be studied further with attention focused on net returns rather than historical precedent.

E. Agricultural Export

This report has dealt with and made recommendations concerning all items set forth in the Terms of Reference, except for this one which calls for the consultants to study and design means to encourage the production and export of foodstuffs.

In its travels around the country, the Study Team found that little encouragement along these lines is needed. Most of the primary growers' societies now dealing in coffee or cotton expressed a strong desire to diversify their activities, branching out into the marketing and/or processing of various food crops, such as maize, cassava, millet, banana, pineapple, sesame, etc.

The farmer-members of some of these cooperatives already have begun to diversify, planting some of their land to the crops mentioned. However, they cannot market these items through their cooperatives, but sell to private traders instead. This is because in most cases these primary cooperative societies are single-purpose cooperatives, dealing only in coffee or cotton and cannot legally engage in the marketing or processing of other produce.[1] And even if they were legally able to deal in foodstuffs, they lack the storage facilities, transport, and other capital requirements to do so.

Not only are many farmers and their cooperatives interested in crop diversification, so is the Ministry of Agriculture and Forestry. Appendix D of this report gives crop development priorities of this Ministry, and of first priority is development of staple food crops. Second in priority is the development of export crops including such items as pineapple, avocado, asparagus, and green beans.

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[1] One of the Team's recommendations, is that many of these single purpose cooperatives should reorganize as multi-purpose societies.

Because these are perishables they must be refridgerated and either transported rapidly or processed for canning or freezing. This would require multi-million dollar investments in refrigeration and food-processing equipment. Such funds are not now available, although it is possible they might be at some time in the future. But even if refrigeration and processing plants could be built at this time, they could not be operated successfully. This is because of the frequent and lengthly electric power failures not only in the capital city of Kampala, but in all other cities, towns and villages throughout the country.[2]

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[2] If the Study Team had been dependent upon an electric typewriter, this report could not have been completed. For the past two months electric power has been cut off every second or third day for many hours at a time. In early August, the entire city of Kampala was without electricity for five consecutive days and nights.

III. FINAL REMARKS

There is much potential power in the enthusiasm which grips groups of people who are infected with "cooperative fever". However, there are also many hazards and pitfalls. The temptations to engage in demagoguery and over-simplification is overwhelming. Cooperative promoters too often overpromise the benefits and understate the responsibilities which members must bear. Such tendencies are by no means limited to Uganda or Africa. They are universal.

The result of such overpromising and understressing member responsibilities is disillusionment and withdrawal of member support as soon as unpleasant facts must be faced. Solid organizations are usually built in the wake of leaders who promise less than they can deliver and who make very clear the responsibility of members. Such leaders are not destroyed by setbacks. The best policy in promotion is to emphasize short-term problems and long-term potential benefits.

Too many people assume that some kind of magic is to be found in the cooperative form. If so, no one has yet discovered how to make it work. Actually, cooperatives can be enormously effective if leaders and members assume their responsibilities. But the job of motivating people to do so makes cooperatives the most difficult of all types of enterprises to operate successfully.

Cooperatives represent an effort to pool resources to accomplish common goals. This means that there must be a considerable bond of mutual interest and trust. Such mutual trust is less likely to be found among people who are impoverished and downtrodden. Too often, as a result of their illiteracy and provincialism, they have been victimized and cheated by others; "mutual trust" is a luxury they cannot afford.

A common misconception is that the cooperative is an ideal form of organization through which the very poor can lift themselves out of poverty. Actually, a certain degree of sophistication is required for cooperatives to work well.

The Ugandan government would be well advised to promote cooperatives in relatively self-sufficient areas, and attempt to extend their efforts from such a base of success, once it is attained. Proliferation of cooperatives of all kinds among all kinds of people is much less likely to give successful results.

In Uganda where managerial resources are limited, chances for success of cooperatives in large numbers are reduced.

List of Persons Interviewed in Uganda

Primary Cooperative Societies

John Patrick Buluma
John H. Bamugolore
Noha Kawanguzi
J. R. Kisuule
A. M. Mugoya
J. S. Wamboga
Jerome Kawuta
John Igadure
Stefano Kibira
Patrick Magaya
George Kimpi
Mr. Talituka{
Sabasi Isabirye
Nasani Kabaale
Michael Madambada
O. Mudedo
Joshua Wambede
Boniface Kegere
Simson Masole
Sezi Waswaka
Wilson Nakibi
D.C. Wamembo
A. Nandege
B. Musapiti
D. Wekoyera
M. Kamuli
Yakobo Olek
Amos Elel
Nabisio Kiboneire
E. Zikanyangira
C. Kinyira
C. Rwita
J. Khankha
D. Kapule
George Auyo
Wilson Ocen-Obua
S. Okello
Konstantino Ayai
B. Obua
H. B. Otim
W. Owula
K. Opio
Anthony Edek
W. Oleke
Apolo Okello
Sirayo Ongada
Nicholas Okello
Serafino Acot
Mr. Nitho

District Cooperative Unions

Lawrence Kasujja
James Humbogwe
G. I. Byandala
George W. T. Mwandha
Patrick Mudhasi
D. M. Kamaali
H. Kibedi
Y. K. B. Muwaya
Jackson S. Mwandha
Abubaker Maganda
Francis Nagimesi
Davies A. Namunga
Justus Shikanga
Samuel E. S. Ibudi
Chris Byekwaso
Mesusera Wabwoba
Francis X.N. Wayena
David Lulaba
William Wandera
Edward Makuya
Davies N.W. Werekol
Nathan W. Musene
Antohony Ssingc
Joseph M. Lutwana
T.L. Lubega
E.B. Luswata
H.K. Miiro
C. Mugumekabeho
R. Mushagara
P.B. Mwzimya
P.K. Ndunga
Davies Wamembo
Obwoyo Laker

District Cooperative Unions
Amoni K. Aruho
M. B. Muhindo
James B. Kugonza
J. M. Sabiiti
Fred Nthue
I. N. Karanzire
John Migyisha

Uganda Cooperative Central Union, Ltd.
G. L. Owino
Y. Ococh
F. K. Sewanyana
A. I. Bwankosya

Cooperative Insurance, Ltd.
George Rujojo
Patrick Olweny
P. Olwar Alworonga
J. Kiggudu

Central Transport Union
Henry J. Muzaale
Charles K. L. Kaggwa
A. Oriekot
Bilad M. Musapitti
Keith Kabakyenga
Michael Oketa
Joseph Wagunyanya

Uganda Co-op Savings & Credit Union
M. Araali Babigayisa

Lint Marketing Board
Charles O. Angoma
J. Kigozi

World Bank
Miss Hailey J. Goris

Uganda Cooperative Alliance
Yoswa Ekojot
Josa Bagarukayo
P. M. Lubayo
Arthur Mutegaya
H. Masaba
Ziria Ndifuna

Coffee Marketing Board
Haruna Kibirige
Charles Busingye
Kasambeko J. Bosco
M.S. Tezikuba
G.L. Schaffer
S.W. Gidongo
Mrs. Helen Amuyan Edyanguo

Ministry of Cooperatives & Marketing
John A. Okodoi
A.E. Elogu
Dr. John F. N. Muhumuza
Joseph S. Katumbula
Willington Makumbi

National Tobacco Corporation
A.A. Ong'om

Uganda Commercial Bank
A. Kayondo

Barclay's Bank
F.J. Searle

Ministry of Agriculture & Forestry
Mr. Osuban

Agricultural Secretariat
Lawrence E. Eturu
N. S. Shetty
A. M. Muthee

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ACDI UGANDA COOPERATIVE SECTOR STUDY TEAM

The three man cooperative study team that went to Uganda from mid-June through August, 1984 was selected by Agricultural Cooperative Development International (ACDI)to provide expert advice in three specific subject areas to address the issues outlined in the scope of work prepared by the Bank of Uganda's Agricultural Secretariat. The three consultants who were eventually recruited for this assignment included (1) Fred Marti, an agricultural economist; Bernard Runnebaum, an experienced cooperative organization and managemnt specialist; and James Torres, cooperative financial analyst.

FRED MARTI, PH.D
AGRICULTURAL ECONOMICS

Before pursuing agricultural studies at Ohio State University and the University of Florida, Dr. Marti worked as a farm manager and helped organize a dairyman's cooperative. After obtaining his Ph.D. in Agricultural Economics in 1954 from the University of Florida, Dr. Marti joined the U.S. State Department as an Assistant Agricultural Attache in Madrid, Spain. In that position he prepared reports on trends, demand, foreign competition, programs, and commercial practices affecting the market for U.S. agricultural producers and processors.

In 1957 Dr. Marti joined the Soybean Council of America in Rome, Italy where he served as its Director of International Operations. In this position he was responsible for developing major foreign markets for the U.S. soybean industry, and recruiting and training professional staff in program development, management, evaluation techniques, and public information.

His career with the United States Agency for International Development began in 1966 when he was assigned to Accra, Ghana as Agricultural Economist. Working with Ghana's Ministry of Agriculture he helped identify and implement major development projects involving feeder road construction, agricultural production and marketing, and applied research. In 1972 he was reassigned to USAID/Saigon as its Production Economist. For two years he assisted South Vietnam's Ministry of Agriculture develop and implement plans for agricultural development. His work included analyzing regional cost/benefits for principal crops and livestock, developing procedures for the collection, analysis, and dissemination of agricultural information, and evaluating multiple cropping systems.

From 1974 through 1977 he served as USAID's Agricultural Economist in Guyana before being transferred to Washington, D.C. to serve as Agricultural Economist in AID's Near East Bureau. During his two years in the Near East Bureau Dr. Marti assisted field missions with project development, planning, and implementation. He also conducted program analyses and feasibility studies, and identified project opportunities for meeting the objectives of national agricultural development plans and policies.

BERNARD RUNNEBAUM
COOPERATIVE ORGANIZATION AND MANAGEMENT

Bernard Runnebaum took time off from his duties as a grain merchant for McCormick Grain in Wichita, Kansas to tackle this assignment. At McCormick his responsibilities include buying and selling grains to meet the grain needs of terminal and country elevators, feed mills, and feed lots in the central midwest of the United States. Additionally he coordinates the transportation of grain by truck and rail, and verifies the credit worthiness of customers. Prior to assuming this position he worked for more than two years, from March, 1981 to July, 1983, as Executive Vice President and Representative Director of the Silo Company, Ltd. in Inchom, South Korea where he was responsible for the 50% equity investment of the U.S. partner in a 200,000 metric ton grain handling and storage facility. His overall duties were to supervise operational and financial management of this company on a daily and long range basis.

From 1977 to 1981 Mr. Runnebaum worked with the Central Cooperative Union of Swaziland in Manzini. During his initial two years he served as the Marketing and Credit Manager/Advisor studying the market situation, identifying market outlets, organizing market strategies, preparing documentation, assisting in negotiations, setting up collection points, assessing profitability, and assisting in cooperative education programs for cooperative employees, boards of directors, and farmer members. Also, as part of his credit related responsibilities he helped design a cooperative credit scheme which involved setting up a complex system of documentation and procedures from the apex organization to the local cooperatives and finally to the farmer member. Based on his accomplishments Mr. Runnebaum was promoted to Chief of Party of the six man cooperative development team that was funded by the United States Agency for International Development. In this assignment he supervised five technicians, two Peace Corps Volunteers, and handled all project related activities including accounting and reporting. Additionally, he was the chief technical and management advisor to the Central Cooperative Union's General Manager and Board of Directors whom he advised in the areas of business management, and long range planning of the cooperatives in Swaziland.

Prior to accepting his Swaziland assignment Mr. Runnebaum was General Manager of the Mid-Kansas Cooperative Association, a grain and farm supply coooperative in Moundridge, Kansas. During his 7 year tenure as general manager, sales volume increased from

2.5 million to 11 million dollars, employee numbers almost tripled, and facility and service expansions were made in fertilizer bulk blending, grain storage, petroleum, custom fertilizer and chemical application, feed processing, and truck operations. Also under his direction central purchasing warehousing, grain marketing, and EDP accounting were established.

Mr. Runnebaum is a former director of both the Kansas Grain and Feed Dealers Association and the Kansas Fertilizer and Chemical Association, a past District Officer of the Kansas Cooperative Council, and a former member and officer of the Wichita Bank for Cooperatives Advisory Committee.

JAMES TORRES, PH.D.
FINANCIAL ANALYSIS OF COOPERATIVES

The second member of the ACDI team, James Torres, is currently Professor and Chairman of the Economics Department at the University of Wisconsin, River Falls, Wisconsin. During his free time, and prior to assuming his presemt teaching position at the university in 1971, Dr. Torres has served in advisory or consultancy roles in a number of economic or cooperative development projects in both Africa and Latin America.

For example, from 1963 to 1964 he worked on a country wide cooperative development project in Honduras where he helped organize various types of cooperatives including a housing cooperative, a builder's cooperative, a fisherman's cooperative, and a credit union. The following two years, 1964 to 1966, he served as the editor and publisher of America Cooperativa, a monthly magazine dealing with coopertative and economic development matters in Latin America which was printed in both English and Spanish by the Organization of Cooperatives of the Americas.

From 1966 thorugh 1968 Dr. Torres worked in Brazil. Initially he worked to develop a network of farm and marketing supply cooperatives in the northeast part of the country. Later he headed a six man team of agricultural specialists conducting feasibility studies for the United States Agency for International Development involving agricultural diversification, from coffee to cereal grains.

Other overseas assignments that Dr. Torres has completed include a one year study of the agricultural cooperative sector in Costa Rica, and short term assignments in Liberia and Guatemala where he advised on the development of cooperative education programs; in Peru where he studied the cooperative sector's role in that country's economic development; and in The Gambia where

Dr. Torres conducted a cost-benefit analysis of several development projects for the United Nations Development Program.

Over the years Dr. Torres has authored a number of publications including _Liberian Economic Development through Cooperatives_, "Success in Smallness: A Self-Help Plan for Developing Countries", "What is Success in Cooperative Development", and _Proposed Action Plan for Guatemalan Cooperatives_.

QUESTIONNAIRE USED IN DISTRICT
UNION AND SOCIETY INTERVIEWS

APPENDIX B

QUESTIONNAIRE USED IN DISTRICT UNION AND SOCIETY INTERVIEWS

Date: ________________________

1. Name of Society: ____________________________ Type P D N

2. Functions: __________________________________ When Founded: ____

3. Name & Title of Interviewee: ___________________________________

4. Time in office: __________ How appointed: _________ Terms of office: _________

5. Number & Type of Society's employees ________________________________

6. No. of membe s: ________________ Membership requirements: __________

7. Ave. share capital per member: ______________ Ave. annual incom: ____________ Sources of Member income: ____

8. Annual volume of Society's business: ________ Shillings: ______ kilos, tons, bales, etc ____

9. Net profit or loss for last FY: _________________________ If loss Why? ____________________

10. If profit, how utilized: ____

11. Any bonus paid last FY? ____________________________ W y or Why not? ______________________

12. Sources of Operating capital? __________________________ Terms: ____________________

13. Adequate? yes no Funds available in timely fashion: yes no

14. If "No", why: ____

15. Amt of borrowing in typical year: ___________________ Present Debt: _____ shillings _______

16. Does Society have good credit rating? Yes No

17. Proportion of members who patronize co-op: ___%

18. Relationship to other co-op organizations: ____________________________

19. Relationship to Mktng Boards:

20. Major problems facing society:

21. Other Activities Desired:

22. Does MCM help or hamper? How?

PRIMARY SOCIETY INTERVIEWS

APPENDIX C

PRIMARY SOCIETY INTERVIEWS

Visit to Nakabago Growers Cooperative Society, Ltd. - Mukono - June 22, 1984

There are 500 members of this primary society which is located in the Mukono District. The chairman of the board of directors also serves as manager; he is elected by the membership. The society is engaged in coffee processing and marketing. Since 1967 it has been operating with old and inefficient processing equipment, but now is in the process of upgrading this by installing more efficient machinery in another building recently purchased by the society. Although this co-op was organized in 1946, it was not until 1967 that it began processing coffee. Prior to that time it only purchased coffee from its farmer-members and then sold to the East Mengo Growers Cooperative Union.

The society employs 10 persons--a cashier, a production manager (this position now vacant), a driver, scale-man, bookkeeper, etc. Seventy-five percent of the 500 members produce coffee; the remainder produce other cash crops which they sell to private buyers. Three-fourths of those who produce coffee market it through their cooperative. Membership requirements include the following: An entry fee of 500 shillings (about $1.50), share capital of 2,000 shillings ($6.00), and a "fixed deposit" with the cooperative of 10,000 shillings ($30.00). Annual cash income of the average farmer-member is 150,000 shillings ($450.00, approximately).

Annual volume of co-op business comes to 19 million shillings ($58,000), representing the processing of approximately 500 tons of coffee per year. Last fiscal year the co-op suffered an operating loss of 4 million shillings ($12,000). Since 1970 its source of operating capital has been the Cooperative Bank, but this has almost always proved to be inadequate. Also, needed funds are not provided in a timely manner: The society needs money from the Bank in September in order to pay farmer-members for their coffee, but the Bank does not provide the money until December--and then not enough. During the last fiscal year the co-op borrowed 15 million shillings ($46,000), 6 million of which has been repaid, and 9 million ($28,000) of which is due on the 30th of this month. Interest is 24%.

The society receives services from several other co-op organizations: From the East Mengo Union it receives hoes, bicycles, and fertilizer (however, this primary society does not sell its coffee to East Mengo) it deals directly with the Coffee Marketing Board. From the Central Co-op Union the society receives fertilizer, cement and spare parts. The Transport Union carries coffee from the members' shambas to the co-op processing plant (actually, the co-op rents a lorry from the Transport Union at a fee of $62.00 per day). The Cooperative Alliance provides the society with business forms, stationery, etc., and the society is pleased with this service; also, it buys its insurance from the Cooperative Insurance Society.

The Nakabago co-op receives prompt payment from the Coffee Marketing Board (5 days), but feels that the Marketing Board should belong to the cooperatives of the country--not to the government.

There are several private coffee processors in the immediate vicinity of this society, and some of this co-op's members sell to them rather than to their own co-op because of need for immediate cash payment. The society buys coffee from non-members as well as from members and pays the same price to each.

The major problems facing this primary society are insufficient crop finance; it is always difficult, or impossible, to pay farmer-members cash for their coffee when they turn it over to the co-op. Also, investment capital is needed to upgrade the coffee processing plant. Insufficient transport facilities and lack of trained personnel also are serious problems.

As for future plans, this society hopes to raise 25 million shillings ($79,000) from members' savings and use this money as additional crop finance, instead of having to borrow from commercial banks at high interest rates (22% per month). Also, during this same period the society plans to open a consumer and farm supply shop to serve members.

<u>Visit to Nakayaga Growers Cooperative Society, Ltd. - Mukono - June 22, 1984</u>

This primary society, located in the Mukono District, was founded in 1946. It is a multi-purpose co-op, dealing in coffee and jaggery (molasses) and also operating as a farm supply unit. Its 1,400 members have an average annual cash income of approximately $300, derived principally from the production of coffee. However, some of the members grow other cash crops, such as cocoa, tea, cotton, etc., which they sell to private buyers. Eighty percent of the members sell their produce through the cooperative. The manager is appointed by the board of directors.

Share capital required from each member originally was 20 shillings, but in 1981 this was increased to 1,000 shillings ($3.15). Ninety percent of the members have at least one share, but some members have many more--100 to 150 shares. At the present time total share capital of the co-op stands at 11.8 million shillings ($37,223).

The fiscal year of the cooperative runs from July 1st to June 30th. The 1983-'84 FY is just ending now and final operating figures thus are not yet available. However, for the FY which ended June 30, 1983 the total volume of business done by the co-op was 150 million shillings ($473,000), and 2 million kilos of members' coffee passed through the co-op. Net operating margin (profit) for the co-op that same year was $25,000. The co-op officials wish to distribute approximately 60% of this to farmer-members in the form of patronage refund ("bonus", as it is called here), but to do this requires the approval of the Ministry of Cooperatives and Marketing. The Nakayaga co-op requested permission to do this almost one year ago, but the MCM has not yet responded to Nakayaga's request. Understandably, farmer-members of this society are less than happy over this delay; they are, in fact, very angry.

The sources of operating capital for this society are Barclay's Bank and member-savings, yet these sources are not adequate for the cooperative's needs. (Members receive a 3% annual interest on their savings deposited with the co-op.) The society's total borrowing for the last fiscal year was 50 million shillings ($158,000), of which it already has repaid 41 million. Bank terms for working capital loans are one year to repay and 18 percent interest; however, the interest rate on future loans will be higher.

The co-op is just now completing arrangements with Barclay's for a 15 million shilling loan ($47,000) which will be used to expand its coffee processing facility and install a "combination" dryer--one which operates on either electricity or firewood. The society operates with an overdraft system at Barclay's and each month must file a report with the Bank indicating the value of the co-op's current coffee stocks on hand. The agreement for this new loan states that the rate of interest shall be "24% compound", but the method or frequency of compounding is not set forth. The loan agreement also states that the interest "rate is open to adjustment at all times at the discretion of the Bank".

This society has relationships with the Central Co-op Union, the Transport Union, the Cooperative Insurance Society, the Cooperative Alliance, and the cooperative Bank. It formerly was a member of the East Mengo District Union but dropped out 21 years ago because at that time East Mengo was badly managed and was losing money. This primary society now sells its coffee directly to the Coffee Marketing Board.

Nakayage is also engaged, on a small scale, in ranching activity and would like to expand this considerably but lacks funds to do so. For all of its operations, the co-op is badly in need of additional transport, tractors for plowing, spare machine parts for the coffee plant, sugar mill, and vehicles; drugs and barbed wire for the cattle; and long-term loans for agricultural investments. Also, individual farmer-members badly need access to credit on long terms at reasonable rates so that they may improve their shambas.

The society employs 250 people, 50 of whom are managerial and clerical staff, and the remainder laborers in the processing plants and sugar cane fields. (Some of the sugar cane processed by the co-op is grown by individual farmer-members and some on land owned by the cooperative itself.)

All members of this society's board of directors are keenly aware that a basic requirement for a successful cooperative business is that it be permitted to handle its own affairs and make its own decisions in a democratic manner. They are equally aware that under the present cooperative law of Uganda too much control over cooperative activity is vested in the Ministry of Cooperatives and Marketing. They would greatly prefer a much greater degree of local autonomy.

In addition to more autonomy, these people feel a real need for education--training for manager and staff in co-op operations, management, accounting, etc., training for board members, technical assistance for farmer-members. They have received no educational or training help from anyone since over 10 years ago, and they would warmly welcome any help in this respect that could be given them.

Visit to Buyala Growers Cooperative Society, Ltd. - (near Jinja) June 26, 1984

This primary society was founded in 1951. Its principal function is the marketing of coffee for its farmer-members, plus a little cotton as well. The Secretary-Manager is appointed by the board of directors and he has held this office for a year-and-a-half. The co-op has eleven employees-four buyers, four porters, and three watchmen.

Membership requirements are these: one must be a farmer, a resident of the immediate area, and over 18 years of age. Entrance fee is 100 shillings (about 30 cents), and a member must purchase 5 shares of stock in the co-op at 100 shillings per share. (This five-share requirement is new; formerly it was only one share.) For the 1,360 farmer-members of the society the average holding is two shares each--although some own as many as 50 shares. The average annual cash income of the farmer-members is 50,000 shillings (about $150), and the major source of this income is coffee.

The fiscal year runs from November 1st to October 31st of the following year. For the last complete fiscal year the society did

16 million shillings of business (approximately $55,000), derived from the marketing of 500,000 kilos of coffee and 30,000 kilos of cotton. Net margin (profit) was 850,000 shillings (approximately $2,700). The Society wishes to pay this out in bonus to the farmer-members, but the permission of the Ministry of Cooperatives and Marketing (MCM) is necessary to do this--and this has not been forthcoming, although the request to do so was made many months ago.

This co-op's only source of operating capital is the Busoga Union, of which it is a member. It pays no interest on funds lent it by the Union. Last FY, Busoga advanced this Buyala co-op 1.7 million shillings ($5,400), but this was not sufficient to meet the co-op's working capital needs. More funds are not available from Busoga simply because it does not have sufficient funds. Buyala is not in debt at all at the present time.

Almost all farmer-members sell their coffee to their Buyala co-op society, perhaps 80 to 90 percent of them. The others sell to private buyers, but only because their co-op does not have enough money on hand to pay cash to these farmers. Buyala has relationships with no other cooperative organizations in Uganda except the Busoga Union to which it belongs. Neither does it have any direct relations with the Coffee or Cotton Marketing Boards--these are handled by Busoga.

The most pressing need of this primary society is education at all levels--for the farmer-members, the co-op management people, and the board of directors. They feel this need very keenly. Equally urgent is the need for more hoes for the farmer-members, with which they can cultivate their shambas. Other problems facing the society include lack of sufficient coffee storage facilities, scales for weighing, tires and spare parts for the two lorries owned by the co-op; bicycles and motorcycles for transport are also needed. So are saws for pruning coffee trees and spray guns for spraying cotton plants.

As far as future plans are concerned, the co-op would like to construct a maize mill, set up a coffee processing plant, open up a farm supply store to provide inputs to farmer-members, and get into ranching--but it lacks the funds to undertake any of these enterprises.

The only relationship with the MCM is that it audits the books of this society.

This society is a progressive one, keen on education. It has constructed its own primary school for the members' children, and would like to have a "health center". It started construction of one on its premises three years ago but has been unable to complete it for lack of funds.

Visit to Namalere Growers Cooperative Society, Ltd. - near Jinja June 26, 1984

This is the youngest (and poorest) of the primary societies yet visited. It was founded only two years ago. Prior to that time, the farmer-members of this society belonged to a larger primary society, but they split off and formed their own co-op because the one to which they belonged was not properly serving members' needs. This is truly a "self-help" operation--the farmer-members are doing everything themselves, not waiting for or relying on outside help.

They got their small society started with each of the 182 members contributing 2 kilos of coffee from each sack of coffee they produced; this constituted the initial working capital of the society. Members are now building their own coffee storage facility of brick; it is in mid-construction. To be a member, one must be a farmer, resident of the area, over 18, and pay an entrance fee of 10 shillings plus purchase 1 share at a cost of 200 shillings. (This entrance fee requirement was just raised to 50 shillings by the membership at their first annual meeting--which was held yesterday.) These are very poor farmers and thus most of them have been able to purchase only one share in their co-op--an investment of 63 cents.

The society's volume of business last fiscal year was 63,000 kilos of coffee worth 3.5 million shillings ($11,000), on which it suffered a net loss of 500,000 shillings (approximately $1,600). Its only source of working capital is the Busoga Union, to which it belongs. Last year it borrowed 2.4 million shillings ($7,600), and presently owes 1.9 million shillings ($6,000). The operating loss last year was due to high expenses and insufficient income (two to three thousand kilos of members' coffee spoiled because of lack of proper storage facilities). Almost all members sell their coffee to their co-op; only a few sell to private buyers, and then only because their own society has no funds with which to pay them.

Pressing needs of this cooperative are hoes for members and bicycles on which they can transport their coffee from heir shambas to the co-op storage facility. Also needed: additional funds to buy materials to complete storage facility; also badly needed is a health center.

This society has no relationship with other co-op organizations except the Busoga Union.

Visits to Busamaga Growers Cooperative Society, Ltd. - near Mbale June 28, 1984

Four hundred farmers constitute the membership of this primary society which is engaged in coffee marketing. It is a fairly new organization, commencing operations in 1976. Its secretary-manager is Wilson Nakibi who was appointed to this position by the board of directors two years ago.

The society retains only two employees in addition to the secretary-manager--a porter and a night watchman; the manager also runs the consumer shop which is operated by the society for the convenience of the members. Members must pay an entrance fee of 50 shillings and purchase one share in the co-op for 150 shillings. The average member has only one and a fraction shares. Average income per member is only about $125 per year--plus the value of the food the farmer grows for himself and his family.

The society's volume of business last fiscal year was 6,572,621 shillings (approximately $21,000), representing the handling of 64,660 kilos of coffee. A net profit of 380,000 shillings ($1,200) was realized, and this is being used to finance the society's consumer shop. None was paid out in bonus to members.

The society's only source of operating capital is the Bugisi district union, from which it borrowed 3,750,000 shillings last year ($12,000). This was inadequate--the actual need was approximately six million shillings.

Almost all members patronize the society, whose only co-op relationship is with its district union. In respect to the CMB, they would like to know the details of how it functions, what its activities are, and where "all the money is going".

Major problems facing the society: insufficient cash to buy members'' produce; thus some members sell to neighboring co-ops, and to private buyers. Also, transport from members' shambas to the co-op is a problem.

The society would like to venture into "small piggery"--pig production. Also, there is a need to provide production credit loans to farmer-members to help them with their fertilizer purchases and spraying. No problems with MCM; they feel this is a helpful organization in its audit and inspection services, and giving them advice on how to run the business.

One board member said, "People of the CMB are eating boughten bread, and the poor farmer cannot even afford tea." The board members feel they should have a farmer representative on the CMB, rather than its members being appointed by the Minister."

The co-op has no debt at the moment. It built its buildings and commenced operations with money from the Coffee Trust Fund (which no longer exists).

<u>Visit to Makhai Growers Cooperative Society, Ltd. - near Mbale June 28, 1984</u>

This primary society can boast of having one of the longest continuously-serving secretary-managers in the entire country: Mr. N. D. W. Wekoyera, who has held this position for 36 years.

The 922 farmer-members of this society are engaged in the growing of cotton and coffee, as well as a variety of food crops. For the fiscal year which ended August 31, 1983 it marketed 64,696 kilos of coffee for its members and 19,000 bales of cotton. Some farmer-members produce only one of these crops, others produce both. However, many of the members who formerly were entirely in cotton have switched to the production of maize in recent years, and this is not marketed through the co-op for it is not yet prepared to do so--although it would like to in the future. Thus, approximately only 50% of the farmer-members are now marketing through their co-op because so many have diversified from cotton to maize.

Requirements for membership are the usual ones: one must be a resident farmer over 18 years of age, pay a 50-shilling entrance fee and purchase at least one 200-shilling share in the society. Average holding per member is six shares. Actual cash income of the average farmer-member is only 30,000 shillings (about $95.00), but practically all are also engaged in subsistence farming which provides sufficient food for themselves and their families. It is estimated that the present market value of this home-grown food is approximately $400 per annum. Therefore, the <u>true</u> annual income of the average farmer-member would be approximately $500.

Last fiscal year this society's volume of business totaled 14,750,370 shillings ($46,500), on which it realized a net profit of 200,000 shillings ($630). It plans to capitalize a portion of this and return the remainder ot the members in the form of bonus--but it has not yet received the approval from the MCM to do so, although the request was forwarded to the MCM at the end of April this year.

110

The Makhai primary society is a member of both the Bugisi Coffee Union and the Massaba Cotton Union--both headquartered in Mbale. Last fiscal year it borrowed 4 million shillings ($12,600) from the Coffee Union and 450,000 shillings from the Cotton Union ($1,400). If it repays the Cotton Union within a period of 4 months and the Coffee Union within 9 months, there is no charge for either of these working-capital loans. The secretary-manager reports that these loans were not sufficient to meet the society's needs. The co-op is not in debt at present.

If funds were available, the society would like to diversify its operations by going into block manufacture (bricks); also it would like to purchase a piece of its own land on which it could grow crops.

Note: The present Massaba Cotton Union originally was part of the Bugisi Coffee Union, but in 1963 because of "social and political differences" they split apart to form two separate district unions. There is also another district cotton union in Mbale which has no relationship to either the Massaba or the Bugisi unions.

Visit to Akia Growers Cooperative Society, Ltd. - Lira - July 4, 1984

This is a primary society, engaged in cotton marketing for its farmer-members. Its secretary manager is a Mr. Johnson Oola, who has held this post for the past two years. He was appointed to this position by election at a general meeting of the farmer-members of this society. Mr. Oola is the only paid employee of this cooperative; he also is a member of the board of directors (the "committee", as it is called here). Since he has held this position, he has not had access to a balance sheet of his society; these are in the possession of the Lango District Cotton Union.

Present membership of this primary society comes to 490; each member must pay an entrance fee of 50 shillings (formerly 10 shillings), and purchase at least one share in the co-op, for 100 shillings.

As for the average number of shares held per member, the secretary-manager has no idea; neither does he have any idea of the average cash income of the farmer-members of this cooperative society--however, he does know that their income, such as it is, is derived from the sale of their cotton to the cooperative, as well as the sale of the food crops they grow--to private buyers--for their cooperative does not market food crops.

The fiscal year of this co-op runs from June 1 to May 31 of the following year. During the last fiscal year the annual volume of business handled by this society came to 5.4 million shillings ($17,000), representing the handling of 60,000 kilos of cotton. During this same fiscal year, the co-op "broke even".

The source of operating capital for this society is its district union, from which it borrows funds to pay its farmer-members for their produce. The funds they obtained this way during the most recent fiscal year were inadequate for their needs--simply because the District Union did not have sufficient funds to lend to all of its member-societies.

Last fiscal year, the borrowings of this primary society amounted to 720,000 shillings ($23,000), all of which it has repaid. Its credit rating is good, and 100% of its farmer-members sell their cotton through their co-op. Akia Growers Cooperative has no relationships with other cooperative societies except the district union to which it sells cotton. Members transport their cotton to the co-op on their heads, in wheelbarrows, and on bicycles--though only a few have bikes.

The major problem facing the society is insufficient finance--more funds are needed to buy members' cotton. If the co-op could expand into other activities, it would like to set up a maize mill and begin marketing food crops for its members--such things as millet, beans, maize, simsim, etc.--so the society would not be dormant after the cotton harvest.

The major problem facing the farmer-members is lack of production-credit. They would greatly welcome a revival of the former farm-credit scheme which was so effective in the 1960s and early 1970s. These farmers badly need hoes, plows, fertilizer, improved seeds, etc., but now have no means of obtaining these inputs.

<u>Visit to Odic Growers Cooperative Society, Ltd. - Lira - July 4, 1984</u>

This primary society is engaged in cotton marketing, was organized in 1963, and does not have a salaried secretary-manager--so the Secretary of the board of directors acts as manager of the co-op on a volunteer basis. There are no salaried personnel.

The 300 members must be farmers, 21 years old or more, pay 50 shillings entrance fee and purchase 100 shillings in share capital in the cooperative. Average share-holding per member is 250 shillings. Average annual cash income per member is 15,000 shillings ($47.00). Crops which they market are cotton, maize, millet, simsim, sorghum, and various vegetables--but they market only cotton through the co-op. They could market their other crops through the Produce Marketing Board, but they do not--for the price the Board pays is too low. Example: The board is paying only 60 shillings per kilo for simsim, whereas the farmer can get 120 shillings from a private trader.

Farmers' vegetable production is easy to sell, but transportation to market is a problem--they need more bicycles to get their crops to local markets.

The co-op's volume of business for last fiscal year was 4 million shillings ($12,600), which represented 45,000 kilos of cotton. On this volume of business the co-op realized a profit of 38,000 shillings ($120). The co-op did not pay a bonus, but used this money to buy additional metal sheeting in order to add a small office to their existing shed.

This primary society received its operating capital from the he Lango district union, interest-free; however, the sum they received was inadequate and late. They needed one million shillings, but they received only 400,000--and they received this one month too late--after the marketing season had begun. This delay in payment resulted in some farmer-members going to neighboring co-op societies to sell their crop there; however about 90% of the society's members sold their cotton to it.

The co-op presently owes no debt and considers itself credit worthy. Its relationship to other co-op organizations is limited to the Lango district union, and this co-op is not too happy with it: It has not received any bonus from the district union; the union's transport service has been very slow; and also the union has been slow in paying for the society's cotton--it takes one to three months after the cotton has been received by the district union before this primary society receives payment.

In regard to the LMB, these co-op men are really not aware of who runs it or what it really is--but they are satisfied with the current price the LMB pays; they say it is sufficient for them to make a living.

Major problems confronting this primary society are finance, transport, and inputs. They would like to get into the business of selling hoes, axes, insecticides, and other farm inputs. Also, they would like to be able to market millet and sorghum, but lack the funds to purchase these crops from the farmer-members. And they would very much like to see a revival of the successful production-credit scheme that was in effect in the 1960s and up to the early 1970s. They had--their members had--a record of 100% repayment of their production credit loans--no defaults. In addition, they would like to open a consumer shop for members, but lack the 1 million shillings required for start-up capital. They seem happy with the MCM--saying it advises and assists them at their meetings and at the time of marketing.

Visit to Ipito Aweno Ipito Gweno Hides & Skins Cooperative Society, Ltd. - Lira - July 4, 1984

This primary society deals only in the marketing of hides and skins--a "hide" meaning a cattle hide, and a "skin" is from a goat or sheep. These are sold to the government tannery at Jinja.

The co-op buys these skins and hides from its members and pays them according to quality; there are two grades. Price paid is 300 shillings per kilo for Grade 1, and 250 shillings for Grade 2. Prices are the same for hides and skins. The co-op receives from the tannery 350 shillings for the 1st grade and 320 for the 2nd grade. If the tannery picks them up from the co-op, the price paid for grade one is the same, but only 300 shillings is then paid for grade two. If the primary society delivers the goods to the tannery, the transport cost is split 50-50 between the tannery and the co-op.

This co-op has no salaried manager; however, it operates Monday through Friday year-round, purchasing an average of 200 skins and 40 hides per day. The Committee acts as the management, and works on a rotation basis in running the co-op's daily business. These men receive no salary--but do receive 500 shillings ($1.58) "sitting fee" per month. As often as possible--which is normally--they pay cash to members upon delivery of the skins and hides to the co-op.

This society was founded in 1966 and now has 420 members. Members must be 18-years of age, residents of the area, pay an entrance fee of 150 shillings and pay 200 shillings for share capital. Average share capital paid in per member is approximately 3,150 shillings ($10.00). Average annual cash income per member is 30,000 shillings ($95.00), which comes from selling cotton, maize, millet, beans and skins and hides--plus a few vegetables.

Volume of the co-op's business the past fiscal year was 10 million shillings ($31,500), which represented a volume of 15,000 goat skins, and 7,000 sheep skins. The co-op realized a net profit of one million shillings ($3,150), of which 700,000 shillings were distributed to members, on the basis of their individual sales to the co-op.

Operating capital comes from the tannery as an advance, with no interest charge. However, these funds were not adequate last year, so the co-op borrowed an additional 700,000 shillings from the tannery--all of which has been repaid. To operate properly the co-op would require a credit line of 5 million shillings (approximately $16,000). The co-op considers itself to be credit worthy and has no outstanding debt. Membership support is 100%--even though there are some private traders in the vicinity who pay more for skins and hides than does the co-op. Recently the co-op purchased 5,000 shillings ($16.00) in shares in the Lango district union in the hopes of obtaining a loan from Lango--but this did not materialize.

The co-op has no relationship to any marketing board--but it sells to a government tannery. Major problems facing the society are inadequate operating capital, shortage of transport to collect hides from the 10 outlying buying stations and lack of any market other than the government tannery. Presently, there are in Uganda five export buyers of hides and skins. The co-op recently tried to sell to one of these buyers without success--because the buyer wanted this co-op "to die." These exporters employ buyers to buy on their behalf and often pay 50 shillings more than the co-op is able to pay. These export buyers have about 50% of the total Ugandan hide and skin market. If the co-op had the funds, it would like to engage in the marketing of livestock and the raising of poultry, as well as obtain additional transport facilities. The co-op is satisfied with MCM's services and the advice it gives--it checks their books, audits them and advises them on operations.

<u>Visit to LUSMEC - Lira Uganda Spinning Mill Employees Cooperative Savings & Credit Society, Ltd. - July 4, 1984</u>

This credit union, organized in 1974, is the most poorly managed, disorganized, and sloppily run organization imaginable. It is supposed to serve the employees of the large spinning mill in Lira which also houses the office of this co-op society. Of the 1,400 workers employed in the mill, only 500 or so are members of the society.

The man in charge--called a bookkeeper--does not know how many members belong to the society. Neither does he know the total amount of savings they have accumulated, nor the total amount of loans outstanding. He appears to be absolutely incompetent, or lazy, or perhaps both. The most recent balance sheet drawn up for the society is for the year 1981, but the bookkeeper was unable to locate a copy of it. Also present at this meeting were the chairman of the board of directors, as well as several other members of the board. None of them had any idea of the amount of member-savings or member loans--not even an approximate idea. The Board is supposed to meet monthly, but doesn't.

The few things they collectively did know are these: the maximum permissible ratio of savings to borrowings is 1:2. The "average" loan made to members amounts to a bout 20,000 shillings ($63.00) which the member has 12 months to repay. Most common purposes for member loans are to pay school fees, buy bicycles, pay medical expenses, or build a house. The largest loan the society has made 2was for 75,000 shillings ($236), and the borrower is given 10 years to repay! Interest charge on loans is 12% flat rate on the total sum borrowed, not on the outstanding balance. Interest paid on members' savings is 2.5% per year.

This credit union receives the full cooperation of the spinning mill management, and it receives members' savings and their loan repayments via a "checkoff" system, or payroll deduction, each month. Thus it would seem a very simple matter to determine how much is being saved and loaned. It also would seem that, because of the payroll deduction system, defaults on loans would be very few or nonexistent. However, this is not true.

Some members who owe money to the society connive with the payroll clerk of the spinning mill and induce him to alter his records, reducing or stopping the monthly deduction from the employee's pay which had been going for loan repayment. This was a very serious problem up until recently, but now this practice has been substantially reduced although not eliminated.

The only cooperative relationship this society has is with the national Uganda Cooperative Savings and Credit Union. It supplies life insurance for members of this spinning mill credit union. Another purpose of the national Union is to loan funds to its member-societies, of which this spinning mill co-op is one. The chairman here, and other board members, are resentful of the fact that the Union has not been willing to loan any funds to this local society. The chairman is aware that the Union requires a society's books to be in good order before it will loan any money to the society--but he feels an exception should be made in this case.

Nytil Employees Cooperative Savings & Credit Society, Ltd.
July 9, 1984

This credit union was organized in 1974 to serve the employees of the Nytil textile factory in Jinja which presently employs 10,000 workers--half of whom are members of this cooperative society. To join, a worker must pay an entrance fee of 100 shillings and buy at least one share in the society for another 100.

Members' savings in the society, as well as their repayment of loans, are handled via payroll deduction by the office o the

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textile mill. Operation of the society is closely supervised by a representative of the Cooperative Department of the MCM who is permanently stationed in this credit union's offices. In addition to this, there is a full-time staff of 13 who re paid employees of the credit union.

Loans made to members range from a minimum of 10,000 shillings ($3.15) to a maximum of 70,000 ($220.00). A member who wishes to apply for a loan is first interviewed by the society-manager of the society, then the loan request goes to the "Loan Committee" for approval; the Committee is made up of the treasurer of the society and two members of the executive committee. The interest charge is 2% per month on the total sum borrowed, not on the unpaid balance, and the face amount of the loan is discounted by this total interest charge. Time to repay varies from 6 to 18 months.

Of the 17 million shillings ($53,600) loaned to members last fiscal year, two million ($6,300) was not repaid--a default rate of almost 12%. This is due to the fact that workers are laid off from their jobs when the mill reduces its textile production, and thus those who owe money to the credit union have no paychecks from which their loan repayments can be deducted.

The most common purposes for which members borrow are these: marriage expenses; school fees; purchase of land, building materials, or bicycles; and payment of medical and funeral expenses. The savings/loan ratio varies from 1:1 up to 1:2, depending on how secure the borrower's job in the textile mill appears to be. Thus, an unskilled worker, who runs a greater risk of being laid off, is permitted to borrow only as much as he has accumulated in savings in the credit union--while an employee whose position is more secure might be permitted to borrow twice the amount of his savings.

Total savings in the society, as of July 1984, are 27 million shillings ($85,000), and loans outstanding come to 32 million ($101,000). Some loans are made "in kind", not in money. That is done in this manner:

At the last annual meeting the membership voted to use some of the savings in their society to initiate a couple of small business ventures, in order to increase the society's income--so now the society is operating a small mattress factory and a small brick-making plant. So--when a member wishes to borrow for the purpose of buying bricks to build a house, he is given so many bricks produced by the society's brick plant. These bricks, which would cost the member 25 shillings each (about 8 cents) if purchased elsewhere can be had from the credit union's brick plant for only 17 shillings (5 cents). Or, if the member wishes to borrow in order to purchase household furnishings--such as mattresses--he is given these instead of money, again at a savings compared to what he would pay elsewhere.

Both the brick and the mattress factories are fairly new undertakings, but thus far they appear to be successful and likely will turn a profit. This profit then will be distributed among the members of the credit union in proportion to the he amount of savings they have in it.

Interest paid on members' savings varies, depending on the amount of surplus the credit union has accumulated at the end of the fiscal year; in the past this interest rate has been about 10% per annum.

After paying interest on savings last fiscal year, the society had remaining an additional 2.5 million shillings ($8,000), which the membership voted to use for the purpose of starting up a consumer shop for their convenience. They require the permission of the Cooperative Department of the MCM to do this, and formally requested this permission last August--almost one year ago. The Society is still awaiting a reply from the Cooperative Department.

This savings and credit society is a member of the national Uganda Cooperative Savings and Credit Union; the society deposits its savings with the national organization, and also borrows from it at times when the member loan demand is high--for example, when the payment of school fees is due. At the moment, this society owes the national organization 450,000 shillings ($1,400).

If funds were available (which they are not at the present), this savings and credit society would like to branch out into additional activities--such as providing low-cost housing for its members and setting up a maize mill. It already has acquired a plot of land for the mill but lacks funds to carry the project further.

The major problem facing this society is insufficient capital--not merely insufficient to undertake these new enterprises--but insufficient to always pay a member his accumulated savings when he quits or is laid off from his job in the textile mill. Frequently, a member must wait some time before he is able to retrieve his savings. No doubt this serves as a strong disincentive for other employees of the mill to join the society.

This society is a member of the Transport Union. In 1982 the society purchased shares in it, with the hope of acquiring a lorry through this membership in the Union--but thus far no lorry has been forthcoming. The society also has shares in the Cooperative Bank, largely because cooperative societies in Uganda are "expected" to. In 1980 the society borrowed 700,000 shillings ($2,200) from the Bank, which it has repaid. It has had no recent dealings with the Co-op Bank.

Abeggaba Fishing & Transport Cooperative Society, Ltd. - Kampala - July 13, 1984

This fishermen's cooperative is a relatively young one, founded only two years ago. Fishermen must pay an entrance fee of 200 shillings (63 cents) and purchase one share in the co-op for 1,000 shillings ($3.15). At present, there are 76 fishermen who have met these requirements, and another 113 who have paid the entrance fee only, so they might be considered to be semi-members.

Most of the fishermen have their own canoes; the few who do not rent them from others. Of the 76 members, only 11 have motors for their boats--and of these 11 only six are functioning; the remaining five are broken down and spare parts to repair them are difficult to obtain, as well as expensive.

Not all members of the co-op are fishermen; some (those with larger boats and motors) earn their income by transporting cargo on Lake Victoria; they carry firewood, charcoal, matoke, etc. from islands in the lake and points on its shoreline to Kampala, where it is unloaded on the beach near the cooperative's headquarters. The money thus earned is retained by the member; the co-op is not involved.

Prior to the existence of this fishing co-op, this beach was all underdeveloped--it was in bush, and little fishing was being done--largely because there was not a great demand for fish by the people of Kampala. However, the cooperative cleared the bush, made the beach usable, built its office, a health clinic, and other structures there--and then set about to create increased demand for fish. They did this by advertising fresh fish via mass media--radio and newspaper--and now they are doing a brisk business.

Fishermen with boats and paddles only go out about four miles from shore to catch their fish, usually by net. Two or three men travel in one canoe. Those with motors for their boats may travel as far as 80 miles from shore to catch fish and/or haul cargo. A fisherman with a motor on his boat who can travel further to better fishing grounds can catch 250 to 300 kilos of fish per day during a good fishing season. A man without a motor averages only approximately 50 kilos of fish per day.

Most fishermen go out onto the lake early in the morning--about 6:00 a.m.--and return around noon. Those who travel long distances go out one day, stay overnight on an island in the lake, and return the next day. When the fish are brought to shore on the beach near the co-op's headquarters they are turned over to a representative of the co-op who acts as auctioneer, for the fish are sold by auction to buyers on the beach. The price obtained by the auctioneer varies inversely with the size of that day's catch. If the catch is a good one, the price received is less--it is a "buyers' market." And when the catch is a poor one--with a smaller supply of fish brought to the beach--it is a "sellers' market": the price received is higher. However, whatever the price received at auction, the co-op auctioneer retains 3% of this for the cooperative and turns over the other 97% to the fisherman-member who caught the fish.

But before the day is over, the fisherman pays out considerably more than the 3% commission. There is a "Market Master" on the beach at all times--a man appointed by the Kampala City Council to collect a tax for the city, called "market dues". This varies with the size of the fish caught, the size of the day's total catch, and the mood of the Market Master. On days when the catch is poor, the market dues are increased. However, fairly typical market dues for a Nile Perch that weighs 30 to 50 kilos would be 90 shillings ($2.84). In addition, fishermen must pay what is called an "income tax". This is an annual assessment of 6,000 shillings ($19.00) for a boat with a motor and 3,000 shillings for a boat with no motor. Those who haul cargo also pay dues to the Market Master--50 shillings for a pile of firewood, 60 shillings for a bag of charcoal, and 10 shillings per stem of matoke.

In addition to the Market Master appointed by the city, there also is a representative of the Ministry of Fisheries present on the beach to "maintain law and order"--that is, to see that the fishermen are using the proper nets, and that each boat that goes out has a license to fish. This license fee is 40,000 shillings per year ($182.00) and is collected by the man from the fisheries ministry. For an additional 30 shillings (10 cents), he affixes or paints a number on the side of each canoe to identify it. Each boat must have its number.

Fishermen seldom go out alone. The smaller canoes always carry two or three men, the larger ones five or six. However, only one man in each boat--the boat's owner--is a member of the fishing co-op; the others are hired help, paid a monthly wage of 2,500 to 3,000 shillings (approximately $8 to $9), and the

120

owner-employer also is expected to provide daily food for his helpers, at a cost of about 500 shillings per day ($1.50). Those men with motors have an additional expense for fuel, and this is substantial--as much as 22,000 shillings per day ($69.00).

The main problems facing these fishermen and their cooperative venture are lack of sufficient fishing gear--nets, floats, hooks, etc.--lack of motors for the canoes, lack of spare parts for the broken motors, and lack of life jackets. Because of this, last month 40 fishermen were drowned in a storm on Lake Victoria; six of the deceased were members of this cooperative.

Muchahi Savings & Credit Society, Ltd.-Kabale - July 20, 1984

This society is involved in a savings and credit operation and also does some limited marketing of inputs and produce. It was founded in 1966 and has 970 members--which represent approximately 20% of the area-potential.

The Committee screens the member applicants, and anyone who is not a moral and honest person is not accepted in membership. Requirements for membership are an entrance fee of 200 shillings (63 cents) and purchase of one share for 2,000 shillings ($6.30). All members own only one share.

Average annual cash-crop income per farmer-member is estimated to be 20,000 shillings ($63.00). Prime crops grown in the area are sorghum, beans, and Irish potatoes.

The fiscal year of the society ends on June 30th; as of the 31st of May 1984 deposits in the society totaled 6,313,806 shillings ($19,917) and loans outstanding of 4,693,789 shillings ($14,807). A profit is anticipated for the fiscal year just ending--a sum of approximately 800,000 shillings ($2,524).

The Cooperative Department of the MCM is still working on completion of the 1982 accounts; that year a profit was made, and they wish to use it to buy materials to construct a new office building--but cannot do so until the 1982 audit is completed and permission is given.

The society's sole source of operating funds is it members'' own savings. The society has never borrowed from commercial banks, nor elsewhere. Funds of the society are deposited in area banks.

Average loan at present is about 5,000 shillings ($15.77); the interest charge is 2% per month, and the loan/savings ratio is 2:1. The society is presently having some default problems, which may run as high as 30%; however, all chiefs in the area have been asked to assist in collection, and it is hoped that default-losses will be reduced to not more than 10% of loans made.

Collateral requirements normally consist of a co-signer for the loan; or land, animals, or buildings. Prime purposes of loans made to members are to purchase ag-inputs, school fees, marriage costs, and commercial trade. Maximum loan thus far made is 120,000 shillings ($378.00), and the minimum loan granted is 2,000 shillings ($6.30). Repayment terms are limited to 12 months, with monthly payments to be made. A 10% surcharge is levied for late payments. There is a minimum mandatory monthly savings requirement for all members of 50 shillings (16 cents).

This society is affiliated with the Kigezi District Vegetable Growers Union, from which they receive seeds, hoes, and other inputs. Also, there is affiliation with the Uganda National Savings and Credit Union and this society hopes to obtain loan from the national organization to develop a plot of land the primary society owns in Kabale. The society also receives its stationery from this national union.

The National Savings and Credit Union also supplies this society (and others) with life insurance for its members--for a 1% charge, the member's loan is paid off in case of his death, and/or his beneficiaries receive twice the amount of his accumulated savings in the society. (At the present there is some dispute between the national union and the Cooperative Insurance Society as to which should perform this life insurance function.)

This primary society is a member "in name only" of the Co-op Bank. Some time ago, the Commissioner of Cooperative Development of the MCM decreed that the society should purchase shares in the Co-op Bank so as to increase its capital. Thus, this society purchased 30,000 shillings worth ($95.00).

This society employees a secretary-manager and a bookkeeper; major problems facing the society are need for a new office building, and also bicycles are badly needed so the society can travel about the area to police the loans outstanding. In the future, the society would like to develop its commercial plot in the town and expand the produce marketing activities.

As for relationships with the MCM, the chairman of this society reports that some of its field staff is not effective, and he criticizes the long delay in the audit process for the 1982 fiscal year. (There are 35 MCM staff in this district, serving 215 primary societies of all types, of which approximately 175 are active.)

Muyumbu Vegetable Growers Cooperative Society, Ltd. - Kabale - July 20, 1984

This primary society involved in vegetable marketing was founded in 1965. It does not have a salaried secretary-manager or any other salaried employees. A total of 365 farmer-members belong to it; membership requirements are an entrance fee of 100 shillings (32 cents), and purchase of one share for 500 shillings ($1.57). The average member holds only one share.

Average annual cash crop income per member is estimated to be 15,000 shillings ($47.00). Primary crops in the area are sorghum, Irish potatoes, and beans. For the past two years, this primary society has been dormant; it has done no business because of lack of market. Their district union cannot buy the produce from this primary society because the union has no way to dispose of it. No inputs have been made available to this society for the past two years.

Some members of this primary society have gone directly to the union to obtain their vegetable seeds, but most obtained their seeds from area traders. Production presently is about one-third full capacity because of no market. Production could be increased if the farmers possessed seed, hoes, transport and a market.

Production has been falling since 1979 and appears to ow hav. reached bottom. Also, production has shifted to longer-growing crops--such as sorghum, and has shifted away from perishable vegetable crops because of lack of a market. Overpopulation is a major problem in the area, and as a result farm plots are highly fragmented. Example: one committee member had a farm of 10 acres 20 years ago; now he has only five, because of parcels given to his sons; another had three acres, now has one.

This primary society's only cooperative affiliation is with the Kigezi District Vegetable Growers Union in Kabale. Major problems facing this primary society are, obviously, lack of market--along with lack of seeds, hoes, and transportation. If funds were available, the society would like to construct a brick factory and also operate a consumer store for their members.

DISTRICT UNION INTERVIEWS

APPENDIX D

DISTRICT UNION INTERVIEWS

Visit to East Mengo Growers Cooperative Union, Ltd. - Kampala - June 20, 1984

This district union was founded in 1968 and now has 270 primary society members, with an average of about 250 farmer-members per primary society. However, entire families are involved in coffee culture, so many more people are involved than is indicated by the farmers alone. The extended family pattern is normal in Uganda. The average sized family consists of 8 to 10 persons, and in some parts of the country more than 10. Of the 270 primary societies which make up this district union, the smallest has only approximately 50 farmer-members and the largest has more than 1,000. Member share capital in the Union totals 40 million shillings ($126,000).

The size of the coffee farmers' shambas ranges from one-half an acre to five acres. Average coffee production per farmer per year is 700 kilos. The farmer now receives 130 shillings (41 cents) per kilo from his primary society. The primary society in turn receives 140 shillings (44 cents) when it delivers the coffee to the district union. The extra 10 shillings (3 cents) is for the primary society's operating expenses, e.g., transport to the district union coffee plant, bagging material, salaries and wages.

Most small farmers have informal tenure of the land they farm. They do not own it, but once the farmer has developed the land, built a house on it, etc., he then cannot be evicted by the owner; and he does not pay the owner any rent. there are very few large coffee growers in the country. Before Amin, there were some large coffee companies with sizeable holdings, but the owners were expelled from Uganda and their plantations went to bush.

There are two coffee harvests per year; one large and one small. The large crop comes between September and February, and the small one (called the "fry crop") comes between April and July.

This district union processes the coffee from its primary societies and sells it to the Coffee Marketing Board; it also provides transport service, gunny sacks and storage facilities. East Mengo Union has 12 coffee processing plants and operates in two political districts. It also handles distribution of bicycles and fertilizers to its member-societies.

East Mengo traditionally has been the largest coffee processor in Uganda. In pre-Amin days it handled 40 to 50 thousand metric tons of coffee per year, but now it is down to 25 to 30. This decline is due to several reasons: during the Amin days and the subsequent "War of Liberation", many shambas were neglected and went into bush. Also, banditry activities in the Luwero District have appreciably contributed to lower production. In addition, competition from the ever-increasing number of private coffee plants has reduced the quantities handled by this Union, particularly in the Mukono District.

The General Manager of this union, Mr. Anthony Ssingo, has plans underway to reorganize the management structure of the union, combining certain functions so as to reduce the present large number of separate departments.

All mid-management employees are hired by Mr. Ssingo and his Committee. Openings for senior staff are advertised and all applications are submitted to the Commissioner of Cooperative Development of the Ministry of Cooperatives and Marketing. There, they are screened by a committee consisting of the Chairman of the district union, another member of the district union's committee, an external auditor, a representative from the MCM, and an expert in the field in which the opening lies. The General Manager of this district union is not a member of this committee, but he attends its sessions. As for discharging employees, the General Manager has the authority to remove lower echelon staff; in the case of mid-level staff he notifies the Committee of his action; and for the discharge of a senior level staff member the MCM must be consulted.

In addition to its large coffee operations, the East Mengo Union also markets small amounts of cotton, only 400 to 500 bales per year. Formerly it handled 40,000 bales annually. However, now that the minimum wage is being increased it is not economically feasible to grow much cotton for it is such a labor-intensive activity.

In connection with this cotton activity, a serious problem now faces the East Mengo Union--for the Ministry of Cooperatives and Marketing is now about to provide this union with a greatly increased cotton-ginning capacity--doubling its present capacity. Obviously, this is absolutely unneeded--and the cost of this very expensive capital equipment will be charged to the East Mengo Union. Mr. Ssingo, the General Manager, says "this will ruin us; it will be financially disastrous."

As things stand now, this district union is unable to refuse this unnecessary equipment. And the irony is that this extra ginning capacity <u>is</u> needed elsewhere in the country--and yet nothing is being done to effect this transfer of ginning machinery. Why this is not being done can be explained only as inexplicable lack of action on the part of the MCM to take corrective measures. The Ministry of Cooperatives and Marketing, and the Cooperative Bank are both well aware of this situation, and yet nothing is being done to correct it.

According to Mr. Ssingo, the International Monetary Fund is of the strong opinion that other matters might well be corrected-especially in the case of the Ugandan farmer. The IMF would like to have the farmer benefit more from his own efforts than is the case at present; the IMF feels the farmer should be permitted to respond to market incentives, rather than be tied to the marketing boards and required to accept the prices set by these boards.

In the fiscal year which ended in July 1983 this district union borrowed approximately 700 million shillings ($2,208,000) for crop finance. Its borrowings this current fiscal year will be about 1 billion shillings ($3,155,000). The Coffee Marketing Board negotiates loans from the Uganda Commercial Bank for the district coffee unions, because the banks do not consider cooperatives to be credit worthy as a result of previous defaults. An exception to this is the Busoga Growers Cooperative Union which negotiates directly with banks for its crop finance requirements.

Primary society members of this district union elect its committee--consisting of nine persons, one-third of whose terms expired each year--so there was a good continuity on the committee. However, the MCM recently decreed that there must be a new board of directors each year; incumbent members may be reelected, although this is not guaranteed to happen. The maximum continuous term for any board member is 10 years.

The law requires that primary societies are supposed to sell their coffee to their district unions, but not all do so. About 70% of the primary societies belonging to the East Mengo Union sell their coffee to it. Most of the 30% selling elsewhere are semi-dormant societies, mostly located in the Luwero District. Reason for their dormancy: insecurity.

Also, some primary societies own their own coffee processing equipment and they sell directly to the Coffee Marketing Board, for they see no advantage in dealing through their district union. although the primary societies are required by law to sell to the district unions, the MCM does nothing to enforce this requirement. The fact is that the MCM is in charge of all marketing in the country, both via cooperative and via non-cooperative channels. Thus, it may be indifferent as to how produce is marketed.

The law also requires that the primary societies pay cash to the farmer at the time of delivery of the coffee to the cooperative, but some primary societies are now always able to do this. Therefore, some farmers sell to private buyers (who short-weight them) because of their need for immediate cash payment. Most primary societies make arrangements for their crop finance loans in August, yet often money is not available to them until December.

For the August 1982-July 1983 operating year, 35% to 40% of all coffee grown in uganda passed through the East Mengo Union. For the current fiscal year this volume will be less, although a larger volume is expected for the 1984-'85 year. Most of the primary societies which market their coffee through the East Mengo

Union obtain their crop finance loans from their Union. Only seven of them have been able to obtain loans through other channels.

The Union's fiscal year ends July 31st, and its annual meeting is supposed to be held within four months after this. However, it usually is not held until nine to 12 months after the close of the fiscal year. This is due to the difficulty of posting accounts because of antiquated accounting machinery nd frequent power failures, as well as communication problems between the primary societies and the Union. It is expected that the annual meeting for the fiscal year ending July 31, 1983 will be held soon. each primary society sends one representative to this meeting, regardless of the size of the primary society.

Mr. Ssingo, who also is a member of the Coffee Marketing Board, feels that district unions throughout the country should have some equity in the CMB. Now, he says, "all the profit" goes to it. He reports that "the export tax is killing us," and explains that what he means by this is that the price the CMB receives on the world market. Another problem, according to Mr. Ssingo: the coffee processing equipment of the CMB is not up to international standards, thus placing Uganda at a disadvantage in the world market.

Uganda is a member of the International Coffee Organization (ICO). Uganda's market quota is set by the ICo and comes to 4% of the total output of all ICO member-countries. Yet, each year Uganda produces approximately 5% of the ICO total, thus accumulating an annual surplus.

According to Mr. Ssingo, the price the CMB pays the district unions for coffee is determined in this manner: The CMB recommends a price to the Ministry of Cooperatives and Marketing, who has "over-riding authority" in relation to the CMb. The MCM then passes on its recommendation (which may, or may not, be the same price recommended by the CMB) to the President's Cabinet, which consists of some 25 members. These top government officials then announce the coffee price to be paid, although it is not known which members of the Cabinet participate in this decision.

The East Mengo Union is now attempting to diversify its operations instead of relying exclusively on coffee, and it now is venturing into pineapple production. The Union owns 37 square miles of good land, but because of security problems it now has access to only four square miles of this large plot and is developing it for pineapple. (Formerly, the Union was engaged in ranching; it owned 3,000 head, all of which were rustled by "bandits", whose identity remains unclear.)

Mr. Ssingo has other plans for diversification as well: He would like his Union to get into the production of maize flour, the production of animal feed, and into the dairy cattle business. Yet the Union lacks the necessary investment capital or these ventures, and the procedure to acquire it is not simple--it works like this:

The Union must first carry out an economic feasibility study of a new project it wishes to undertake; then its committee must give its approval. Next, the Union management must discuss the matter with the District Cooperative officer and obtain his approval. Once this is done, the DCO transmits the request to undertake the project to the MCM. If the MCM approves, the district union then may go to the Uganda Commercial Bank and apply for a loan--which the Bank may, or may not, grant. If it does, the interest rate is 24% plus a 1% "commitment fee".

<u>Visit to Busoga Growers Cooperative Union, Ltd. - Jinja - June 25, 1984</u>

This co-op union, founded in 1951, deals in coffee and cotton. Years ago, cotton was its main crop, but now it is coffee. In the early '70s, for example, the co-op handled over 100,000 bales of cotton a year, but for the fiscal year ending July 31, 1983 the volume was less than 11,000 bales. For the same FY the volume of coffee processed and marketed by the Union totaled 15,282 tons (clean coffee). The co-op owns and operates two coffee processing facilities nd is in the process of constructing a third. It owns seven cotton ginneries but is operating only two of them at present because of the small amount of cotton available. Individual farmer-members of this Union's primary societies have diversified out of cotton over the years, for they find other crops much more profitable and less labor intensive.

A total of 250 primary societies belong to this Union. Membership of these ranges from a low of 500 to a high of almost 1,500 farmers. Average membership: 1,000 farmers. Membership requirements are a 50 shilling entrance fee and the purchase of 5 shares at 200 shillings each, however most primary societies have much more than this in share capital. At the forthcoming annual meeting (which will be held within two months of the close of the current FY), management will propose raising the value of shares to 1,000 shillings each. Share capital now totals 2 billion shillings ($6 million).

The Union's volume of business for the FY ending July '83 was 3 billion shillings ($9,450,000), and net earnings for the year were 300 million shillings ($945,000). However, he government takes 49% of this in direct income tax, another 1% for education tax, and 25% for a required reserve (which is retained by the government), leaving only 25% of the net earnings for the Union to dispose of itself.

The Union's plans for the use of this remaining sum (approximately $236,000) are as follows: 10% to go into the Union's own reserve fund for future expansion of facilities; 60% for members' bonus; and the remaining 30% to be divided up between expenditure for education of primary society members, management incentive, and board members' incentive.

The Union's sources of operating capital are the share capital of its members and loans from Barclay's Bank. (Formerly, prior to 6 years ago, the Union received some grants from government, but no more.) Present assets of the Union total 3 billion shillings ($9 million), <u>plus</u> the stocks of coffee and cotton it has on hand. It operates with Barclay's on the "overdraft system", paying interest on the outstanding balance at the end of each month. The interest rate is 24% and the term of all operating capital loans is one year. The management staff of this Union reports that its sources of working capital are adequate, and that it receives the funds it needs when it needs them. This is possible because it has a very good credit rating and adequate collateral at all times. (This management attributes the difficulties other unions have in obtaining adequate funds in a timely manner to poor management and planning within the unions.)

The Union borrows approximately 2 billion shillings ($6 million) per year (the amount each year depends on the price of coffee and thus the amount the Union must pay to its primary society members). Its present debt is 1.1 billion shillings ($3,300,000).

Management reports that 100% of the primary societies market their crops through this Union. Two reasons for this: This union can make prompt payment for the crops it receives (because it has the funds to do so), and second, because there are no private coffee or cotton buyers operating in the districts served by this Union. (It operates in 3 districts.)

Relationships of this Union to other cooperative organizations in the country:

1. Uganda Co-op Alliance: This entity is supposed to provide co-op training, advice, etc., but the service this Union has received is very poor, very insufficient. This Union's management attributes this to poor management and poor organization within the Co-op Alliance.

2. Uganda Co-op Central Union: Service provided by this organization is very bad. It is supposed to supply, among other things, spare parts to this Busoga Union--but the time required to receive spare parts, once ordered, is one year! Busoga Union management says that if the Central Union operated efficiently, this should not take more than one month.

3. Uganda Co-op Transport Union: Formerly, good service was received from this Transport unit, but in recent years no. This is due to lack of proper planning on the part of government officials concerning which agencies are allowed to import what. Now the Transport union is very disorganized. Thus, to handle its transport problems, Busoga Union has a fleet of 30 vehicles of its own--but many of these are aging badly and thus its total self-capacity for transport is not sufficient. So, in addition to its own fleet of lorries, it leases others from private firms. It does not lease lorries from the Co-op Transport Union because the rates it charges are higher than private leasing firms.

4. The Cooperative Bank: Years ago, Busoga obtained some of its working capital from this Bank, but not recently--because the Bank has no funds to lend and is badly disorganized.

5. Uganda Co-op Insurance, Ltd.: Busoga gets stocks insurance, fire insurance, burglary insurance, and such from this organization, in addition to retirement insurance (pension plan) for the Busoga staff. Service received from the Co-op Insurance Organization is just so-so.

6. Uganda Consumer Cooperative Union: Busoga did receive some hoes from this organization, but little else. Has little dealings with it.

An additional word concerning the Uganda Cooperative Alliance: According to the Busoga management, it lacks sufficient finance to fulfill its educational function for the cooperative movement in Uganda, in addition to which it does not have the right personnel to do the job. (This latter deficiency may well be a function of the former.)

It is now being proposed that the Cooperative Alliance take over the function of auditing the Unions throughout the country.

131

At present, Unions retain independent Certified Public Accountants to do this. (Actually, the CPAs are selected by the MCM, but the Unions pay for the service.)

Relationship to Marketing Boards: Busoga has had problems with the Lint Marketing Board in respect to grading of cotton and delays in payment. However, no complaints against the Coffee Marketing Board in respect to grading--but payment is slow.

Major problems facing this Union are insufficient transport facilities, lack of spare parts for their vehicles and machines, and education. Busoga management stresses the vital need for education at all levels--members of the primary societies, management and boards of the primary societies, and staff of the Busoga Union. They assert that often at least one-half of the farmer-members (and board members) of the primary societies are illiterate or semi-literate and require large amounts of education and training.

As far as the individual farmer-members of the primary societies are concerned, in addition to education they sorely need more plows, bicycles and/or wheelbarrows for transport. An English Raleigh Bicycle, best suited for transport job, now costs about $300--twice the average annual income of the farmer.

Moving up to the level of the primary societies, a basic need there (in addition to education) is storage facilities for the crops brought in by their farmer-members. These farmers must bring their produce to some central point, from where it is picked up by the district union for delivery to its coffee plant. Most primary societies do not have proper storage. Some do; others must pay high rent to private parties for storage facilities. Still others build mud huts to hold coffee--but often the walls collapse and damage the coffee.

Does the MCM help or hamper this Union: Ideally, the MCM should be helpful to all cooperatives. However, often its field staff is a "hindrance as far as funds are concerned." Sometimes they conspire with management of the primary societies to embezzle funds--showing them how to pretend to make purchases, which are not consummated, and pocketing the money--sharing it, of course, with the MCM fieldman. According to Busoga management, some of these MCM fieldmen are "teaching people how to cheat."

The Busoga Union now is setting up its own audit system for its primary society members, and thus will ot have to rely n the auditors of the MCM. Once this system is in operation, it should help to reduce the cheating and embezzlement at the level of the primary society management, in conjunction with field personnel of the MCM.

Busoga management feels that MCM has far too much power; this has left little freedom for cooperatives to act on their own, which has created many problems. They feel this power should be shared. MCM should be able to set the legal requirements for co-ops and handle registration, but should leave every-day operations to the co-ops themselves. For example, Unions now cannot handle disbursement of their own surplus funds or make any major purchase without permission of the MCM. Final audit function of co-ops should be within the Co-op Alliance. Trouble now is, MCM people set up the books for the primary societies, help them in keeping the books, and then also perform the audit function. The functions of keeping accounts and auditing the accounts should be separated!

The Union is now in the process of acquiring a 40-square mile ranch at Buyende, in Kamuli District and would like to diversify into cattle-raising. Plans are also under way to start a brick and tile project as well as erecting a citrus processing plant, for Busoga Zone is a leading producer of citrus fruits.

Also, it is the hope of this Union that it--and the cooperative movement of Uganda--might have a substantial share in the oil milling industry. However, this will be possible only when government allows the cotton cooperatives to handle their own cotton seed, after allocation of the seed necessary for planting. At such time, this Union would like to erect and operate its own oil mill.

Visit to Bugisu Cooperative Union, Ltd. - Mbale - June 27 & 28, 1984

This district union, founded in 1954, has 133 primary societies as members. Its function is the buying and processing coffee. It employs 500 skilled and unskilled workers, both on a permanent and temporary basis.

Requirements of a primary society for membership in this Union are these: the primary society must pay a 200-shilling entrance fee, purchase at least one share in the union at a price of 1,000 shillings, and must have demonstrated a capacity to market at least 100 tons of coffee per season.

The average primary society holds seven shares in the union. The Union's annual volume of business last fiscal year was 1.8 billion shillings ($5,677,200), on which it realized a net profit of 130 million shillings ($41,000). This volume of business represents the buying and processing and selling of 14,000 tons of coffee.

The Union has not yet made disposition of this profit, for it is awaiting approval of the MCM, an approval which was requested months ago.

Its source of working capital is the Uganda Commercial Bank, to which it pays 18% interest on borrowed funds. Last fiscal year it borrowed from the bank 1.5 billion shillings ($4,731,000). This sum has been repaid. At present the co-op union has no debt. The funds it obtains from the bank are adequate to meet the Union's needs, and it receives these funds when needed. Its relationship to other cooperative organizations in the country is good; its relationship to the marketing board is only fair. The major problem facing this union is lack of funds for further development. It would like to engage in maize processing, for this is a growing sector of the nation's agricultural economy. At the same time, this union wishes the MCM would "relax" its supervision of cooperatives throughout the country.

Originally, this district union was a semi-parastatal organization, but it became a cooperative when the primary societies in the area took over the ownership and the management of this union. Originally, this union marketed its own coffee directly in the world coffee market, but in 1969 the Coffee Marketing Board (CMB) came into being and took over this function.

The manager and the board members of this Union greatly preferred the former method of operations. Also the farmers who produce the coffee which comes to this Union would prefer to have their own representative on the CMB, in order to have some voice in setting the price paid for coffee. Another thing this Union is dissatisfied with is the fact that at present (and for some years past) it must accept the grading of its coffee as done by the CMB, a grading-system which is less than satisfactory. The chairman of this Union says, "We feel we really can manage our own affairs."

Another member of the Committee (board of directors) sys: "We dislike the present pricing system. Prices of coffee are fixed by the coffee marketing board, and they often do not measure up to the cost of production of the coffee. We never get enough for our coffee."

The manager says: "We should be allowed some margin for development to maintain our facilities and expand our operations--but this is not possible with the present pricing system."

At present, the CMB pays the district union price "X" per kilo of coffee, and then sells it on the international market at a higher price. How much higher? The manager does not know. However, he says that this district union is "perfectly capable of performing all functions," and it has no need for the CMB.

However, he says, all district unions in this country are not able to do this. He feels the CMB should continue to handle the export function for the weaker district unions--but strong ones such as this should be able to operate without the intervention of the CMB.

The relationship of this district union to the MCM is "good"--but nevertheless this Union would prefer more autonomy in respect to the MCM. As things stand now, any major sale or purchase by this Union must have the approval of the MCM. Also, the distribution of any bonus by the Union must be approved by the MCM.

Visit to Massaba Cooperative Union, Ltd.-Mbale - June 28, 1984

This district-level society, engaged in the processing and marketing of cotton, has in membership 43 primary cooperative societies; 17 of these deal only in cotton and 23 deal in both cotton and coffee. The union employs 119 managerial, office and clerical personnel--plus 80 workers in its ginnery, s well as its printing plant and maize mill which the Union also operates.

To become a member, a primary society must pay an entrance fee of 200 shillings (63 cents) and purchase at least one share in the union for 1,000 shillings ($3.15); however, the average primary society holds 56 of these shares.

The Union's volume of business last fiscal year totaled 26,408,328 shillings ($83,300), on which it realized a net profit of 3,361,802 shillings ($10,600). This net margin has not been distributed as bonus to member societies or utilized in any other manner--for permission to do so has not yet been received from the Ministry of Cooperatives and Marketing.

The Massaba Union's principal source of working capital is the Uganda Commercial Bank, with the Lint Marketing Board acting as guarantor for the loans the Bank makes to the Union. Last fiscal year the Union borrowed 100,000,000 shillings ($315,500), of which it still owes 80,000,000 shillings ($252,000).

Mr. Davies K. Wamumbo, secretary-manager of this union, reports that relationships to other cooperative organizations in the country are good, and that the MCM is helpful to this Union--giving it valuable assistance. (Fact is, Mr. Wamumbo is an employee of the MCM, assigned by it to serve as secretary-manager of this Union, and the bulk of his salary is paid by MCM.)

Major problems facing the Union are inadequate transport facilities and inadequate financial resources. The Union would very much like to expand its maize milling operation, for maize production is becoming more and more predominant in the region; also it would like to expand the printing plant operations.

The Union owns two ginneries, but one is closed down and the other is working at far less than full capacity. Last year the Union handled only 1,344 bales of cotton.

Mr. Wamumbo displayed a directive sent out to all coffee and cotton marketing unions by the MCM setting forth the official prices for these commodities; the directive was dated March 9, 1984, and it gave the following figures:

For Robusta Kiboko coffee, 100 shillings per kilo shall be paid to the farmer; 110 shillings is paid to the primary society if it delivers the coffee to the Union, but only 103 shillings if the Union must itself go out to collect the coffee from the primary society.

As for cotton, the following prices are given: For AR Cotton (best grade), 90 shillings is paid to the farmer, 100 shillings to the primary society if it delivers cotton to the union, and 93 shillings if it does not. As for BR Cotton (second-grade) the comparative prices are these: 50, 60, and 53 shillings.

(Incidentally, 560 kilos of seed cotton will yield 185 kilos of cotton lint and 350 kilos of cotton seed, for total of 535 kilos--a loss of 25 kilos from the original weight. One bale of lint weighs 185 kilos, or approximately 400 pounds.)

Current assets of this Massaba Cotton Union come to 456,658,500 shillings ($1,440,000).

Mr. Wamumbo stated he indeed would like this Union to have representation on the Lint Marketing Board so that it might have some voice in determining cotton prices. As it is now, this union is directed to pay the cotton prices shown above to its primary-society members for their seed cotton, which the Union then processes.

However, the Union is not informed until later how much the Lint Marketing Board will pay it for the lint and the seed. The final result might be a loss or a gain--but this cannot be known until after the fact. Thus, the Union has little control over its own financial destiny.

Visit to Lango Cooperative Union, Ltd.-Lira - July 3, 1984

This district union with 139 primary societies as members deals in cotton processing and marketing. Its Secretary-Manager, John Odur, and his senior staff are competent and capable men, perfectly able to manage the affairs of this union.

Membership requirements for primary societies consist of an entry fee of 100 shillings and the purchase of at least one share in the Union, at a price of 1,000 shillings. At present, 3 million shares are issued and are held by the member-co-op societies, for an average holding of 21,500 shares each. The Union has a staff of managerial and clerical personnel of 31 and 300 workers in the five ginneries it operates. The Lango Union also owns three other ginneries, but they are inoperative--the gins and other machines are being cannibalized to keep the other five running. The ginnery at the Union's headquarters is equipped with machines manufactured in England at the turn of this century.

During the fiscal year which ended July 31, 1983 the Union processed and marketed 12,000 bales of cotton, representing a monetary value of 600 million shillings. At the present official rate of exchange, this is equivalent to $1,890,000. Total assets of the Union are currently valued at 627 million shillings ($1,975,000). The net margin (profit) on last year's operations was 55 million shillings ($173,250). The Union wishes to distribute this as bonus to its member-societies but has not yet received permission from the MCM to do so--even though it submitted this request "a long time ago."

During the current fiscal year which ends this month, total volume of business will exceed one billion shillings ($3,150,000)--almost double last year's volume. The Union obtains its operating capital (really, "crop finance"--for it is unable to obtain funds for any other purposes--such as investment in new capital equipment, or diversification into other activities which it would like to undertake) from the Uganda Commercial Bank, backed by a guarantee from the Lint Marketing Board. Up to the present it has not been possible for district cotton unions to obtain bank loans without going through the LMB and obtaining its guaranty for the loans, because most Unions are not credit worthy. However, the Lango Union is, and this forthcoming fiscal year it will attempt to borrow directly on its own, without involving the LMB. Its borrowings for the last fiscal year totaled 500 million shillings ($1,575,000), and for the fiscal year just about to end borrowings will come to 1.186 billion shillings ($3,736,000).

All of the 139 primary society members sell their cotton to the Lango Union. For a 10-year period, prior to a couple years ago, none of these societies was making a profit and many were not able to "break even." This was due to a number of problems--such as lack of financial resources to purchase their farmer-members' crops in sufficient quantity, lack of inputs, the LMB's cotton pricing policy, etc. However, for the past couple of years most of these societies have been operating in the black. The major problems confronting these primary societies are insufficient crop finance at the right time with which to purchase their members' produce, and lack of adequate storage facilities after it has been purchased.

This district union has relationships with several other cooperative organizations, but these relationships are of little or no value to the Lango Union. Examples:

The Transport Union charges higher rates for transport than do private non-cooperative transport firms; the same is true of the spare vehicle parts of the Transport Union is supposed to supply for the cooperatives of the country.

The Central Union is supposed to supply district cotton unions with spare machinery parts, baling materials, etc., but it also charges higher prices than Lango can obtain elsewhere. In addition to this, the Central Union gives "poor service."

The Central Union is supposed to "make a profit." Thus, it does business wherever and with whomever it can in order to earn the most money. The same is true of the Transport Union. The situation now is this: The service these national unions render to cooperatives is only incidental to their total business operations. They deal much more with others--the general public--than they do with cooperatives, although the reason they were created in the first place was to serve cooperatives.

Another complaint about these national unions is that the many district unions are the members and the owners of the national organizations--and are supposed to control the nationals--but, according to the Secretary-Manager, Mr. Odur, of the Lango Union, "They are controlling us!"

The Cooperative Alliance is a weak and ineffective organization. Mr. Odur says, "We do not feel its presence." The Alliance is supposed to "be the mouthpiece" for the cooperative sector of Uganda. "It is supposed to speak up for and defend the cooperative movement, but it does little or nothing in this respect."

In addition, the Alliance is supposed to carry out an educational program for cooperative personnel throughout the country, but it is not performing this function in an adequate or satisfactory manner. Another purpose for which the Alliance was formed was to supply cooperatives with stationery and business forms. It does this to some degree-but the prices it charges are higher than elsewhere, and it usually does not have the supplies the cooperative require.

The Cooperative Bank provides no services for the Lango District Union. According to Mr. Odur, "It has no usefulness for us."

The Cooperative Insurance Society was "just born" early this year, and thus far has not done much. Formerly it was a branch of the National Insurance organization.

As for relationships with the Lint Marketing Board, Mr. Odur says, "The price of cotton is fixed by a committee which we do not know, and we have nothing to say about it. Usually prices are fixed below cost, and this is the reason so many cotton cooperatives are not credit worthy."

"About six months ago all the secretary-managers of the district cotton unions met in Kampala to discuss our problems--and we all agreed that we wanted to market our cotton ourselves, not through the Lint Marketing Board. So--we decided to form our own "Cotton Ginners Association", so together we would have a stronger voice. This has been done, but we are not officially recognized yet. We are awaiting Registration of the Association from the Ministry of Culture and Community Development. "Also, we district unions feel we should be permitted to sell our cotton directly to local textile factories. This could be an intermediate step to our exporting cotton directly on the world market. that is our ultimate goal, and during this intermediate or transition period we would have time to prepare ourselves to enter the export market."

An interesting story, related by the Chief Accountant of the Lango Union: About six months ago the President of Uganda issued a directive to the effect that district cotton unions could sell bales of cotton directly to domestic textile mills, rather than to the Lint Marketing Board. The Lango district union immediately acted on this directive and sold some bales of cotton to a local textile mill. Immediately following this, all district cotton unions received a directive from the Ministry of Cooperatives and Marketing countermanding the President's earlier directive. Now, the Lint Marketing Board is demanding from the Lango Union the money it received for the cotton it sold to the textile manufacturer--but thus far the Lango Union has not complied with this order.

A similar incident: Recently, the Lango Union's main ginnery was glutted with cotton seed which had been removed from the cotton; its gins were full of seed, and its seed storage bins were filled to overflowing. In order to continue operations it had to get rid of some seed immediately, and so it sold some to a private seed-oil mill. For this it has been severely reprimanded by the LMB and MCM.

This year, for the first time, district cotton unions are required to give cotton seed to farmers for planting. Previously, the LMB paid the district unions for the seed, then distributed it to the farmers--but no longer. The LMB says that the value of this seed the district unions give to the farmer is now represented in the lint price paid to the district unions by the LMB. However, Mr. Odur says this is not indicated in any way in the pricing system, and it is impossible for the district unions to know if they really are being compensated for the seed.

Ninety percent of the farmers have no idea of how the price of their crops is set or how the whole marketing system works, according to Mr. Odur. Also, he estimates that 50% of the farmers are illiterate.

If district unions must deal with the LMB, Mr. Odur feels strongly that the LMB should be composed of men who know the cotton industry, and the district unions should have representation on it. But, he says, the final goal is full autonomy for the unions, marketing all their own product themselves and making their own decisions. An irony of the present system is that the Minister of Cooperatives and Marketing "wears two hats", and thus he often makes marketing decisions which are harmful to cooperatives.

As far as the MCM is concerned, Mr. Odur says that "in the past" it was helpful--but no longer. Its helpfulness in the past was because proper financing was easily available via the MCM, but this is true no longer, and has not been true since 1974. Now, says Mr. Odur, the policies of the MCM are "restrictive".

"We make correct operating decisions here, and then someone in Kampala who is ignorant of our conditions overrules us." Under the present system, all important operating decisions must be approved by officials of the MCM. And this approval "usually takes months."

The Lango Union wanted the whole cooperative law of the country rewritten, because in its present form it gives far too much power to the MCM. Lango sent its recommendations to this effect to the MCM, but they were rejected by the Minister, so Lango withdrew its recommendations. Asked what is the solution to this problem, the attempt of cooperatives to attain autonomy, Mr. Odur replies, "We simply must keep trying and trying! I wish you would recommend in your report that the solution to our problems is to give autonomy to the cooperative movement."

Incidentally, since 1982, this district cotton union has been the largest one in Uganda; prior to that Busoga was the largest. Lango serves two districts, which formerly was one.

Major problems facing this Union: Lack of finance for making improvements, for new machinery, for transport, for diversifying into other lines of activity. (At present, Lango has 12 unreliable lorries to haul cotton, whereas it needs 16 good ones.) Another big problem: lack of spare parts for vehicles and cotton machinery. Also, this Union would like to carry on an educational program for the benefit of its primary society members, but it lacks the facilities and the funds to do this.

New projects Lango Union would like to undertake include: (1) an oil mill operation to utilize the cotton seed; (2) ranching; and (3) the hotel business.

A problem underlying the entire agricultural cooperative structure of Uganda is lack of credit facilities for the small farmer--production credit. This formerly was available--at one time there was a good credit scheme in operation to assist the farmer, to help him improve his production, etc.--but no longer.

A few words concerning the Lira office of the MCM: The District Cooperative Officer here each cotton season estimates how

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much crop finance will be needed bv each primary society in the district. He then adds all this up and presents this figure to the Lango District Union, which then goes to the LMB and the Bank. The district union itself has no voice in determining this sum.

The DCO in the Lira district has a local staff of 46, and the DCo in the other district served by the Lango District Union has a staff of similar size. Transport is a major problem for both these DCOs. This transport bottleneck greatly hampers their operations--they simply are not able to get out to visit primary societies as they should.

Commencing a year or so ago, USAID sent in a sizeable consignment of bicycles--a gift or grant to the MCM--to provide transport for its field staff. However, the MCM demanded cash payment from its field personnel for these bicycles. And to make matters worse, it would not permit employees to pay for the bikes on an installment basis. Thus, only a few could afford to buy one. Also, even those who were able to buy bicycles have not been able to keep them in operation because of lack of spare parts.

Visit to Southwest Nile Cooperative Union, Ltd.-
Pakwach - July 5, 1984

The secretary-manager of this cotton ginning and marketing district union has held this office for 20 years and appears to be a most capable man. He originally was appointed to this position by the MCM, but for some years ago he ceased to be a civil servant; he is now paid completely by this district union. In addition to the secretary-manager, there are 19 staff and 250 workers in the ginnery at the height of the cotton season.

Originally, prior to 1964, this society was part of a larger one, but when the political district was split in two, the district union also was divided into two separate unions. This union has 33 primary cotton societies as members, plus three fishermen's cooperatives. The union supplies the fishing co-ops with nets, boats, and motors but does not market the fish. This is done by the fishermen themselves on the local markets.

Of the 33 member-primary societies, 27 are turning a profit; all of them have salaried secretary-managers. Membership requirements were an entrance fee of 5 shillings and the purchase of one share in the union for 20 shillings--but now these have been increased to 500 and 1,000 shillings, respectively ($1.58 and $3.15).

The fiscal year of the union runs from October 1st to September 30th. For the FY that ended September 30, 1983 the union ginned and marketed 2,567 bales of AR cotton and 311 bales of BR. Operating figures and balance sheet for the FY ending September 30, 1983 are not yet completed, through no fault of Mr. Nitho, the secretary-manager, or his chief accountant: The army soldiers broke into the co-op offices, wrecked and looted, stole all accounting machines, calculators, etc., and destroyed almost all records. Thus, the chief accountant and his assistants have been trying to reconstruct the books for some years back, with assistance from the records kept by the MCM in Kampala--and they are doing an excellent job of it. However, it is very difficult--for they have no machines; everything must be done by hand, with nothing but pencil and paper.

They have reconstructed the records for the FY ending September 30, 1982; these show the following: The Union's turnover of cotton for that year came to 35 million shillings ($110,000) on which they realized a net margin of 12 million shillings ($38,000). From its transport operation that year it had a net profit of 15 million shillings; from the consumer shop it operated then the net margin was 670 thousand shillings, and it earned 500 thousand from miscellaneous sources--for a total profit that year of 28 million shillings ($88,000).

MCM policy now dictates that co-op unions in the country must dispose of any surplus (profits) in this manner: 50% in bonus to member societies, 20% for staff and Committee incentive, 10% in interest on shares, 10% to be invested in a national union, and 10% for diversification investment.

The union obtains its working capital (crop finance) from the Uganda Commercial Bank, via the Lint Marketing Board; it is not able to borrow directly without going through the LMB. The financing it receives is sufficient, but it is always late. Example: At the beginning of the cotton buying season (December 1st) the Union needed 60 million shillings to buy cotton from its member-societies--but it did not receive any money from the bank until a month later--and then only 3 million. Eventually, however, the union does receive sufficient funds--for which it pays an interest rate of 19%. During the FY which will end this coming September it has borrowed 180 million shillings ($568,000), and by September 30, 1984 it will have repaid all of this. One hundred percent of the member societies sell their cotton through this union.

This union's relationships to other cooperative organizations in the country are these:

<u>Central Union</u>: Supplies this society with spare parts and its ginning requirements, such as baling materials. The prices are too high, but the service received is satisfactory.

<u>Cooperative Bank</u>: The Southwest Nile Union has had no recent dealings with this bank--but Mr. Nitho reports that the Minister of MCM has decreed that in the future (commencing next year) this union--and others--must obtain their financing from the Co-op Bank.

Cooperative Alliance: This organization is supposed to fill the co-op training and education function for members and staff of primary societies, as well as the unions--but its performance in this respect is very weak; it is "financially lame". It supplies this union with stationery and business forms, which the union itself must transport from Kampala.

Transport Union: Provides this society with spare parts for its lorries, but the prices are too high and the service is bd; thus, this district union does little business with the Transport Union.

Cooperative Insurance Society: This union is now fully insured by the co-op insurance organization.

According to Mr. Nitho, the original purposes of the Lint Marketing Board were good ones--but now, he says, "it is trying to make a profit at our expense." He would like to see the LMB abolished and the cotton unions be free to export their own cotton through their own national association (The Cotton Ginners Association, which is not yet legally in existence; it is awaiting registration, which is very slow in coming).

Major problems facing this district union are these: Lack of finance for diversification into other lines of business (as well as lack of sufficient crop finance when needed); inadequate transport (the union now has only 6 lorries, two of which are inoperative, and the other four were manufactured in four different countries), for the Union must haul all the cotton for its ginnery from the primary societies; also, better railroad service is badly needed (the government railroad lacks sufficient freight cars to haul this union's cotton bales; also a spur line is needed from the main track to the co-op union).

As far as the MCM is concerned, Mr. Nitho feels that a reduction in its staff from approximately 4,000 to 400 is in order. Many farmers and small primary societies still require assistance from MCM personnel, but 4,000 MCM employees are not required. MCM personnel seem to be doing a good job in auditing the books of the primary societies which belong to this Union.

If it could obtain the capital to do so, this union would like to diversify into ranching, and it also would like to market food crops for its member-societies. It now owns 30 acres of land on which it is growing maize, simsim, cotton, cassava, and rice. It is good land, but three years of drought were very harmful; however, last year this truck garden "had a little success."

Middle North Tobacco Cooperative Union, Ltd.-Gulu - July 6, 1984

The function of this cooperative union is to collect tobacco from the 30 primary tobacco cooperative societies which are its members, then deliver this tobacco to the National Tobacco

Corporation in Kampala. The Union does not dry or otherwise process tobacco; it performs the collection and transport functions and then serves as the conduit through which payment from the NTC reaches the farmer who grows the tobacco.

This Union was founded in 1965. Its secretary-manager at that time, and up through 1971, was Mr. Laicer Obwoyo. Because of the turmoil in the country in the years that followed, the Union ceased to function and was dormant until two years ago. Then it was revived, with Mr. Obwoyo again serving as secretary-manager. He was appointed by the Committee of the Union, and this appointment was confirmed by the Commissioner of Cooperatives of the MCM. When the Union is in full operation it employs a staff of five office personnel and 22 workers--porters, watchmen, etc.

The primary societies which belong to the Union formerly paid an entrance fee of 100 shillings and purchased at least one share in the Union for 200 shillings. Now these requirements have been raised to 500 shillings and 1,000 shillings ($1.58 and $3.15). The fiscal year of the Union coincides with the calendar year. Last FY it handled 112,000 kilos of tobacco with a value of 14 million shillings ($44,000). All of the Union's primary societies sell their tobacco to the Union.

Formerly, from 1948 to 1964, there were only three grades of tobacco--but today (and since 1964) there are 31 different grades, so the grading of the tobacco has become considerably more complex. In fact, it is graded at least three times!

The tobacco farmer harvests and dries his own tobacco; he then sorts it into what he believes are the proper grades and delivers it by wheelbarrow, or bicycle, or on his head to the nearest collection point. Scattered throughout the region are a number of blue-and-white tobacco sheds which are owned by the NTC, and the farmer brings his tobacco to one of these sheds. There, a more experienced tobacco man, representing the farmer's local tobacco cooperative, re-grades the tobacco--perhaps rearranging the leaves and tying them into the proper bundles.

When sufficient tobacco has been assembled at a collection shed, a lorry of the District Union picks it up and hauls it to the Union's own warehouse in Gulu. There, it is off-loaded, and this process repeated--until the Union's warehouse contains a substantial amount of tobacco. The Union then transports the tobacco to the NTC in Kampala--a considerable distance away. The tobacco is then graded again by agents of the NTC and then payment is made to the Union. However, because of the paperwork involved, communication and transportation bottlenecks, etc., at least a month passes before the Union receives payment. It then passes on payment to its primary societies which in turn pay their farmer-members.

The nearest collection points from which the Union picks up tobacco are located about 12 miles from the Union's warehouse in Gulu, and the one most distant is 96 miles away. Often--or perhaps usually--the amount of tobacco picked up at a collection shed is far less than a full lorry-load--it might be only one or two bundles. Thus, the lorry returns to deposit this partial load at the Union's warehouse and then goes off to another collection shed. It is amazing that the Union is able to carry out this transport function--picking up tobacco at the many collection sheds, transporting it to Gulu, and then to Kampala--for it has only one lorry and it is broken down much of the time.

For performing these collection and transport functions the Union receives a commission of 20 shillings per kilo of tobacco that it handles: it retains half of this and passes on the other half to its primary societies according to the number of kilos each society has supplied. The operating statement for last fiscal year is not available at the Union's headquarters in Gulu--all its records for the 1983 year are in Kampala--so Mr. Obwoyo was unable to supply any profit or loss figures for last year's operations. However, he says he believes the Union is operating at a loss each year.

The NTC pays for the transport of tobacco from the collection sheds to the Union's warehouse and from there to Kampala, but it does not pay in accordance with distance traveled. It pays just so much per kilo--whether that kilo is hauled one mile or 100. Thus, the Union receives the same transportation payment for hauling a lorry-load 12 miles or 96 miles. However, according to Mr. Obwoyo, transportation payments by NTC to the Union are not sufficient to cover the Union's total transport costs.

The average farmer-member of the primary societies which make up this Union has 10 acres of land on which he grows tobacco and other crops--with the greater part of his land planted to food crops which he sells on the local markets. His income from tobacco amounts to about $80 per year, which represents only about one-third of his cash income--the other two-thirds coming from food crops, vegetables, maize, etc.

Obviously, the main function of the Union is the transport service it provides. But even when its single lorry is functioning it is not sufficient to handle the entire task. Thus, for about one-fourth of its transport needs the Union hires commercial trucking firms in or around Gulu. It does not use the services of the National Co-op Transport Union because its charges are considerably higher than the local commercial firms.

The Union's relationships with other cooperative organizations are minimal or non-existent. It does not carry any insurance with the Cooperative Insurance Society; the prices charged for inputs by the Central Union are too high; the Cooperative Alliance provides no co-op education or training for the Union or its primary societies; and the Union has no dealings with the Co-op Bank.

Mr. Obwoyo expressed appreciation for the co-op training work now being sponsored by USAID and being carried out around the country by ACDI representative Lee Rosner. He also said that the MCM is trying to educate farmers of the primary societies, and he appreciates the advice the Union receives from the MCM as well as its help in obtaining bank loans for the Union--although thus far none has been forthcoming.

As for working capital--finance--the Union has none. And it sorely needs funds for a number of basic necessities: additional transport; hoes and axes, watering cans and insecticides to supply to the primary societies and their farmer-members.

If it had the funds to do so, it would like to branch out into ranching and also set up a co-op consumer shop, but given its present financial position these are only distant hopes.

As for the NTC, the Union seems to have no strong feelings toward it, pro or con. In fact, its future relationship with the NTC and, in fact, the future of the NTC itself are very uncertain at the moment. Recently the British American Tobacco Company has returned to Uganda and contracted with the Ugandan government to buy all Ugandan tobacco. How this will affect the NTC and the tobacco cooperatives, no one knows.

Banyankole Kweterana Growers Cooperative Union, Ltd. - Mbarara - July 17, 1984

The principal activity of this district union is the processing and marketing of coffee for its 250 primary societies. But the union also operates a petrol station, a farm supply store, and is engaged in ranching. It has two ranches with a total of 2,000 head of cattle, only 20 of which are dairy cattle. The union is managed by a staff of 150, and 1,500 workers are employed in its four coffee processing plants. Last year it processed and marketed 17,000 tons of coffee.

Member societies are required to pay an entrance fee of 1,000 shillings and purchase at least one share in the Union for another 1,000 ($3.15). The average member society holds 29 shares. Total assets are approximately 77 million shillings ($243,000). For the fiscal year which ended April 1, 1983 net surplus from all of the Union's activities was 98,819,000 shillings ($312,000).

The Union obtains its crop finance from the Uganda Commercial Bank, via the Coffee Marketing Board which acts as guarantor of the loan. For the fiscal year which ended March 31, 1984 the Union borrowed 1.2 billion shillings ($3.8 million) at 20% interest; it then loans funds to its primary society members which they then use to purchase coffee from their individual

146

farmer-members. The Union loans money to the primary societies at only 17% interest. Mr. Robert Nushagara, Deputy Secretary-manager, explains that they do this "to help the farmers." He says the Union's first purpose is to serve the farmers, for this was ordered by the Commissioner of Cooperatives of the MCM. "We are not purely on our own as business people", says Mr. Nushagara; "we are controlled by the MCM. Sometimes this is useful, other times it is not--but we appreciate its services."

The crop finance funds the Union receives from the Uganda Commercial Bank are insufficient and are not received in a timely fashion; they always arrive a bit late. The 1.2 billion shillings the Union borrowed last fiscal year will be entirely repaid by the end of September 1984. The Union also has obtained a loan of 700 million shillings ($221,000) from the African Development Bank at 12 1/2% interest which it used to construct a coffee processing plant.

All primary society members sell their coffee to this Union, and 97 or 98% of their farmer-members sell their coffee to the primary societies; only 2 or 3% sell to private coffee traders. The Union pays 139 shillings (44 cents) per kilo of coffee delivered to the Union by the primary societies. If the Union has to pick up the coffee itself, then the payment is 134 shillings. The primary society pays its farmer-members 130 shillings (41 cents) per kilo. Of the Union's 250 member-societies, 200 are realizing a net surplus and are using this surplus to diversify into other lines of business.

This district coffee union itself is a member of another union--the Bayankole Livestock Union. This is a new organization which is supposed to serve as a source of supply of medicine and handle cattle auctions for its members, as well as market milk, hides, and skins. However, this livestock union is quite new, still in its formative stages, and is not yet supplying these services.

This coffee union is a member of the national Transport Union, which helps it to acquire new lorries, spare parts, and also provides transport when needed. Its service is satisfactory, but expensive. The coffee union owns 27 lorries which are generally in good condition; only two or three are inoperative at any given time.

The Cooperative Alliance has not been able to provide the services it should because it is financially weak; it is funded by union subscriptions as well as by the Swedish government. This union carries all of its insurance with the Cooperative Insurance Society. The loan the union received from the African Development Bank in 1981 was channeled through the Cooperative Bank; also, the Co-op Bank has made loans to the union for its farm supply and consumer shop operations. Services provided this union by the

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Central Co-op Union are satisfactory, but expensive. (The Transport Union was "spun off" from the Central Union about 7 or 8 years ago.)

This Union would prefer exporting its coffee directly, rather than dealing with the Coffee Marketing Board, for it would then obtain a much better price. But the secretary-manager is certain that the government of Uganda would not permit this, for, he says, the Coffee Marketing Board "is the heart of the government"--its principal source of revenue. The secretary-manager feels this union is perfectly capable of handling its own exports, but says that not all district unions could do so.

The major problem facing this district union is insufficient crop finance. As far as its primary society members are concerned, the major problem is that many of their secretary-managers are not competent. They mishandle funds in their keeping, and most need training in management skills. The MCM is supposed to supply this training but is not doing so because its field personnel lack transport and are not reimbursed for their out-of-pocket expenses when they are able to travel. "MCM personnel are capable, but they are immobilized."

The secretary-manager of this district union feels that it should be given the responsibility of control and supervision in respect to the primary societies which are its members and are receiving funds from it--rather than the MCM exercising these functions. "The audit function, the supervisory function, and the educational function should be transferred from the MCM to the district unions."

"The most pressing needs of the entire cooperative movement in Uganda is education and training, plus availability of more capital. With These two needs met, many problems would be solved." The secretary-manager feels that primary societies should provide savings and credit functions for their farmer-members, so that eventually these societies could use these accumulated funds to provide for their own crop finance, their own transport, etc., and thus become financially independent. Also, he feels they should set up consumer shops for their farmer-members. If the MCM were reduced in size from 4,000 to 400 employees, this secretary-manager feels the other 3,600 could well be utilized by primary societies and unions through the country; heir expertise and training is badly needed by cooperatives and would greatly strengthen co-ops at the grass-roots level.[1]

The functions of coordination, regulation, registration, and an advisory role should properly remain with the MCM, but as it is now the MCM is "too operational"--it is exercising too much operating control over the day-to-day activities of cooperatives. It could easily provide these services with 400 staff, and the 3,600 could easily be absorbed by the district unions and primary societies where they are badly needed.

Future plans of this union include the establishment of a maize mill, a milk plant, and a pineapple plant--to extract the juice from the fruit and can it.

Nyakatonzi Growers Cooperative Union, Ltd.-
Kasese - July 18, 1984

Principal functions of this district union are the processing and marketing of cotton and coffee. It operates two coffee processing plants and one ginnery, and also is engaged in a small ranching operation. Its cotton ginnery is very old, inefficient and expensive to operate--for it is powered by diesel engine and diesel fuel is very costly. The cotton gins and other machinery in the ginnery are at least 50 years old. At one time there were 30 gins in operation, but 12 of them have been cannibalized for spare parts to keep the remaining 18 functioning.

Fortunately, the Union is now constructing a new ginnery adjacent to the old one; it will be equipped with modern machinery and be powered by electricity generated by the hydroelectric dam at Jinja. Funds for this project were provided by the African Development Bank.

Unfortunately, the cotton gins and other machinery for this new ginnery were delivered to this co-op union in 1976. Many large wooden crates of expensive machinery have been left lying about in the year for the past eight years, completely exposed to rain and sun. The wooden crates are rotted and broken, and valuable machine parts are rusted and falling out of the crates onto the ground. A terrible neglect and waste of scarce and valuable capital equipment.

Approximately 50 primary societies, almost all of them dealing in both cotton and coffee, are members of this district union. Only six of them have salaried secretary-managers; the rest operate with volunteer management. These Union member-societies are all located in one district; but the Union also serves other primary societies, located in another district, which are not members of the Union. Membership requirements are an entrance fee of 1,000 shillings plus the purchase of 10,000 shillings ($31.55) of shares.

At the time of this visit, all current accounts and records of the Union were with the Union's chief accountant in the capital city of Kampala, so it was not possible to obtain current financial data. However, for the fiscal year which ended September 30, 1981 the Union's volume of business totaled 1s 13,411,000 shillings ($42,300), and for the same year it had an operating loss of 2,265,000 shillings ($7,145). For the fiscal year which ended September 30, 1983 the Union handled 1,592 bales of AR cotton, 64 bales of BR, and 2,000 tons of coffee.

Crop finance is obtained from the Uganda Commercial Bank via the Coffee and Lint Marketing Boards; interest rate is 20% per month. The crop finance received for cotton has proven to be sufficient for the Union's needs, but insufficient in the case of coffee. Farmers sometimes must wait three to four months for payment.

In recent years cotton production in this district has been increasing: in 1978-79 only 157 bales of cotton were produced in the district. By the 1982-'83 year, this had increased to 1,600 bales; and for the 1983-'84 year the total is expected to reach 3,000 bales. To further increase cotton production in the district, more tractors are needed.

There is a serious smuggling problem where coffee is concerned; it is estimated that as much as one-fourth of the coffee grown in this district is being smuggled across the border into Zaire, where the price paid for coffee is twice what it is here.

This district union belongs to the national Transport Union, from which it rents lorries from time to time, to haul coffee to the Coffee Marketing Board; it provides adequate, but expensive, service. Service received from the Central Union in providing ginning materials and spare parts for vehicles and machinery is very slow, but the Central Union does permit this district union to buy on credit--which the union appreciates. The Cooperative Alliance provides little or no service to the union, and the union has had no dealings with the Co-op Bank.

Major problems facing this union are insufficient crop finance and insufficient transport; the union now has only six functioning lorries; also there is serious need for spare parts for the ginnery and the vehicles. Also, the Union recognizes a real need for more education and training for the staff of both the union and the primary societies. In fact, this is the biggest problem--inadequate management training--for cooperatives throughout the country.

In the future, if funds were available, this union would like to operate a petrol station and also provide tractors on loan to its primary societies. It also would like greater autonomy--less control by the MCM. Officials of the union feel the MCM's functions should be "supervisory" only; and if its staff were cut from 4,000 to 400, the remaining 3,600 could be absorbed by the co-op movement where their help is much needed. As it is, much of the field staff of the MCM is unable to perform their functions, for they do not have the means--or the funds--to travel to visit the primary societies in their districts. The Cooperative Officer in this district has not received any travel allowance for over two years; he doesn't even remember how much the MCM owes him, because payment has been so long overdue.

Kigezi District Vegetable Growers Cooperative Union, Ltd. - Kabala - July 20, 1984

A total of 18 primary cooperative societies make up this district union, and each of them has 300 to 400 farmer-members, all of whom grow vegetables of various kinds. These include beans, carrots, cabbage, cucumber, tomatoes, onions, Irish potatoes, peas, and a number of others. All of the primary societies are located within a twenty-five mile radius of the district union's headquarters. To join the Union, a primary society must pay an entrance fee of 1,000 shillings ($3.15) and purchase at least one share in the Union for 10,000 shillings ($31.50). The average primary society member has purchased three shares.

The Union was founded in 1965. For the past three years its secretary-manager was an employee of the MCM in Kampala, sent here to manage the affairs of this Union. However, recently he was recalled to Kampala by the MCM and the Union now has no salaried secretary-manager. The Chairman of the Union's Committee, Mr. Ismail Karanzire, is acting in that capacity.

Vegetable prices paid by the Union to the primary societies, and by the primaries to their farmer-members, are determined by the committee of the Union. For example, the primary society might pay its farmer-members 25 shillings per kilo of cabbage; the Union pays the primary society 30 shillings, then sells the cabbage for 40 shillings.

Up until 1980 this Union regularly sent lorry-loads of vegetables to the capital city of Kampala, a considerable distance from Kabale, and sold the produce there. However, during the 1970s farmers in other districts closer to Kampala began growing vegetables for sale in Kampala. This increased supply caused vegetable prices in the Kampala market to fall, and this Union could no longer compete in this market because of the high transport cost it incurred for each shipment. Thus, since 1980 the Union markets its produce only in the city of Kabale and a few smaller trading centers nearby.

Last fiscal year the Union's volume of business totaled 19,392,593 shillings ($61,175), and its expenses came to 13,928,216 shillings ($43.938), for a net margin of 5,464,377 shillings ($17,237). Because of a depressed local market, the primary societies are able to purchase only 40% of their farmer-members' produce; as for the remainder, the farmers and their families sell some to private traders, consume some themselves, and lose some by spoilage because of lack of transport and proper storage facilities. Formerly, this loss from spoilage was substantial--approximately 30% of the vegetable crop--but lately it has been reduced and now amounts to about 10%.

Farmers deliver their vegetables to their primary societies, and they are paid cash upon delivery. The Union picks up the produce from the primary societies and hauls it to one of the Union's three storage facilities in Kabale. The vegetables are graded by a representative of the primary society when the farmer delivers them, then they are graded again by someone from the Union when they are picked up.

The Union receives some of its operating capital (crop finance) from the Cooperative Bank which has a branch office in Kabale, but this is never sufficient; in fact, it covers only a minor portion of the Union's capital needs. Typical annual borrowings by the Union from the Co-op Bank amount to 3 million shillings ($9,464). It owes no money to the Cooperative Bank at the present time, but it does owe 2.1 million shillings ($6,625) to the Central Union for hoes, fertilizer, and other farm supplies.

This Kigezi Union reports that it receives good service from the Central Co-op Union, and it appreciates that fact that it is able to purchase on credit with no interest charge. Kigezi has no relation with the Cooperative Insurance Society and does not receive any service from the Cooperative Alliance. It occasionally hires lorries from the Transport Union and receives good service, but it is expensive (as is all transport in Uganda). Kigezi also belongs to the Uganda Horticultural Growers and Exporters Association but has received no services from it, for the Association is still in its infancy.

Mr. Karanzire reports that his Union receives good advice from the District Cooperative Officer of the MCM, and the DCO also trains the Union's bookkeepers. His only complaint is the slow accounting service provided by the MCM; it takes them from one to three months to prepare a balance sheet for the Union.

Major problems facing the Union are lack of transport (it has only two lorries, both broken down at the present time), insufficient operating capital, and lack of education and training for staff. The most pressing needs of farmers in the area are more hoes, insecticides, wheel barrows, and other inputs.

In addition to marketing vegetables, the Union also operates a small piggery and owns 3.9 hectares of land on which it grows vegetables for sale. And this Union certainly does not lack ideas and plans for additional activities. Its most ambitious project is to build a dehydrating plant for vegetables, especially tomatoes. A recent study done for the Union showed such a project to be economically feasible. However, the cost of building the plant would be almost $700,000, and no source of finance is available. More modest plans call for setting up a maize mill and obtaining a license to export produce to nearby Rwanda, where there is a good market for sorghum and beans.

FEASIBILITY STUDY OUTLINE

Here is an outline of the type of study that should be carried out before venturing into the marketing of a new commodity:

I - First, it is necessary to collect basic production data from a random sample of the present farmer-members of the district union's primary cooperative societies. These data should necessarily include the following:

A. Size of Farm
B. Nature of Land tenure
C. Area planted to various crops
D. Yields per hectare
E. Amount of on-farm consumption of crops
F. Amount sold through marketing channels
G. To whom sold, and prices received

II - Next, a description should be given of the sampling technique employed in the data collection.

III - Projections of production by farmer-members for a period of five years should be made, assuming growth rates a follows:

A. Growth in yelds of present members of 0%, 3%, and 5% per year.

B. Growth in membership of cooperatives of 5% and 10% per year.

C. On-farm crop consumption remaining constant, and decreasing by a certain percent per year.

IV - Projections of procurement of members' crops by cooperatives:

A. First, an examination of present marketing methods used by farmer-members, and an estimate of how competing buyers would affect the amount procured by cooperatives.

B. Based on this, assumptions could be made that cooperatives would procure only 40% of available crop (low), 60% (medium), and 80% (high).

V - Summary: As a result of calculations based on III and IV above, as well as examination of weather data over past years to determine probable frequencies of drought in future, the volume of the various crops available for marketing through cooperative channels for the first through the fifth years of operation can be estimated.

VI - Transport: Compare methods and costs of collecting crop at the primary society for later pick-up by the district union. Crop could be:

A. Brought in by farmer himself B. Picked up by primary society's truck C. Picked up by rented truck D. Some combination of above three

Then, determine costs of transport from primary societies to district union's storage or processing center.

Next, determine costs of transport from storage center to market.

VII - Storage: Determine storage costs per unit of crop per week or per month for crops under consideration.

Determine percentage of shrinkage, spoilage and waste, and add as part of total storage costs.

VIII - Handling: Determine costs of handling in bulk vs. sacks, etc., and make estimate of proportions of given crop that will be handled in each manner.

IX - Interest paid on borrowed capital.

X - Depreciation of trucks and other capital equipment.

XI - Payments to farmer-members for their produce at time of delivery to their primary societies, based on immediate payment of at least current price that farmers could receive from competing buyers.

XII - Administrative and Management Costs: Will additional personnel be required to manage the marketing operations?

XIII - Anticipated Revenue to be received by district union as result of marketing operations:

A. Examine seasonal price fluctuations over recent past (preferable for the five previous years).

B. Based on this historical seasonal price data and probable volume of procurement (as revealed in III above), determine most profitable marketing strategy by comparing revenues and costs resulting from:

154

1. A strategy of maximizing storage, with minimum sales in immediate post harvest period.

2. A stragegy of even sales from harvest to harvest.

XIV - Determination of capital requirements - based on probable volume which district union will procure, calculate:

A. Investment capital requirements needed for purchase of trucks, scales, stroage facilities, and any other necessary capital equipment.

B. Working capital requirements to pay farmer-members for their produce upon delivery.

C. Total of these two is amount of loan required to finance marketing operations, minus whatever equity capital might be available from the district unions and its member-cooperatives.

XV - Financial Analysis:

A. Determine break-even point of operations, as follows: After calcualtion of capital requirements (XIV above), anticipated revenue (XIII above), and costs of oepration (VI thru XII above), the break-even point can be determined; that is, at what point in time the revenue is sufficient to cover all operating costs, interest payments, and meet the debt repayments required by the loan agreement.

B. Prepare pro-forma balance sheets, operating statements, and cash-flow estimates for the first through the fifth years of operations.