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Cooperatives as a Tool for Poverty Reduction and Promoting Business in Tanzania



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COOPERATIVES AS A TOOL FOR POVERTY REDUCTION AND PROMOTING BUSINESS IN TANZANIA

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Table of Contents	Page
List of Abbreviations	v
Executive Summary	i
Yhteenveto	v
1. INTRODUCTION	1
1.1 Poverty reduction and cooperatives	1
1.2 Aim of the study	2
1.3 Guiding policy documents of the study	3
2. CONCEPTUAL FRAMEWORK	5
2.1 The cooperative sector in Tanzania – organization and policies	5
2.2 The concept of cooperatives	7
2.3 The cooperative reform process in Tanzania - the need for cooperative reformation in Tanzania	12
3. METHODS AND DATA	13
4. FINDINGS AND DISCUSSIONS	14
4.1 Dairy cooperative societies	15
4.1.1 Overview of the livestock industry in Tanzania	15
4.1.2 Dairy cooperatives as a means for poverty reduction	15
4.1.2.1 Governance and management of dairy cooperatives	17
4.1.2.2 Dairy business (processing and marketing)	17
4.1.2.3 Products and market	19
4.1.2.4 Impact on poverty reduction	20
4.1.2.5 Cross cutting issues	22
4.1.2.6 Challenges	23
4.2. Coffee cooperative societies	24
4.2.1 Brief overview of the coffee industry in Tanzania	24
4.2.2 Coffee cooperatives as a means for poverty reduction	24
4.2.3 Governance and management of coffee cooperatives	26
4.2.4 Coffee business (processing and marketing)	29
4.2.5 Impact on poverty reduction and challenges	33
4.2.6 Cross-cutting issues	34
4.2.7 Kagera Farmers' Co-operative Bank	35
4.2.8 Analysis of KCU, KFCB and Mweyaingale Primary Society	36
4.3 Financial cooperatives: Cooperative banks and SACCOs	42
4.3.1 Overview of financial cooperatives	42
4.3.2 Governance	43
4.3.3 How the KCBL is doing business with the AMCOs	44

4.3.4	Impact on poverty reduction	47
4.3.5	Cross cutting issues	47
4.3.6	Challenges and future plans	48
5.	CONCLUSIONS	48
6.	RECOMMENDATIONS	52
	<i>References</i>	54
Appendix I	Interview guide (questionnaire)	57
Appendix II	Checklist of issues/questions	67
Appendix III.	Map of Tanzania showing where the cooperatives studied are located	68
Appendix IV.	Tentative work plan 2013	69

Tables	Page
<i>Table 1. The status of cooperatives in Tanzania, December, 2012</i>	6
<i>Table 2. TDCU Primary Societies as in July 2013</i>	16
<i>Table 3. Business profiles of TDCU and KWDC</i>	18
<i>Table 4. Trend of TDCU milk collection and production, 2000 – 2010</i>	19
<i>Table 5. Trend of KWDCS milk collection and production, 2001 – 2008</i>	20
<i>Table 6. Coffee Collection by Karansi Society, 2008/09 to 2012/13 (in kg)</i>	30
<i>Table 7. Producer performance and price trends between 2002/03 to 2010/11 coffee seasons</i>	46
Boxes	
<i>Box 1. The multitier structure of cooperatives in Tanzania</i>	7
<i>Box 2. Framework of the advantages in generating business activities aiming at reducing poverty in low-income countries</i>	11
<i>Box 3. An example of some successful cooperatives and a concrete example of poverty reduction: the Agricultural Marketing Co-operative and the Savings (AMCO) and Credit Co-operative (SACCO) in Mruwia</i>	31
<i>Box 4. Strengths, weaknesses, opportunities and threats of the G32 Kilimanjaro New Co-operative Initiative, Joint Venture Enterprise</i>	40
<i>Box 5. CHAWAMPU Agricultural Marketing Co-operative. A case of failure of leadership at primary society level</i>	41
<i>Box 6. Model of well-functioning cooperative institutions in rural Tanzania</i>	51
Figures	
<i>Figure 1. Conceptual framework: Cooperatives as a tool for poverty reduction</i>	8
Photos	
<i>Photo 1. Improvement of living condition in the Tanga milk collection area</i>	21
<i>Photo 2. The Headquarters of KCU in Bukoba</i>	27
<i>Photo 3. The Headquarters of KNCU in Moshi</i>	28
<i>Photo 4. The one room Headquarters of G32 in Moshi</i>	28
<i>Photo 5. Persons interviewed at the Mwenyanjale primary society</i>	33

List of Abbreviations

AGM	Annual General Meeting
AMCO	Agricultural Marketing Co-operative Society
AMSCO	African Management Services Company
BoT	Bank of Tanzania
CAZ	Cotton Association of Zambia
CFIs	Co-operative Financial Institutions
CIMO	Centre for International Mobility
COASCO	The Cooperative Audit and Supervision Corporation
CRMP	Cooperative Reform and Modernization Programme
DOTF	Dutch Oak Tree Foundation
FAO	Food & Agricultural Organization of the United Nations
FGD	Focus Group Discussions
HEI-ICI	Higher Education Institutions Institutional Cooperation Instrument
ICA	International Co-operative Alliance
ILO	International Labor Organization
IYC	United Nations International Year of Cooperatives 2012
KCB	Kilimanjaro Co-operative Bank
KCBL	Kilimanjaro Co-operative Bank Ltd
KCU	Kagera Co-operative Union
KEPA	Platform for Finnish NGOs
KFCB	Kagera Farmers' Co-operative Bank
KNCIJVE Ltd	Kilimanjaro New Co-operative Institution Joint Venture Enterprises
KNCU	Kilimanjaro Native Co-operative Union
KWDCS	Kalali Women Dairy Co-operative Society Ltd
LOMIA	The Lower Moshi Irrigation Association
MDGs	Millennium Development Goals
MEMCoop	Members Empowered Co-operatives
MLC	Maximum Liability Certificate
MKUKUTA II	National Strategy for growth and poverty reduction
MUCCoBS	Moshi University College of Co-operative and Business Studies
NSGRP	National Strategy for Growth and Reduction of Poverty
OPPAZ	Organic Producers and Processors Association of Zambia
OXFAM Oxford	Committee for Famine Relief
PRSP	Poverty Reduction Strategy Paper
SACCO	Savings and Credit Co-operative Society
TAMPRODA	Tanzania Milk Producers Association
TCB	Tanzania Coffee Board
TCCCO	Tanganyika Coffee Curing Company
TCU	Tanga Co-operative Union
TDCU	Tanga Dairy Co-operative Union
TFC	Tanzania Federation of Cooperatives
TFL	Tanga Fresh Limited
TLU	Tropical Livestock Unit
TZS	Tanzanian Shilling
UHT	Ultra High Temperature
UNCSD	United Nations Conference on Sustainable Development
UVIWAPI	Umoja wa Vijana Wafugaji Pingoni-the Livestock youth cooperative in Pingoni
WFP	World Food Programme
WRS	Warehouse Receipt System
ZECGA	Zambia Coffee Growers' Association Ltd

Executive Summary

The overall aim of this report is to provide an analysis and make policy recommendations on how Finland can promote inclusive people-centred businesses for poverty reduction by supporting the cooperative business model in Tanzania. The approach is to find concrete examples of genuine, business-driven cooperatives comprising poor members that are profit-driven and are improving the situation for those members. This report also identifies the particular features that characterize such cooperatives. The guiding policy programmes for this economic development have been Finland's Development Policy Programme 2012, the Second National Strategy for Growth and Reduction of Poverty of the United Republic of Tanzania (MKUKUTA II) and the Country Strategy for Development Cooperation with Tanzania 2013-2016 by the Ministry for Foreign Affairs of Finland.

The total number of cooperative members is about 1.6 million, whereas the actual number of people that benefit from cooperative services could be around 8 million. Cooperative organizations are guided by the following Cooperative Development Policy, 2002 (2003); Cooperative Societies Act, 2003, Cooperative Societies Rules 2004 and a Cooperative Reform and Modernization Programme (CRMP) (2005 – 2015).

The cooperative sector consists of a four-tier structure with cooperative primary societies at the grassroots, secondary societies (unions) and apexes in the middle, and a federation at the national level. The only levels stipulated by law are the primary societies and the federation. It is this prerogative of the primary societies to choose whether or not to form secondary societies and it is the prerogative of the secondary societies to form apexes. However, not all members of the primary societies are aware of the voluntary character of these unions.

The study was based on semi-structured interviews based on a set of questions and a formal questionnaire whereby 11 cooperatives were interviewed. In addition, representatives of different local cooperative organizations, state, international and donor authorities concerned with cooperative development in Tanzania were interviewed. A workshop held on 24.6.2013 discussed preliminary findings together with representatives of the major stakeholders. At the same time the overall scenario of Tanzanian cooperatives was presented from the viewpoint of their strengths, weaknesses, opportunities, challenges and threats.

Effective functioning of cooperatives in Tanzania is characterized by a number of features. 1) The primary cooperative society is strong and works as the driving force of cooperative development, business promotion, job creation and poverty reduction. The members have control of the cooperative. 2) Financial services, i.e. services offered by SACCOs (Savings and Credit Cooperative Societies), AMCOs (Agricultural Marketing Cooperative Societies), cooperative banks and cooperative insurance companies, are close to the members of the primary society. 3) Members are trained to know their rights, to know how to run a cooperative efficiently, to maintain their autonomy and independence from external pressures. 4) The secondary structures (unions or similar) are light. Primary members may sell

through other channels than the union. 5) The secondary structure provides relevant information to the members and carries out business negotiations with both foreign and domestic buyers. The secondary structure does not deal with any money or physical commodities directly. 6) Activities carried out by the secondary cooperatives are transparent. 7) In cases where the cooperative is clearly market oriented developing new products partnership with a foreign investor seems beneficial. 8) The partnership between the cooperative and the foreign investor is based on that between cooperatives themselves.

Concrete examples of effective, profit-driven business that improve the situation for the poor segment of population in Tanzania can be found in the close cooperation between AMCOs and SACCOs. In this case the primary societies market coffee through an AMCO. Members of SACCOs receive higher prices more timely payments and transparency of the organization is better. A large part of the coffee is sold as fair trade coffee directly overseas to Japan. SACCOs provide short-term credit for inputs and smaller investments. The primary societies cooperate with the local cooperative bank in order to acquire appropriate financing. On the whole, living conditions of the members seem to have improved. One decisive factor is that all business activities are in the hands of the members. Another critical condition is that the secondary structure is light with few employees, it facilitates entry or exit, dealing with knowledge management, disseminates information and manages business negotiations with buyers. Members have the option to sell through other marketing channels as well. Women's participation is encouraged by *inter alia*, giving them a part of the coffee yield. Such a model of partnership could be repeated in many other areas and for other agricultural products in Tanzania. Such model partnerships are in accordance with the principles stated in the Finnish Development Policy Programme 2012 and the NSGRP II- MKUKUTA II.

Another concrete example of a business-driven cooperative has been found in the processing of milk. The cooperative collects and processes milk, markets dairy products through a dairy owned together by a foreign investor. The cooperative has been able to grow and create employment, reduce aid dependence and contribute to the tax base for the government. It is clearly a cooperative in line with the Country Strategy for Development Cooperation with Tanzania 2013-2016. New dairy products have been created and are mainly sold in Dar es Salaam. Approximately 2200 members are young. Their living conditions and living standards seem to have improved. The success factors include market orientation, partnership between the local and foreign cooperatives, high demands for products, expanding markets, inclusion of young producers and facilitating their needs and establishment of collection centres and efficient milk collection. This type of cooperative is clearly business and market oriented and plays a role in the national dairy market.

A third concrete example of a cooperative that has been successful in reducing poverty is a dairy cooperative managed by women in the Kilimanjaro region. The women of this cooperative have been empowered and the households' incomes have improved through the sales of milk and milk products. The ability to pay school fees for the children and get access to medical services has become easier.

Availability of extension, access to market information and other services has improved. The social status of women at household level has risen as they can contribute to household incomes and tax revenues to the government. Generally, this type of dairy cooperative has contributed to the realization of the Millennium Development Goals (MDGs). Dairy cooperatives are an effective way to increase the incomes of women through local marketing activities. Problems encountered in these cooperatives are poor facilities, inadequate technology, relatively low management skills, lack of capital for expansion and promotion. Although the markets are local the impact in a particular community may be large. Technical deficiencies exist and would need improvement.

Some cooperatives, more specifically the coffee unions, do not seem to be succeeding in reducing poverty in line with expectations envisaged in the Finnish Development Policy Programme 2012 goal of good governance and accountability. The procedures they follow do not completely correspond to those qualities indicated by the MKUKUTA II, cluster III first goal, which is designed to ensure systems and structures of governance, uphold the rule of law are democratic, effective, accountable, predictable, transparent, inclusive and corruption-free at all levels.

The Cooperative Societies Act 2003 of the United Republic of Tanzania recognizes two structures only. The primary society at the local level and the federation at the national level. This allows greater flexibility and space for primary societies to exercise freedom and autonomy of making choices on business development for their members. The act is clear. The existence of a policy implementation framework called the Cooperative Reform and Modernization Programme whereby cooperatives can exploit opportunities offered by the government for achieving their own business objectives.

The Finnish Ministry for Foreign Affairs is recommended to implement the following measures:

1. Develop interactions between the Tanzania Federation of Cooperatives (TFC) and cooperative apex organization in Finland in order to share the experience of effective performance of cooperative management. This might include exchanges of TFC and apex staff with the aim of familiarizing both parties to the circumstances of cooperative activities in both countries.
2. Support the expansion of light secondary structures such as the G32 KNCI-JVE LTD network to other parts of Tanzania. This can be achieved through training activities drawing upon the experience of G32 (or a similar organization, the Dundiliza network of SACCOs) and by scaling-up their activities. The experience of G32 can be used in other areas, by other AMCOs of coffee or AMCOs of other agricultural products. New cooperative officials of such secondary structures could be trained in the area of managing business negotiations with buyers, financial services with respect to cooperation between banks and the primary societies, marketing, grading of coffee products and price stabilization through reserve funds.

3. Give support to women dairy cooperatives e.g. the Kalali Women Dairy Co-operative Society by renovating milk plants for the improvement of the processing of raw milk and milk products to increase production capacity, avoid contamination and improve hygiene.

It is also recommended to continue with the established partnership between the Moshi University College of Co-operative and Business Studies (MUCCoBS) and the University of Helsinki in the field of cooperative education and research.

The United Republic of Tanzania could provide policy level support cooperative action in the following ways:

- 1) Guarantee that primary societies ensure the freedom of associations to make decisions at the member's level.
- 2) Develop cooperative actions at the village level to empower farmers to look for other opportunities to address risks, improve access to financial services, enhance economic opportunities and democratization processes.
- 3) Improve systems that deliver information to primary societies.
- 4) Enhance women's and the youth's participation in cooperatives.
- 5) Improve professional management of cooperative businesses at all levels.
- 6) Help the primary societies to have reserved funds to stabilize prices, especially coffee prices. The Government of Tanzania could support these measures by ensuring that the officials of the secondary structures cooperate fully with cooperative banks or other banks to create stabilization funds. The Government of Tanzania could also guarantee that the officials have enough knowledge and competence for creating such stabilization funds.

In order to expand the provision of financial services to the levels of members and cooperatives strategic policies should be formed for future use as follows:

- 7) The Government of Tanzania could support provision of financial services by encouraging the independent and well-functioning of the SACCOs which are characterized by good governance.
- 8) The Government of Tanzania could support professional management of cooperative businesses by providing training facility to managers of primary societies. Training of secondary cooperatives in management issues is another area which the Government of Tanzania could support by ensuring that the Cooperatives Act, 2003 is implemented appropriately in Tanzania.

Finland could, encourage the Government of Tanzania to implement these reforms through policy dialogue within General Budget Support, agricultural and rural development.

Yhteenveto

Tutkimuksen tavoitteena on analysoida Tansanian osuustoimintaa, ja kuvata konkreettisia osuuskuntia, jotka tavoittelevat voittoa, parantavat jäsentensä taloudellista asemaa ja vähentävät köyhyyttä alueella. Lisäksi tavoitteena on tunnistaa kyseisille osuuskunnille ominaisia piirteitä, sekä esittää suosituksia yhtiömuodon tukemiseen köyhyyden vähentämiseksi. Tavoitteenasettelua on ohjannut Suomen kehityspoliittinen toimenpideohjelma 2012, Tansanian köyhyydenvähentämishjelma (MKUKUTA II) sekä ulkoministeriön Tansanian maaohjelma (Country Strategy for Development Cooperation with Tanzania 2013–2016).

Osuustoiminta on yleistä Tansaniassa. Osuuskuntien varsinaisten henkilöjäsenten lukumäärä on noin 1,6 miljoonaa, ja osuuskuntien tuottamista palveluista hyötyviä on arviolta 8 miljoonaa. Toimintaa ohjaavat Tansanian Osuuskuntapolitiikka 2002 (2003); Osuuskuntalaki 2003; Osuuskuntien säännöt 2004 ja Osuuskuntien uudistus- ja modernisointiohjelma (2005–2015).

Tansanian osuuskuntaliike on neliportainen. Ensimmäisen asteen osuuskunnat (eng. societies) muodostavat toiminnan perustan. Osuuskuntalain mukaan ensimmäisen asteen osuuskunnat voivat halutessaan perustaa toisen asteen (union) ja kolmannen asteen (apex) osuuskuntia. Federaatio edustaa puolestaan neljättä, kansallista tasoa. Neljännen tason voivat perustaa kolmannen asteen osuuskunnat. Lain mukaan vain ensimmäisen asteen osuuskunnat ja federaatio ovat välttämättömiä osuustoimintarakenteita. Tutkimuksesta ilmeni, ettei lain säännöstö ollut yleisesti tunnettu ensimmäisen asteen osuuskuntien jäsenten keskuudessa.

Tutkimus pohjautui pääosin puolistrukturoituun teemahaastatteluun. Lisäksi osuuskuntien taustatietoja kartoitettiin formaalilla kyselylomakkeella. Haastateltavina oli yhdentoista osuuskunnan johdon jäsenistöä ja haastattelu toteutettiin osuuskunnittain ryhmähaastatteluna. Kokonaisvaltaisemman käsityksen muodostamiseksi haastateltiin lisäksi eri viranomaistahojen, kansainvälisiä lahjoittajatahojen sekä kansalaisjärjestöjen edustajia. Haastattelujen jälkeen edustajille järjestettiin työpaja, jossa keskusteltiin tutkimuksen alustavista tuloksista.

Tutkimuksen mukaan tansanialaisen köyhyyttä vähentävän osuustoiminnan tuntomerkkejä ovat:

- 1) Ensimmäisen asteen osuuskuntien itsenäisyys. Osuuskunnat edistävät osuustoiminnan kehitystä, luovat työpaikkoja ja vähentävät köyhyyttä. Paikallisten vastaavat osuuskuntien hallinnoimisesta.
- 2) Toiminnan rahoituspalvelut sijaitsevat lähellä osuuskuntien jäseniä. Rahoituspalveluihin luetaan säästö- ja luotto-osuuskunnat (SACCO), maatalouden markkinointiosuuskunnat (AMCO) sekä osuuspankit ja osuustoiminnalliset vakuutusyhtiöt.
- 3) Osuuskuntien jäsenet ovat tietoisia oikeuksistaan. Jäsenet tietävät, kuinka osuustoimintaa harjoitetaan tehokkaasti ja ymmärtävät toimintansa itsenäisyyden ja riippumattomuuden.

- 4) Toisen asteen osuuskunta on rakenteellisesti väljä. Osuuskunta ei sido jäseniään toimintaansa, vaan sen jäsenillä on halutessaan vapaus käyttää myös vaihtoehtoisia myyntikanavia.
- 5) Toisen asteen osuuskunta toimii tiedon välittäjänä. Se tarjoaa tarpeellista tietoa jäsenilleen, sekä hoitaa liikeneuvotteluja keskitetysti niin ulkomaalaisten kuin kotimaisten ostajien kanssa. Toisen asteen osuuskunta on väliporras, joka ei suoranaisesti ole tekemisissä raha- ja tuotevirtojen kanssa.
- 6) Toisen asteen osuuskunnan toiminta on läpinäkyvää.
- 7) Toisen asteen osuuskunta on markkina- ja tuotekehitysorientoitunut. Tämä toimintaperiaate mahdollistaa yhteistyön ulkomaalaisen sijoittajan kanssa ja lisää yhteistyöstä saatavia hyötyjä.
- 8) Ensimmäisen asteen osuuskunnat toimivat keskenään yhteistyössä. Osuuskuntien välinen yhteistyö luo pohjan toisen asteen osuuskunnan ja ulkomaalaisen sijoittajan väliselle yhteistyölle.

Tutkimuksen tavoitteena oli löytää voittoja tavoittelevia ja jäsentensä asemaa parantavia osuuskuntia. Yksi esimerkki tavoitteeseen sopivasta osuuskunnasta löytyi säästö- ja luotto-osuuskuntien (SACCO) ja maatalouden markkinointiosuuskuntien (AMCO) yhteistyön välisestä rajapinnasta. Ensimmäisen asteen osuuskunnat markkinoivat kahvia AMCO:n kautta. Osuuskunnan jäsenet saavat tuotteestaan parempaa hintaa toiminnan läpinäkyvyyden vuoksi. Huomattava osuus kahvista myydään reilun kaupan tuotteena Japaniin. SACCO:t tarjoavat yrityksille lyhytaikaisia luottoja tuotantopanoksia sekä pieniä investointeja varten. Ensimmäisen asteen osuuskunnat tekevät myös yhteistyötä osuuspankin kanssa tarvittavan rahoituksen järjestämiseksi.

Osuuskunnan jäsenten elinolosuhteet ovat parantuneet. Ratkaisevana tekijänä on ollut paikallisten omaehtoinen liiketoiminnan hallinnointi. Oleellista on myös, että toiseen asteen markkinointiosuuskunta on hallinnollisesti kevytrakenteinen ja toimii siten pienellä virkailijamäärällä. Osuuskunnan tehtävänä on edesauttaa jäseneksi liittymistä tai siitä luopumista, jakaa informaatiota sekä käydä neuvotteluita ostajien kanssa. Jäsenillä on vapaus käyttää myös vaihtoehtoisia myyntikanavia. Naisia rohkaistaan osallistumaan antamalla heille osa kahvisadosta. Vastaavanlaista yhteistyömallia voitaisiin hyödyntää Tansaniassa laajemminkin. Toimintamalli on linjassa Suomen kehityspoliittisen toimenpideohjelman 2012 ja Tansanian köyhyydenvähentämishjelman (MKUKUTA II) kanssa.

Toinen liiketoimintalähtöinen ja köyhyyttä vähentävä osuuskunta operoi maidon jalostuksen parissa. Osuuskunta kerää maitoa, jalostaa sen ja markkinoi maitotuotteita. Maito prosessoidaan ja jalostetaan meijerissä, joka on osuuskunnan ja ulkomaalaisen sijoittajan yhteisomistuksessa. Jalostetut tuotteet myydään pääasiassa Dar es Salaamissa. Maito-osuuskunta on kasvanut ja työllistänyt paikallisia, ja vähentänyt näin riippuvuuttaan kehitysavusta. Kerrannaisvaikutuksia on havaittavissa valtion tasolla esimerkiksi verotuspohjan laajentumisena. Merkillepantava yksityiskohta on nuorten suuri osuus jäsenistössä. Osuuskunnalla on noin neljä tuhatta jäsentä, joista lähes puolet on nuoria. Osuustoiminnan myötä heidän elinolosuhteensa ovat kehittyneet parempaan suuntaan.

Maito-osuuskunnan toiminnan menestystekijäksi voidaan yksilöidä liiketoiminta- ja markkinaorientoituneisuus. Maitomarkkinoiden tuotteille on vahva kysyntä ja markkinat ovat kasvavat. Kysyntään on kyetty vastaamaan paikallisten ja ulkomaalaisten osuuskuntien välisen yhteistyön avulla, maidon keräilyn paremmalla organisoinnilla ja keräilyasemien perustamisella. Lisäksi menestystekijänä on myös nuorten tuottajien mukaan ottaminen ja huomioiminen toiminnassa. Osuuskunnan tuottama maitomäärä on merkittävä Tansanian kansallisilla maitomarkkinoilla. Maito-osuuskunnan toiminta vastaa ulkoministeriön Tansanian maaohjelman 2013–2016 suosituksia.

Kolmas tutkimuksen tavoitteen mukaisesta osuuskunnasta on naisten maito-osuuskunta Kilimanjaron alueella. Osuuskunta on voimannuttanut naisia, ja tulot heidän kotitalouksissaan ovat kasvaneet myydyn maidon ja maitotuotteiden ansiosta. Tulojen kasvu on puolestaan helpottanut lasten koulumaksujen ja terveyspalvelujen maksamista. Myös neuvonnan saatavuus, sekä mahdollisuudet käyttää markkinainformaatiota ja muita palveluja ovat parantuneet. Naisten sosiaalinen asema kotitalouksien tasolla on kohentunut heidän ansaitessaan osan perheen tuloista.

Yleisemmällä tasolla tällainen maito-osuuskunta on osaltaan myötävaikuttanut vuosituhattavoitteen toteutumiseen. Maito-osuuskunnat muodostavat yhden keinon kasvattaa naisten tuloja paikallisten markkinoiden kautta. Vaikka toiminta tapahtuu paikallistasolla, voivat sen vaikutukset kuitenkin ilmetä laajemmalla alueella. Ongelmia osuuskunnissa ovat kuitenkin epäasianmukaiset tilat, tuotantoteknologiset puutteet, suhteellisen alhainen liikkeenjohdon taso ja pääoman puute. Kyseiset ongelmat vaikeuttavat laajentamis- ja kehittämistoimenpiteitä. Edellä mainitut tekniset ja hygieeniset puutteet vaatisivat ratkaisuja.

Sen sijaan kahviunionit eivät näytä vähentäneen köyhyyttä tavalla, joka olisi Suomen kehityspoliittisen toimenpideohjelman 2012 vastuullisuuden ja hyvän hallintotavan tai Tansanian köyhyydenvähentämishjelman MKUKUTA II toisen klusterin mukainen.

Tansanian Osuuskuntalaki 2003 tunnistaa vain kaksi osuustoiminnallista tasoa: ensimmäisen asteen osuuskunnat paikallisella ja federaatio kansallisella tasolla. Tämä tarjoaa joustavuutta ja mahdollisuuksia ensimmäisen asteen osuuskunnille vapaampaan toimintaan ja itsenäiseen liiketoiminnan kehittämiseen. Myös niin kutsuttu politiikan toteuttamisohjelma (Co-operative Reform and Modernization Programme, CRMP) voi auttaa osuuskuntia yritystavoitteen saavuttamisessa.

Tutkimuksen johtopäätösten perusteella Suomen Ulkoministeriötä suositellaan:

- 1) Kehittämään Tansanian osuustoiminnan liikkeenjohtoa, koulutusta ja neuvontaa. Kehittäminen voisi tapahtua lisäämällä vuorovaikutusta Suomen kolmannen asteen osuuskuntien ja Tansanian federaation (TFC) välillä. Konkreettinen keino voisi olla kaksisuuntainen vaihto. Kolmannen asteen suomalaisosuuskunnan edustajat voisivat tutustua osapuolten olosuhteisiin ja kartuttaa ymmärrystä erilaisista

osuustoiminnallisista malleista ja käytännöistä. Tätä kokemusta voisi hyödyntää TFC:n toiminnan kehittämisessä.

2) Tukemaan toisen asteen kevyiden osuuskuntien laajentamista eri puolille Tansaniaa. Esimerkkeinä tällaisista osuuskunnista ovat G32 KNCI-JVE LTD ja Dunduliza network of SACCOs. Edellä mainittujen osuuskuntien toiminta perustuu tiedon välitykseen, liikeneuvotteluihin ostajien kanssa ja intressivalvontaan. Kyseisten organisaatioiden toimintamalleja voitaisiin hyödyntää koulutustoiminnan perustana eri alueilla ja tuotantosuunnissa.

Lisäksi voitaisiin kouluttaa uusia virkailijoita. Koulutuksen päämäärä olisi saada asiantuntemusta ostajien kanssa käytäviin liikeneuvotteluihin, pankin ja osuuskuntien välisiin rahoituspalveluiden järjestämiseen ja markkinointiin. Virkailijoita voisi työskennellä esimerkiksi kahviosuuskunnissa myös kahvin laadun luokittelussa ja hinnan vakauttamisessa vararahastojen kautta.

3) Tukemaan naisten hallinnoimia osuuskuntia. Mahdollista olisi avustaa esimerkiksi Kalalin maito-osuuskuntaa tai vastaavaa meijereiden uudistamisessa kapasiteetin lisäämiseksi ja hygienian parantamiseksi.

Perusteltua olisi myös jatkaa Moshi University College of Co-operative and Business Studies-yliopiston (MUCCoBS) ja Helsingin yliopiston osuustoiminnallisen opetuksen ja tutkimuksen yhteistyötä. Yhteistyö voi hyödyttää MUCCoBSin tutkimesta ja koulutuksellista tasoa.

Tansanian yhdistynyt tasavalta voisi puolestaan tukea osuustoimintaa politiikkatasolla seuraavasti: 1) Takaamalla ensimmäisen asteen osuuskuntien yhdistymisvapauden jäsenilleen, jotta he voivat tehdä osuuskuntia koskevia päätöksiä. 2) Kehittämällä osuustoiminnallisuutta kylätasolla viljelijöiden voimaannuttamiseksi. Näin viljelijät löytäisivät keinoja riskienhallintaan, kykenisivät paremmin hoitamaan rahoituspalveluita, organisoimaan taloudellisia resursseja sekä päättää asioista yhdessä. 3) Edistämällä tiedon kulkua eri tasoilta ensimmäisen asteen osuuskunnille ja kehittämällä tiedotuskanavia. 4) Parantamalla naisten ja nuorten osallistumismahdollisuuksia osuustoiminnassa. 5) Parantamalla osuuskuntien ammattimaista johtamista ja työskentelyä kaikilla tasoilla, nimenomaan tukemalla inhimillisen pääoman kasvattamista. 6) Auttamalla ensimmäisen asteen osuuskuntia perustamaan puskurirahastoja tuotteiden hintojen, erityisesti kahvin, vakauttamiseksi. Tansanian yhdistynyt tasavalta voisi tukea tätä takaamalla että toisen asteen osuuskunnat yhteistöissä osuuspankkien tai muiden pankkien kanssa kehittävät puskurirahastoja. Puskurirahastojen luomiseksi tarvitaan toisen asteen osuuskuntien virkailijoille riittävä rahoituksellinen osaaminen. 7) Mahdollistamalla hyvien hallintotapojen mukaisia rahoituspalvelujen laajentamista siten että ne sijaitsisivat osuuskuntien jäsenten välittömässä läheisyydessä. 8) Tukemalla osuuskuntien ammattimaista liiketoimintaa tarjoamalla koulutusta ensimmäisen asteen ja toisen asteen osuuskuntien jäsenille. 9) Sekä varmistamalla, että Osuuskuntalakia 2003 noudatetaan.

Suomi voisi politiikkadialogissaan yleisen budjettituen, maatalouden ja maaseudun kehittämisen ja yksityissektorin kehittämisen lisäksi rohkaista Tansanian yhdistynyttä tasavaltaa toteuttamaan edellä esiteltyjä uudistuksia.

1. INTRODUCTION

1.1 Poverty reduction and cooperatives

Are cooperatives able to reduce poverty and if so, by which mechanism? What concrete examples of poverty reduction exist? What are the success factors that help these examples and what obstacles hinder these? What measures work and what does not work? How could Finland promote Tanzanian cooperatives in a sustainable way? These are some of the central questions this report tries to answer in the particular context of cooperatives in the United Republic of Tanzania. Cooperatives can be considered as one type of company.

What do we mean by a 'cooperative'?

A cooperative is an inclusive business model that is suited to the needs of small-size firms within the agricultural, food or other sectors which are typically common in rural communities. It offers a different organizational business form than the investor-oriented firms or the joint-stock companies (corporations), common in many parts of the industrialized world (Liu and Sumelius, 2010). Cooperatives are a way by which people in developing countries can do business as cooperatives focus on members rather than on capital. They bind people together through a common purpose and create wealth, but must be competitive and sustainable.

In this study a cooperative is defined as an autonomous association of persons independent of government, who mutually own an enterprise. Membership of cooperatives is voluntary and often members share similar values. Though they exist primarily for the benefit of their members, they also have responsibility for their wider community.

The concept of poverty has been an object of discussion for many authors. There is no uniform approach for defining poverty. Some scholars use the income approach and define poverty as a lack of income. A commonly used standard in the income approach is an income/day measure (e.g. 1 USD/day in 1985 Purchasing Power Parity, Chen and Ravallion 2008, or alternatively 1.25 USD/day or 2.00 USD/day). Other commonly used measures in the income approach are headcount, poverty gap and squared poverty gap indices¹.

Some other scholars believe that the definition of poverty is the lack of the basic needs of life. Nobel Prize Winner Amartya Sen (1981) sees poverty as 'the deprivation of basic capabilities rather than merely as lowness of income, which is the standard criterion of identification of poverty'. A third group of scholars use the propor-

¹ Headcount index is the proportion of the population with a standard of living below the poverty line. The poverty gap index measures the depth of poverty in a country or region, based on the aggregate poverty deficit of the poor relative to the poverty line (the distance of the poor from the poverty line). Squared poverty gap takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those households who are further away from the poverty line (Ingutia, 2010).

tion of total household expenditure used on food as a criterion for defining poverty (Parviainen, 2012).

Whether the definition of poverty is any of the three definitions given above, poverty is still a complex phenomenon that requires a multidisciplinary approach in its study. The fundamental question to be addressed in this report is the relation by cooperatives, poverty reduction and business promotion.

Finally, it is worth noting that economic development is characterized by increasing production and consumption. In order to increase production, well-established institutions for clear property rights is a necessity. Attracting capital and investments is needed for an economy to grow. This can take place in a stable economic environment. Institutions are also needed for overseeing income distribution aspects in economic development so that the less fortunate can survive and lead a decent life in a society. Cooperatives have potential as business entities particularly in the agricultural sector to process products of farmers and in marketing of agricultural products.

1.2 Aim of the study

The aim of this report is to provide an analysis and policy recommendations on how Finland can promote an inclusive people-centred businesses for poverty reduction through supporting the cooperative business model for business-driven activities of the poor in Tanzania with cases of actual cooperatives.

The specific objectives of this study, as laid out in the inception report, are the following:

1. How can Finland promote business with the aim of reducing poverty by supporting cooperatives? What concrete measures can be recommended in order to support cooperatives?
2. Give a description of the concrete examples that exist for effective, profit-driven businesses that improve the situation for the poor in Tanzania and identify the success factors and obstacles behind these.
3. Generate a general theoretical framework of the advantages and disadvantages in generating business activities that aim at reducing poverty in low-income countries such as Tanzania in relation to Finnish development policy objectives and the Millennium Development Goals (MDGs). This framework is based on investigations of grass-root level cooperatives in Tanzania, a long-term partner country of Finland.
4. Describe how the cooperative sector is organized in Tanzania.
5. Evaluate case studies of cooperatives in Tanzania how or if they have succeeded in reducing poverty in relation to Finnish development policy and the MDGs. The criteria applied to evaluate the success include relevance, effi-

ciency, development effectiveness, development impact, sustainability, management and administrative arrangements of the cooperatives, aid effectiveness (effectiveness of aid management and delivery), impact of Finnish value-added coherence, cross cutting objectives and environment, climate change and disaster risks.

6. Evaluate concrete examples of cases in which cooperatives have promoted the livelihoods of women, persons with disabilities and young people in addition to their participation in business life. What works and what does not work?
7. Find whether the cooperatives do create new possibilities and opportunities for the local people to participate in various business activities (innovation, services, launching of products, distributional and logistical solutions, business models and activities).
8. Investigate the contribution of cooperative enterprises development to the Millennium Development Goals (MDGs).
9. Identify measures for the possibility of cooperative enterprises to bring about changes of the mind-set of members, leaders and governments through awareness creation, training, and policy reforms. What kind of challenges can be found in the sphere of activities?
10. Scrutinize means for capitalizing access to finance for cooperative members such as in savings and credit cooperatives (SACCOs) in Tanzania.

The study was being carried out in Tanzania by the University of Helsinki in Finland in collaboration with the Moshi University College of Co-operative and Business Studies (MUCCoBS) of Tanzania between March and December 2013. It involved cooperative development partners in Tanzania: 11 selected cooperative societies/unions, the Tanzania Federation of Cooperatives (TFC), and the Government of Tanzania through the Department of Co-operative Development. Other stakeholders included the Finnish Embassy, the ILO Office, the Dunduliza Company owned by savings and credit cooperative societies, and the Kepa office all located in Dar es Salaam.

1.3 Guiding policy documents of the study

In realizing the aim of this study three policy programmes have been guiding the policy recommendations: 1. The Finnish Development Policy Programme, 2. The Second National Strategy for Growth and Reduction of Poverty of the United Republic of Tanzania and 3. The Country Strategy for Development Cooperation with Tanzania 2013-2016 by the Ministry of Foreign Affairs of Finland.

The Finnish Development Policy Programme (2012) is pursuing a human-rights based approach to development that focuses on poverty reduction and on ensuring

that poor people know their rights. In doing this the following specific measures and principles apply:

- (i) *Democratic ownership and accountability.* Finland's development cooperation policy is based on its partner countries' citizens and their democratically elected representatives having ownership of the development of their own societies. This study strongly supports this aim by outlining policy recommendations that can support the cooperative business model to business-driven activities of poor people.
- (ii) *Effectiveness and impact.* The study describes examples of effective, profit-driven business that are undertaken by poor people and identifies the success factors.

The study assesses how effective the cooperatives have been in poverty reduction and promotion of sustainable development and what their impacts have been.

- (iii) *Openness.* The study delivers results to Moshi University College of Cooperative and Business Studies (MUCCoBS), Tanzania Federation of Cooperatives (TFC) and the Ministry of Agriculture, Food and Cooperatives of Tanzania. Consultation with the Ministry for Foreign Affairs of Finland Department of Development Policy will be done during the project to enhance the operation of mutual cooperation between Finnish and Tanzanian institutions concerned with cooperative development affairs.
- (iv) *Policy coherence for development.* The operation of cooperatives should be coherent and consistent with other forms of development policies followed by Finland.
- (v) *Focus on the least developed countries.* Tanzania is considered to be a less developed country.
- (vi) *Gender equality.* The cooperatives in question are equally focused on both genders - male and female - but the study also investigated the practices that promote women's equal participation and influence.
- (vii) *Reduction of inequality.* The cooperatives are focused on the poor segment of the population.
- (viii) Further to the discussion and understanding of the role of cooperatives and the necessity of establishing partnership between the two universities, it is worth mentioning at this junction that the Rio+20 outcome document has affirmed that cooperatives are key factors for sustainable development. In the document called '*the Future We Want*', cooperatives are mentioned three times in connection with poverty reduction, food production and job creation. Therefore, these issues undoubtedly demand more research in order to attain the measures outlined above.

In the Finnish Development Policy Programme the cross-cutting objectives of gender equality, reduction of inequality and climate sustainability are also stressed.

The Second National Strategy for Growth and Reduction of Poverty of the United Republic of Tanzania (NSGRP II or MKUKUTA II, its Kiswahili acronym) emphasizes some central principles. We particularly mention a sharper focus on interventions, strengthening evidence-based planning, scaling up the role and participation of the private sector in priority areas of growth and poverty reduction, improving human resource capacity in terms of skills and knowledge and efficient employment. The MKUKUTA II states three interrelated outcome clusters, which should be reached:

1. Growth for Reduction in Income Poverty, 2. Improvement of Quality of Life and Well-being and 3. Good Governance and Accountability to ensure that the poor have access and control of natural resources for productive purposes.

According to *the Country Strategy for Development Cooperation with Tanzania 2013-2016* laid out by the Ministry for Foreign Affairs of Finland: Tanzania should use its own resources in reducing poverty and reduce dependency on aid. One key challenge is how can economic growth be translated into overall development. A second challenge is the sustainable use of natural resources that help to tackle climate change. A third challenge is to foster a democratic, egalitarian society with a vibrant civil society and a private sector. A development that gradually decreases aid dependence and includes broader relation such as trade, economic cooperation, research and culture is emphasized. The right of people to land, natural resources and a decent livelihood, employment and basic services are stressed in the country strategy. The rights of women, youth and minorities should be enhanced.

The recommendation in this report takes the principles mentioned above as a starting point for proposing recommendations.

2. CONCEPTUAL FRAMEWORK

2.1 The cooperative sector in Tanzania – organization and policies

Cooperative organizations are among the important economic and social actors in Tanzania. Although traditional forms of cooperation existed even before colonial times, the modern forms of cooperatives were established in many countries during the colonial epoch. In Tanzania, cooperatives were first introduced into the cash crop growing areas of Kilimanjaro (coffee), Kagera (coffee), Lake Victoria (cotton), and tobacco (Ruvuma) at the beginning the early 1920s. After independence, cooperatives were promoted vigorously in Tanzania by the independent government with support from various development partners, especially the Nordic countries of Finland, Norway, Sweden, and Denmark. With subsequent changes in government policies from market oriented policies to state controlled economy – the performance of cooperatives declined. In the wake of trade liberalization in the 1990s, cooperatives were unprepared, due to a failure in policies to compete with multinational companies that were allowed to do business in the country.

Today there are various forms of cooperatives in the country, which includes financial, agricultural marketing, dairy other livestock, fisheries, mining, housing, irrigation and industrial cooperatives. The Table below provides a summary of the types of cooperatives in Tanzania.

Table 1. The status of cooperatives in Tanzania, December, 2012.

TYPE OF CO-OPERATIVES	MEMBERSHIP			VALUE (SHARES) (in MILLION TZS.) ²
	MALE	FEMALE	TOTAL	
SACCOs	537,121	369,325	906,446	33,291
AMCOs	482,986	111,241	594,227	3,468
Consumer	22,184	3,338	25,522	209
Irrigation	17,912	7,631	25,543	308
Livestock	9,665	4,371	14,036	287
Industrial	4,502	1,239	5,741	449
Housing	1,725	136	1,861	109
Mining	409	926	1,335	96
Fisheries	4,504	143	4,647	376
Others	26,458	16,442	42,900	663
TOTAL	1,107,466	514,792	1,622,258	39,256

Source: Co-operative Development Department, Ministry of Agriculture, Food Security and cooperatives, December, 2012.

The financial cooperatives – especially savings and credit cooperative societies (SACCOs) are the dominant form of cooperatives in Tanzania and they account for 56% of the total members. These are followed by Agricultural Marketing Cooperatives (AMCOs) (36%) and the remaining forms accounts for less than 10%. Financial cooperatives in Tanzania include SACCOs and two regional unit cooperative banks (the Kilimanjaro Co-operative Bank and the Kagera Farmers' Co-operative Bank). There is an ongoing process to establish the National Cooperative Bank and Cooperative Insurance Company spearheaded by the cooperative umbrella organization in the country – the Tanzania Federation of Cooperatives (TFC). Other forms of cooperatives include consumer, fisheries, livestock, mining, irrigation, industrial, housing, and services.

In terms of membership, by December 2012 the total national cooperative membership stood at about 1.6 million members. However, in a real sense cooperatives serve more people. If we take the mean household size of five people in the country – the actual number of people that benefit from cooperative services, could be around 8 million individuals. In addition, there are non-members who use cooperative services (those who are members of pre-cooperative organizations/associations and those residing near cooperatives), which give an estimated figure of 2.5 million individuals. This brings the total number of individuals that are likely to benefit cooperatives to over 10 million individuals (about 20% of the country's population).

² 1 euro = 2100 TZS June 2013

Cooperative organizations are guided by Cooperative Development Policy, 2002 (2003); Cooperative Societies Act, 2003 and Cooperative Societies Rules 2004. The movement embraces a four-tier structure with primary cooperative societies at the grassroots, secondary societies/unions and apexes in the middle, and the federation at national level. A Cooperative Reform and Modernization Programme (CRMP) (2005 – 2015) (2005) was initiated to implement the Cooperative Development Policy in attempt for the sector to contribute towards attainment of the country's long-term vision of sustained growth spelled out in the Tanzania's Development Vision 2025. CRMP was linked with the National Strategy for Growth and Reduction of Poverty (NSGRP I), MKUKUTA (2005/06 – 2009/10). The Second National Strategy for Growth and Reduction of Poverty (NSGRP II, MKUKUTA II), mentioned in section 1.3 is also extant guiding for cooperative development policy. However, it should be noted that these policies are still government policies and not policies generated by the cooperative movement themselves.

Box 1. The multitier structure of cooperatives in Tanzania

The cooperative sector in Tanzania is organized in a four-tier structure. Primary societies exist at the lowest, grass root level. The primary societies may form secondary societies (e.g. Unions), and the secondary societies may form tertiary societies (apexes). Finally, all these cooperatives may belong to a fourth level, the Tanzania Cooperative Federation at the top (Banturaki, 2012). The only levels stipulated in the Cooperative Societies Act 200, are the primary societies and the federation. It is important to note that it is the will of the primary societies if they want to form secondary societies (unions) and it is up to the will of the secondary societies to form apex societies. However, not all members of the primary societies are aware of the voluntary character of the unions.

Discussions with various cooperators at the practical level and observations made on cooperative performance gave the impression that the cooperative organizational structure in Tanzania needs to be scrutinized at all levels due to uncertainty of cooperatives modes of operation. In particular the set-up of the TFC is not well understood by the researchers. It is advisable that TFC builds partnership with cooperatively experienced countries, such as Finland, in order to acquire experience and broader knowledge about cooperative management and administration at the apex level.

The existing structure is costly and does not provide space for poverty alleviation by the grassroots membership. It has to be overhauled and create a new sense of freedom and autonomy of the primary societies.

2.2 The concept of cooperatives

Cooperative enterprises as self-help organizations play a significant role in uplifting the socio-economic conditions of their members and that of their local communities. Cooperative organizations operate as people centred businesses and also serve as catalysts for social organization and cohesion. The International Co-operative Alliance (ICA) which is apex organization that represents cooperatives worldwide, defined a cooperative as:

'An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise'

This definition emphasizes that cooperatives are independent of governments and not owned by anyone other than their members themselves. They are associations of individuals which literally means individual people but also 'legal persons', organizations that may themselves have members. Therefore federal bodies whose members are the primary cooperatives can also be cooperatives themselves and that small businesses can also be members of cooperatives. They are united voluntarily, and should be free to join or leave. This also means that collective farms or villages or neighbourhood associations that include all people in an area (whether or not they want to be members) are not genuine cooperatives (Sumelius and Tenaw, 2010).

In general, the aim of cooperative formation is to offer an opportunity for local people to take development into their own hands and make it a meaningful concept at the local level. Cooperatives have arisen where the cost of adjustment to economic change has threatened to destroy communities and where local people needed power to control the pace and direction of change in order to preserve what they valued.

Our conceptual model of cooperatives as a tool for poverty reduction is presented in Figure 1.

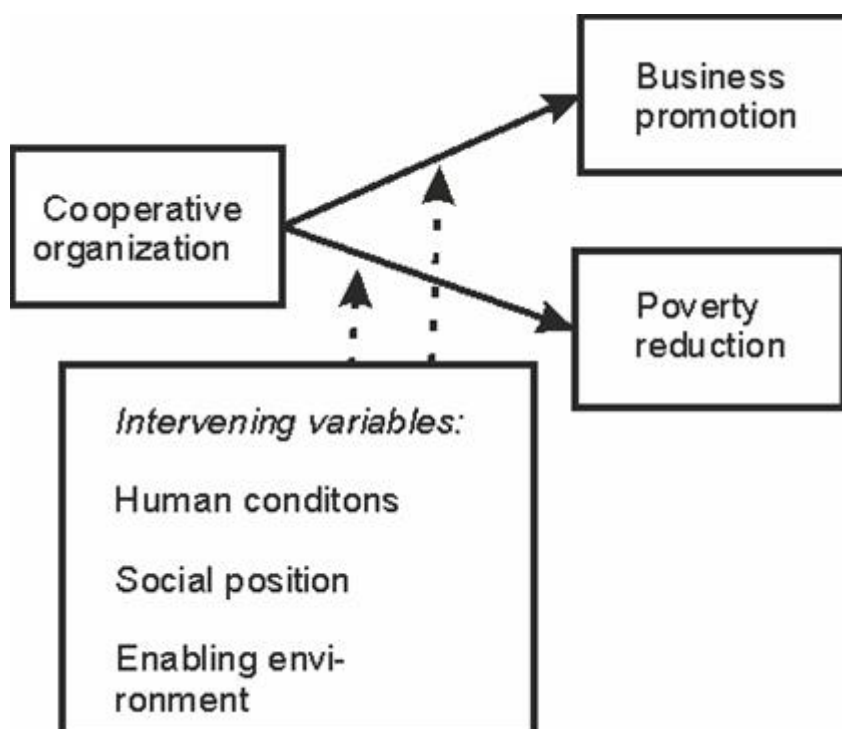


Figure 1. Conceptual framework: cooperatives as a tool for poverty reduction

The cooperative organization works as the independent variable in the model and poverty reduction and business promotion function as the dependent variables. The social positions, human conditions and the enabling environment are the intervening variables that influence the relationship of the dependent and independent variables.

Good management, good governance and human capital affect the performance of cooperatives. These factors are important in order to attract foreign capital.

In a developing country context, cooperatives and farmer groups have been studied by a number of scholars. In Tanzania the question as to whether smallholder farmer groups facilitate collective action initiatives to improve group marketing performance has been investigated by Barham and Chitemi (2009). Those authors basically found that even well-organized farmer groups will have little likelihood to succeed without a core of natural assets.

Moustier et al. (2010) found that farmers' associations (cooperatives) in Vietnam were able to increase farmers' profits per kilo of produce compared to traditional supply chains, by helping farmers to supply supermarkets directly with produce. They concluded that farmer organizations had become major direct suppliers of supermarkets, unlike in traditional commodity chains where retailers are supplied by a chain of wholesalers and collectors that deal with farmers who sell on an individual basis. Farmers belonging to farmer groups received a better price from supermarkets than did single farmers for a number of reasons. The first was due to economies of scale in terms of the quantities collected (lower transaction costs, guaranteed delivery, lower cost of contracts). A second reason was the farmers groups enabled farmers to have training in terms of quality improvement. A third factor was the farmers group made joint investments in quality improvement, labelling and certification possible. Public and international support for food quality improvement was decisively critical for changing farmers' organizations in this beneficial direction.

Bernard et al. (2008) found that although cooperatives in Ethiopia obtained higher prices for their members collectively compared to each member acting individually, they were not associated with a significant increase in the overall share of cereal production sold commercially by their members. However, considerable heterogeneity existed across the members' households seemed to exist. In particular they found that smaller farmers tended to reduce their marketed output as a result of higher prices, whereas the opposite was true for the larger farmers. According to Holloway et al. (2000) milk groups in Ethiopia are a simple example of an agro-industrialization innovation and appear to be a necessary first step in the process of developing more sophisticated producer-oriented cooperative organizations. Other authors Wollni and Zeller 2007 as well as Valkila 2009, found that coffee producer cooperatives in Nicaragua seem to improve price stability and lessen some of the hardships brought on by low prices in the conventional coffee sector, although they did not generally pay higher prices than the conventional private sector.

Cooperatives are successful values-based businesses that are owned by their members. Whether they are customers, employees or residents, the members get an equal say in the business and a share of the profits. From the point of view of agricultural development, which is the economic foundation for national economic growth of most sub-Saharan countries, cooperatives are expected to serve a broad set of socio-economic and political objectives. These objectives range from self-help, grassroots participation, income distribution, exploitation of economies of scale, social control over resources to mobilization of rural population and increasing its pro-

ductivity. The strengthening of the rural institutions has become one of the key areas in the rural and agricultural development efforts in sub-Saharan Africa. In particular the informal types of cooperative societies play an important role in promoting sustainable development at the local level. Consequently it is justified to consider them as a real potential source of enhancing development.

The benefits of forming cooperatives for entrepreneurs consist of positive economic effects for enterprises, for the individual member businesses and for the cooperative itself. Members of cooperatives can benefit from cooperation through economies of scale in production by selling products and buying inputs, through a greater opportunity for diversification by making the value chain longer and by the reduction of transaction costs. However, it has been shown that savings made in production costs themselves are not enough to justify the cooperation in entrepreneurs' cooperatives. Only when the benefits from lower production costs outweigh the increased organizational cost of the cooperatives will the entrepreneurial cooperative be successful. It is therefore very important for the cooperative to quantify its coordination, organizational and production costs objectively since members can choose to leave the cooperative otherwise. The social and other indirect benefits that exist are harder to assess quantitatively (Göler von Ravensburg, 2010, p. 55-56).

The framework of the advantages generating business activities that aim at reducing poverty in low-income countries is illustrated in Box 2.

The disadvantages of cooperatives relate to the issues of high administrative costs. Unclear property rights, management inefficiencies, and high agency costs are some problems that have been mentioned in the literature (Porter and Scully 1987; Vitaliano 1983, Hackman and Cook 1997).

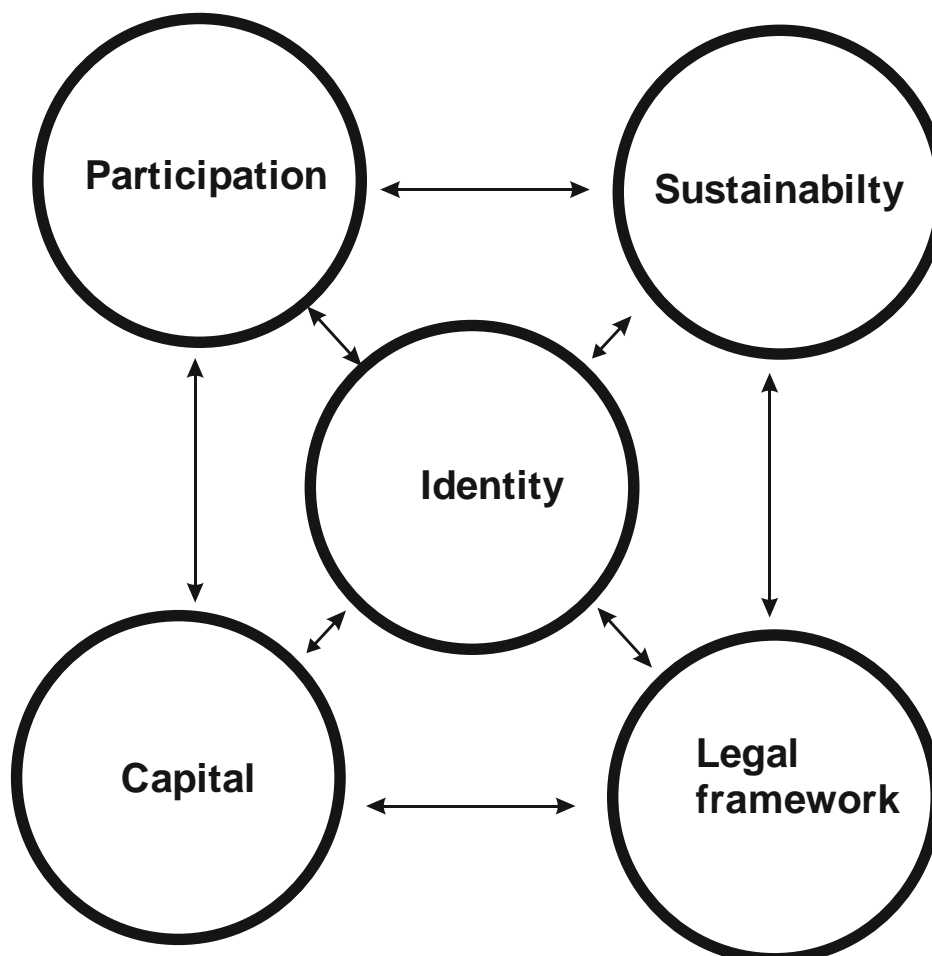
In Tanzania, as they are in most African countries, the majority of people are employed in the informal sector. Typically they have little training. According to Campbell (2013, p. 14) the informal economy is a predominant feature of labour markets in developing countries. Typically the informal sector consists of small family enterprises that are labour intensive and have low earnings. They do not comply with existing labour market regulations. According to the same source, the majority of workers in the world entering the labour markets today are in the informal economy. As an example they estimate that about 34% of all Tanzanian households engage in some form of informal non-agricultural activity, but this rate is higher in the urban areas (55%).

Given the high rate of informal employment and poverty in Tanzania, the cooperatives could offer opportunities for the self-employed and the workers in the informal economy. Not only could family entrepreneurs employed in the informal sector take advantage of the benefits mentioned, the cooperatives could make women participate more fully in working life, provided that the targeting is done correctly.

Given the model of the advantages of cooperatives presented in Box 2, this form of doing business may potentially offer the advantages of participation, sustainability, identity, legal framework and access to capital.

Box 2. Framework of the advantages in generating cooperative business activities that aim at reducing poverty in low-income countries

A successful model for constructing an inclusive business model suited to the needs of small-size entrepreneurs when offered by the cooperative. The advantages of the cooperative model consists of five dimensions illustrated in the figure below. The first dimension is the *participation*. Cooperatives offer the poor the opportunity to participate better in economic activities through ownership, which makes them more productive, more useful and more relevant. Cooperatives also offer better economic, social and environmental sustainability because this puts people at the heart of economic decision making. The cooperative business structure also brings to its members a dimension of *identity* through its core values and principles of cooperation, which must be known and communicated. The cooperative offers a *legal framework* for doing business. Finally, the cooperative provides better opportunities to have *access to capital*, because of the size of the business.



According to a draft document being prepared by the General Assembly of the International Co-operative Alliance (ICA) in October 2012 the '2020 Vision' is for the cooperative form of Business by 2020 to become a leader in economic social and environmental sustainability.

Source: ICA Blueprint for A Co-operative Decade 2013

2.3 The cooperative reform process in Tanzania - the need for cooperative reformation in Tanzania

in a research report on the cooperative reform process in Tanzania, Birchall and Simmons (2010) argue that before cooperatives can reach their potential in reducing poverty the policy environment they work in has to be reformed. The investigation was carried out for three distinct time periods. In order to discuss thoroughly the need for reforming cooperative sectors in Tanzania, the post-colonial nationalist period and the period of market liberalization. The research showed that the control exercised by colonial governments was deepened under the nationalist governments, with cooperatives becoming parastatals and their 'members' seeing them as just extensions of party and government. Liberalization coincided with a sustained attempt by international agencies to reassert the distinctive nature of cooperatives as member-owned businesses.

During the colonial period, in Tanzania small cooperative sectors grew up. These included production and marketing cooperatives that were promoted by government officials and other cooperatives which emphasize the organizing of cash crops for export which were highly regulated. Before independence, the drive for forming production and marketing cooperatives originally came from coffee growers, who in 1925 formed the Kilimanjaro Native Planters Association to market their coffee crops. Cotton cooperatives proved to be more popular and these were promoted by the colonial government. The Government was uninterested in members education; instead cooperatives were seen simply as a good way of organizing the export trade in coffee and cotton.

During the post-colonial nationalist period, there was a rapid expansion of rural cooperatives in a wide range of sectors. In 1961 there were 275 cotton societies and 182 coffee societies. The first five year plan saw a drive to place all marketing of crops under control of the cooperatives, which were seen as the main vehicle of the government's effort to modernize the economy. By 1965 more than 20 types of crops were being marketed through 1287 primary co-ops, and they controlled over 80% of agricultural production and marketing (Banturaki, 2000).

In Tanzania, rapid expansion of the sector was also associated with a decline in efficiency. By 1966 there were rising disquiet and a Presidential commission of enquiry was set up to investigate charges of nepotism and corruption. The commission urged the government to expand cooperative education, strengthen control over the movement, and increase the powers of the registrar to dismiss incompetent and/or corrupt leaders. All these were enacted in a law passed in 1968. During the same period 16 district and regional cooperative unions were taken over, their committees were dismissed and government personnel put in. At this time, government intervention was seen as beneficial, the argument being that government was using cooperatives to achieve the political aims of socialism which overrode any claims to autonomy on the part of cooperative membership. After the Arusha Declaration of 1967, cooperatives were recognized as 'instruments' for implementing the policy of socialism, and from 1969 onwards they were transformed to fit into Ujamaa villages as multi-purpose cooperative societies.

During the period of structural adjustment and cooperative reform in Tanzania in the 1980's, the impact of liberalization on a cooperative sector that had been dependent on government subsidies and monopolies was disastrous. There were two problems (Sizya, 2001). First, cooperatives were in a weak position at the start of the trade reform process, and had no proper breathing space to adjust, and so private traders took over much of their business. Second, they had inherited structures and attitudes that put little emphasis on membership and the cooperatives also lacked professional management. Some primary societies began to operate as agents for private traders and rented out facilities to them. District unions operated facilities that, under liberalization proved to be unviable, such as cotton ginneries, oil mills, transport and hotels (Gibbon, 2001).

3. METHODS AND DATA

In carrying out this study, the following sample of 11 cooperative organizations was selected based on the criteria of good performance, sub-optimal performance representative of selected sectors, and their accessibility:

- (i) Dairy cooperatives: Tanga Dairy Cooperatives in Tanga (TDC) and Kalali Women Dairy Co-operative Society in Hai District (KDWC);
- (ii) Agricultural marketing cooperatives: unions dealing in the export of coffee through fair-trade, the Kagera Co-operative Union (KCU) and the G32 KNCI_JVE LTD (Kilimanjaro New Co-operative Initiatives- Joint Venture Enterprises LTD) and a primary cooperative society in Kagera Region - Mwenyanjale Primary Society;
- (iii) Karansi AMCOS (maize, soya beans) in Magadini village Siha District, and The Mruwia Agricultural Marketing Co-operative Society (MAMCS) in Moshi Rural District;
- (iv) Financial cooperatives: Kilimanjaro Co-operative Bank (KCB) in Moshi; Mruwia SACCOS in Moshi Rural; Umoja SACCOS in Magadini – and Kagera Famers' Co-operative Bank (KFCB).

The study relied on both secondary and primary data collected from various sources through a combination of techniques. As for the primary data, the researchers carried out interviews with selected groups of interviewees and observed activities undertaken by cooperatives. Focus group discussions (FGD) were used mainly in interviewing groups of members, non-members, and leaders of cooperatives.

The method used were semi-structured interviews that were based on a set of questions and a formal questionnaire, relevant to the research theme which were given to representatives of the cooperative organizations mentioned above. Contrary to using a questionnaire alone, this method accommodates the opinions and concerns expressed in the respondents own words.

The selected sample societies were interviewed during 11.6 - 20.6.2013. The interviews were carried out by two teams of three researchers, and included travelling to the Kagera and to the Tanga Regions. A questionnaire suitable for both ordinary members, board members and non-members was prepared (see Annex I). A check list of issues and topics for these interviews is presented in Annex II. In Annex III a map is presented showing the location of the cooperatives studied. The interviews conducted with members of the primary societies at village level were carried out in the Swahili language, whereas interviews with managers of the primary and secondary societies and also cooperative banks were carried out in English.

A supplementary source of data from interviews with relevant organisations and institutions mainly in the capital, Dar es Salaam, were used to acquire background information at the initial phase June 5-7.6.2013. During this period representatives of the Tanzania Federation of Cooperatives (TFC), the Tanzanian Ministry of Agriculture and Natural Resources (Cooperative Commissioner and Registrar), the International Labour Organization (ILO) Office for East Africa, the Managing Director of Dunduliza Company, the Embassy of Finland and the Kepa office of Tanzania were interviewed. Most of the interviews were recorded. The visit to the Embassy of Finland in Dar es Salaam gave the researchers ideas as to how financial resources could be allocated to development projects in Tanzania.

Finally, a workshop (Mid-Term seminar) on the role of cooperatives in poverty reduction and promotion of business was arranged at Moshi University College of Cooperative and Business Studies (MUCCoBS) in Moshi 24.6.2013. At the workshop the preliminary findings and overall impression of the cooperatives were discussed in the presence of researchers, staff members of the MUCCOBS, cooperative managers and organisations, the district representatives of the Ministry of Agriculture, Food Security and Cooperatives and the Executive Secretary of the TFC.

4. FINDINGS AND DISCUSSIONS

Findings are structured according to the type of production, starting with dairy, followed by coffee production, proceeding with financial cooperatives and SACCOs and their relation to the marketing activities of the AMCOs. We will finally describe a successful example of an AMCO (see Box 4) and an example of a less successful AMCO (Box 5). The impact on poverty reduction, cross cutting issues and challenges are described with the relevant cooperative.

The cooperatives studied include Tanga Dairy Cooperative Union (TDCU) Limited in Tanga region, Kalali Women's Dairy Co-operative Society Limited (KWDCS), Kagera Co-operative Union (KCU), Mweyanjale primary society, Coffee exports G-32 in Kilimanjaro area, AMCO and SACCO in Mruwia, Kagera Cooperative Bank (KCB), CHAWAMPU Agricultural Marketing Co-operative, CHAWAMU primary dairy cooperative, Kilimanjaro Cooperative Bank (KCB), UVIWAPI Primary Dairy Co-operative Societies, Umoja SACCOs and Karansi AMCOs.

4.1 Dairy cooperative societies

4.1.1 Overview of the livestock industry in Tanzania

The livestock sub-sector is an important contributor to the livelihoods of rural Tanzanians. According to Covarrubias et al. (2009) about 60% of rural households in Tanzania earn their livelihoods from the livestock husbandry, whereas 97% cultivate crops and about 10% are employed as agricultural wage labourers. However, agricultural activities combined (crop, livestock, and agricultural wage labour) in Tanzania amounts to 70% of total rural households' income (53% from crop production, 13% from livestock, and 4% from agricultural wage labour). Livestock sub-sector contributes 13% to the agriculture GDP and 6.1% to the national GDP (Odhiambo, 2006:9). Tanzania has one of the largest livestock populations in Africa.

The dairy livestock sub-sector is increasingly becoming an important sector in poverty reduction efforts by the improvement of households' incomes from sales of milk and milk products, generation of employment in addition to improved nutritional status of families. The dairy cattle are kept mainly by smallholder farmers and a few medium and large scale farms. The indigenous cattle are kept by traditional livestock keepers in the pastoral and agro-pastoral systems (Njombe and Msanga, 2010). According to Njombe and Msanga (2010) the main dairy animal in Tanzania is the bovine which are classified either as dairy for those cows that produce on average about 2,000 litres per lactation or dual purpose indigenous cattle that produce about 300 to 500 litres and are mostly used for beef, which are the majority.

4.1.2 Dairy cooperatives as a means for poverty reduction

This study selected two dairy cooperative societies – namely the TDCU Limited in Tanga region and KWDCS in Hai District of Kilimanjaro region. The TDCU covers the entire region of Tanga with fifteen (15) primary member societies found in the districts of Tanga region, whereas KWDCS operates only in the Machame division of Hai District in the Kilimanjaro region. TDCU was established by six primary cooperative societies in 1993 and over time the membership increased to the current number of 15 as shown in Table 2.

Table 2. TDCU primary societies as in July 2013

S/No	Name Primary Societies	Registration Number	Year	District	Number of Individual members		
					Men	Women	TOTAL
1	UWAMA	TAR 188	1993	MUHEZA	321	299	620
2	CHAWAMU	TAR 224	1993	MUHEZA	158	123	281
3	Tanga Livestock Cooperative	TAR 262	1993	TANGA	451	196	647
4	UWASHU	TAR 196	1993	LUSHOTO	101	42	143
5	UWALU	TAR 195	1993	LUSHOTO	64	34	98
6	MADAFCO	TAR 245	1993	MKINGA	205	196	401
7	UWAKO	TAR 248	1997	KOROGWE	59	45	104
8	UWAMLI	TAR 295	1998	MUHEZA	201	49	354
9	UWABU	TAR 321	2002	TANGA	58	32	90
10	PINGONI	TAR 385	2006	TANGA	71	64	135
11	WAWAPA	TAR 247	2007	PANGANI	205	32	237
12	UWAMABO	TAR 488	2010	TANGA	45	17	62
13	UWAHA	TAR	2011	KOROGWE			59
14	UWAKAKI		2011	TANGA			63
15	UWAPOMA		2011	TANGA			73

Source: TDCU, 2013

Currently, the individual membership to all the 15 primary societies stands at 4,859 of whom 2,198 are classified as young. Of the 15 societies Umoja wa Vijana Wafugaji Pingoni (UVIWAPI) is a predominantly youth based society that was primarily established to address youth unemployment problems in the region.

KWDCS is a registered cooperative society that operates in the Machame Division in Hai District of Kilimanjaro region. The idea for the establishment of the KWDCS originated from the specific local situation when the status of women in Kalali was low and also the large family sizes which made it more difficult for families to thrive (Kaikkonen, 2012). The most important aims of KWDC were to improve the status of women and reduce the size of families. When women are empowered, the entire family benefits which has ripple effects on future generations. Additionally the importance of women in society becomes recognized and valued since women are the ones who are responsible for taking care of the family. The KWDCS is among organizations that focus on women empowerment in relation to poverty reduction at the local level. However, there is a need for the cooperative to renovate the technical and capacity of its milk plant in order to facilitate better payment to the milk producers, improve training and encourage more women entrepreneurship, facilitate social affairs including e.g. dissemination of information about HIV/AIDS, increase orphans' school attendance, improving women's status in addition to increase awareness of environmental matters for future development. Additionally there is need to employ capable personnel to manage the cooperative dairy. In the current economic situation the dairy may not be able to fulfil its objectives without financial assistance from donor countries.

4.1.2.1 Governance and management of dairy cooperatives

Since the TDCU is a cooperative society, the most important decisions are made by the Annual General Meeting (AGM) which draws three members from each primary cooperative. There is a Board of Directors of its nine members; one is a woman who was elected at the AGM as per the cooperative societies act 2003 and the union's by-laws.

The day-to-day operations of the union are executed by employees. Currently, TDCU has four (4) full time employees (namely the Executive Secretary, Accountant, Assistant, secretary and messenger). An Audit is carried out every year by the Cooperative Audit and supervision Corporation (COASCO). The KWDCS, is a primary cooperative society which is governed by the AGM and an elected Board of Directors of nine members. The daily operations of the society are managed by eight staff, seven of whom work on a part-time basis and only the manager is a full-time employee.

4.1.2.2 Dairy business (processing and marketing)

The TDCU markets its milk products through the Tanga Fresh Limited (TFL). TFL is a joint venture between TDCU and a Dutch cooperative society (FriZania Cooperation) from Friesland in the Netherlands. The TFL operates a milk processing plant that was established in 1997; in which the TDCU owns 35% of the total shares (being 20% initial capital by TDCU, 8% famers' contributions through milk deductions, and a 7% grant from Rabo Bank Foundation) and DOTF (Dutch Oak Tree Foundation) owns the remaining 65% of the shares. The TDCU started with a capital of TZS 70,000,000 that increased to the current capital of TZS 753,468,134 which is contributed by the members through their primary societies.

TDCU operates 22 chilled collection points for milk located at primary societies across the Tanga region. Individual members bring milk to the chilled centres on foot, by bicycle and others by motors cycle or ox cart. The society controls milk quality by carrying out milk tests. In each centre there is a Quality Assurance expert engaged by the society but trained by the TFL. The societies have special equipment such as lactometer and computers that are used to ensure milk cleanness, determine density and test for alcohol content. All milk collections are received at the centres and are tested for acceptance or rejection and are recorded on acceptance. Dairy farmers are paid for milk sales proceeds twice per month on the 15th and end of the month at a rate of TZS. 650 per litre of milk after deducting levies. The society charges a levy of TZS. 23 and the union charges TZS. 10 per litre. These deductions are made before the paying members.

Table 3. Business profiles of TDCU and KWDCS

Item	TDCU	KWDCS
Start-up Capital	TZS 70,000,000	Grant (Friends in Italy, CDTF and ELCT)
Current Capital	TZS 753,468,134	TZS 10,000,000
Collection Centre	22 Collection centres	Direct to the factory collection centre
Ownership	Joint venture FriZania Cooperation Netherlands and TDCU	Women in Machame division Hai District, Kilimanjaro Region
Processing Capacity	50,000 litres of milk a day	800 litres of milk/ day
Price of milk per litre	TZS 650 after other deductions	TZS 600
Number of Products produced	13	8
Current membership	4,859 of whom 2,198 are youth	250 all women

Source: TDCU and KWDCs, 2013

From the centres milk is transported to the TFL factory by trucks or by milk tankers. Currently, the utilized plant capacity is about 32,000 litres a day. However, the factory has the capacity of processing 50,000 litres of milk a day, indicating under-capacity utilization of the factory by 36% of the established capacity.

KWDCS started with a very small capital amount which was raised through members own contributions TZS 130,000; in-kind grants in the form of dairy cattle, shed, and milk collection cans. In addition, they also received a soft loan from the CDTF that amount to TZS 120,000. Currently, the society has TZS 10 million capital and operates a diversified income that generates activities that include milk processing, sun-flower oil extraction, animal feeds project and a maize milling machine. Members have also established the Kalali Women's SACCOs to provide financial services for cooperative members and neighbourhood community.

KWDCS established milk a collection centre in January 2000 with assistance obtained from friends in Italy who donated milk collection cans. The Society started with 100 litres per day that increased over time to 800 litres. Initially the milk was sold to New Northern Creameries Company in Arusha before it was sold to Brookside Company of Kenya. In the year 2002, the New Northern Creameries Company failed to pay the KWDCS. The due milk sales proceeds, which amounted to TSZ 12,480,000. As a result, the KDWCS ended the sales agreement with the New Northern Creameries Company and looked for alternative markets. Consequently, KWDCS started milk processing in the year 2003. Milk is brought to the factory, which is also a collection centre by dairy farmers on foot, by bicycle and by un-refrigerated van.

Milk quality and hygiene are ensured by testing with special equipment such as lactometer and test kits to ensure cleanness, determine density and measure alcohol content. When milk inspection meets the specification, it is accepted and recorded. Dairy farmers are paid TSZ 600 per litre of milk. Members are paid twice in a month that is on 15th and on the last day of every month. In the event of a member having financial problems she can be paid whenever she is in need. KWDCS also collects milk from agents who are paid TSZ 700 per litre. Agents are paid a bit higher than the members in order to cover their transportation costs. The factory has the capac-

ity of processing 800 litres of milk a day. However, the factory currently processes only 500 litres indicating utilization under-capacity of the factory of 25%.

4.1.2.3 Products and Market

TFL product ranges from full cream milk, yoghurt (flavoured and unflavoured), cream, butter, milk (pasteurized milk and fermented milk/Mtindi), mozzarella cheese, mala bulk, milk shake and ghee. TFL is considering processing Long Life Milk (UHT) and powdered milk at a later stage. These products account for nearly 90% of production volume and sales revenue of the TFL. Of these products, sour milk is preferred mostly than fresh milk due to some consumers not preferring pasteurized milk.

TFL is among the largest milk processors in the country. Its products are mainly sold in Dar es Salaam with an estimated share of 60% of the total output. The remaining 40% of the TFL products are marketed in Tanga, Moshi, Arusha, Morogoro, Dodoma and Zanzibar. TFL products are marketed in Dar es Salaam through an established distribution system comprising main depot in Chan'gombe and five agents namely: Mr Vinod Ramji Tanna (Kisutu) Mr Mathias Mashema (Buguruni) Mr Mabaga (Mabibo); Mrs Mary Mcharo (Sinza) and Mr David Mwaka (Namanga). There are also mini-depots in Kigamboni and Gongolamboto areas.

Table 4. Trend of TDCU milk collection and production, 2000 – 2010

Years	Milk Collection (Litres)	Amount of money given to primary cooperatives
2001	2,610,875	502,132,255
2002	3,032,445	601,792,180
2003	3,492,320	774,281,205
2004	4,143,220	1,062,125,125
2005	5,120,151	1,410,271,280
2006	5,852,320	1,946,310,410
2007	7,825,880	2,745,111,270
2008	9,162,970	3,663,375,210
2009	9,472,810	4,323,142,000
2010	11,102,520	5,218,013,300
2011	13,031,250	7,089,173,200
2012	13,493,710	8,045,025,500

Source: TDCU 2013

The discussion with TFL management revealed that there is a shortage of milk and milk products to meet the need of consumers in major market areas in Dar es Salaam. However, there are no plans for market segmentation or corporate market promotion campaign by TFL as yet. In its efforts to expand its market share in

Dar es Salaam city, the factory has commissioned a market study to advise the management on the strategies to increase its market share there.

The means by which KWDCS distributes its products is through an outlet store in the town of Moshi where its products can be found. KWDCS products are distributed to different supermarkets and shops in Arusha and Kilimanjaro regions as per their orders. Moreover, some of the customers collect products directly from KWDCS at cheaper prices and hence they act as distributors of KWDCS's products.

Table 5. Trend of KWDCS milk collection and production, 2001 - 2008

Years	Milk Collection (Litres)	Butter Produced (kg)	Cultured Milk (Litres)
2001	23,027		5,438
2002	25,811	62	19,620
2003	46,013	538	48,127
2004	82,477	1,139	50,342
2005	85,510	1,260	59,335
2006	88,989	1,358	65,877
2007	90,300	781	70,342
2008	100,320	1,343	82,321

Source: KWDCS, 2013

4.1.2.4 Impact on poverty reduction

First, it has to be acknowledged that even though the TDCU and KWDCS are engaged in the dairy business, milk collection, processing and the marketing of milk products, there are distinct differences between the two by virtue of differences in their relative sizes type of structure, mode of operation and production lines.

TDCU owns the dairy factory known as TFL which is the main milk processor and about 4900 members which comprises about 4,000 smallholders. On the other hand, KWDCS is totally women owned and administered cooperative dairy with about 250 active members. The operational line of TDCU is based on the national level extending up to Dar es Salaam, whereas in the case of KWDCS it is only limited to the regional level and covers Kilimanjaro, Moshi and Arusha regions.

TDCU focuses mainly on increasing the efficiency of milk collection through new Milk Collection Centres, increasing members holdings of cattle through cross-breeding programme and the promotion of reproductive performance and milk quality management for smallholders through the Dairy Farmers Information Service. Apparently the significant area of operation of KWDCS involves the provision of milk products to primary and secondary school children, fulfilling the MDGs by reducing the rate of malnutrition amongst children through the milk for school campaign and support for the orphans by paying their school fees.



Improvement of living conditions in the Tanga milk collection area. Left, dwelling house before. Right, new dwelling house. Photo 1: *S. Tenaw*

In addition to the descriptions of TDCU and KWDCS mentioned above, they also conduct training and awareness creation of cooperative as a business model but also capture other cross-cutting issues relevant to members and community development.

The common characteristic shared by TDCU and KWDCS is they provide facilities each of which depend on their capability through their dairy businesses in the following ways:

TDCU:

1. Improved household's incomes through the sales of milk and milk products.
2. Enhanced access to market information through their societies, mobile phones, information posters and meetings.
3. Enhance market information systems among dairy farmers, enhance networks among dairy farmers both within and outside the country.
4. Improved access to alternative energy sources by building biogas for cooking and lighting homes.
5. Members housing conditions improved.
6. Increased ownership of vehicles bicycles and motorbikes.
7. Greater employment.
8. Improved nutritional status.
9. Tax revenue to government increased.
10. Generally, dairy cooperatives contributed to the realization of the Millennium Development Goals (MDGs).

KWDCS:

1. The household's incomes have improved because of sales of milk and milk products. Members have been able to pay school fees for the children and get access to medicare.
2. Improve the availability of extension and other services.
3. Increased employment.
4. Improved nutritional status of families.
5. Social status of women at their household level has improved as they can now contribute to the household income.
6. Tax revenue to government is increased.
7. General knowledge on various issues including HIV AIDS, Entrepreneurship, etc. is facilitated and improved.
8. Generally, dairy cooperatives contributed to the realization of the Millennium Development Goals (MDGs).
9. Enhanced access to market information through their societies through mobile phones, information posters and meetings.

4.1.2.5 Cross cutting issues

The union established UVIWAPI (the livestock use Cooperative in Pingoni) to address youth unemployment and other related social problems in the regions (drug, abuse, drunkenness and crime). In 2001 TDCU acquired 3000 ha of land from the sisal estate owner that produces fibre (Katani) for the purpose of distributing parcels of land to youth for them to become self-employed. The Land was surveyed and subdivided into plots of between 2-2.5 hectares. These plots were distributed to young people whose parents were members of the TDCU. A total of 375 plots were surveyed and offered to individual young people (men and women) for a token fee of TZS 25,000. TDCU is a dairy union thus it organized a Heifer grant to young people who were already settled on the land.

During the milk for schools campaign KWDCS informed students on the importance of protecting the environment by collecting litter i.e. discarded food-containers such as paper, cans and bottles that people have left lying in public places after consuming their contents. KWDCS pack their milk products in plastic materials; by doing this they encourage people not to throw the material away but to keep them for recycling. For the time being KWDCS are finishing their stock of plastic packets before

they embark on the use of cartons. KWDCS are in the initial stage of introducing new technology such as biogas (use of waste/dung from cattle).

4.1.2.6 Challenges

The dairy cooperatives analysed here face a number of challenges:

1. Weak capital base to expand business volume.
2. Competition from local and importers of milk and other dairy products including local processors, importers, and milk hawkers. Imported dairy products mostly come from Kenya, South Africa, The Netherlands, Uganda, Oman and United Arab Emirates. Local processors and suppliers include As am Dairy, Profate, Mother Dairies, Kilimanjaro Creameries, Mara milk, ASAS Bairy and CEFA Njombe.
3. Inadequate market research and promotion of TFL products. For instance, the main market for dairy products – Dar es Salaam is under- supplied by domestic milk processors and importers. Studies have shown the milk product demand for Dar es salaam is around 0.5 million litres per day but domestic processors supply 51,000 litres, Importers supply 60,000 litres and Hawkers supply 17,000 litres a day.
4. Inadequate training of Board members, Staff and ordinary members.
5. Extension and other support services extension, financial services, Advocacy and Lobbying.
6. Quality control and the hygienic handling of milk.
7. Inadequate policy support mechanisms in areas such as tax regime, protection of domestic milk products and extension services.
8. Lack of appropriate technology in processing of milk, transportation storage and packaging.
9. No formal contract with its agents and distributors.

KWDCS face a number of challenges which affects its ability to compete effectively:

1. Transport. KWDCS have only one un-refrigerated van for transporting products from the plant to the market which does not meet standards.

2. Competition from other lower priced milk products from neighbouring countries such as Brookside Kenya. Local competitors such as Nronga women's dairy cooperative, ASAS dairy and TFL also exist.
3. Lack of sufficient capital, which could enable KWDCS to purchase modern machine for cheese processing, and modern machine for sealing milk in its containers.
4. Packaging material and poor package. Government policy has discouraged the uses of plastic material in packaging.
5. Electricity fluctuation. Production may fail to take place because of electricity fluctuation. KWDCS are seeking a grant to put in a standby generator.
6. Cultured milk spoils after one month. KWDCS would like to prolong the duration of the product life to one year by using new preservatives.
7. KWDCS boil milk using fire wood. This is not environmentally friendly method.
8. The distribution via bicycles depends on human physical effort. The loads carried are small and may be subject to spoilage in transport.
9. The use of an un-refrigerated ordinary van has been found to be unhygienic.

4.2. Coffee cooperative societies

4.2.1 Brief overview of the coffee industry in Tanzania

Coffee production is one of the main export products of the Tanzanian economy and provides 15% of total export value. Coffee production provides a direct income to more than 400,000 households, supports the livelihood of some 2.5 million individuals and generates about USD 150-223 million per year of foreign exchange earnings (Tanzanian Coffee Industry, Development strategy 2011-2012). About 90% of the coffee farms are owned by smallholder farmers and the remaining 10% belong to estates with an additional 2 million people employed directly or indirectly by the coffee industry. Coffee production in Tanzania is concentrated in five main geographical areas in the north - Kilimanjaro, Arusha, and Tarime; in the west Kigoma and Kagera; and in the south Mbeya, Iringa and Ruvuma (Tanzanian Coffee Research Institute).

4.2.2 Coffee cooperatives as a means for poverty reduction

This study involved representatives of coffee marketing cooperatives of the Kagera cooperative Union (KCU) and G32 Kilimanjaro New Co-operative Initiative from Kagera and Kilimanjaro regions respectively. Both these secondary structures are also

involved in coffee export through fair-trade arrangements. The study also covered four primary societies one of which is the Mweyanjale Primary Society that produces coffee and a member of KCU. A further study included two agricultural marketing cooperatives (AMCOs) and one SACCO: the AMCOs in Mruwia and Karansi, and one SACCO in Mruwia. By combining these cooperatives we therefore have three regional cooperatives that represent coffee cooperatives: 1. KCU and Mweyanjale Primary Society, 2. G32 and Mruwia AMCO and Mruwia SACCO 3. Karansi AMCO. Some very relevant information on the situation in Kagera was received from the Kagera Farmers' Co-operative Bank.

KCU is a secondary cooperative and consists of 125 primary societies in the Kagera region which produce Robusta coffee, one of them being the Mwenyanjale Primary Society. It is situated west of Lake Victoria (see map, annex III). In total there are 125 primary societies belonging to KCU. The board of the KCU consists of five men and one woman. In the annual meeting about 375 members usually attend.

During the interviews with KCU, very little information about the primary societies was available at KCU, a fact which was surprising given the existence of secondary unions being motivated by services for primary societies. It is also known that after liberalization policies, the unions treated primary societies as cost centres where they attempted to minimize costs to ensure the survival of the union as a separate business entity on its own.

The cooperative movement in the region started in the 1930s. KCU was registered in 1950. Initially six districts belonged to KCU but in 1990 Karagwe left the KCU to form its own union. The Ngara formed its own District cooperative Society. A third district (Muleba district) is currently claiming they would like to leave the union. The reasons for breaking away are many, but two are relevant to explaining the current situation. The first reason is poor management services from the union and the second reason is information asymmetry where primary societies receive little information from the Union and hence are unable to make informed business decisions.

The Mwenyanjale primary society started in 1949 and currently has 1,221 members. It started with the cultivation of conventional coffee and to date grows organic coffee. KCU collects and markets the coffee produced by Mwenyanjale. The Society has managed to buy two coffee processing machines through fair trade premium payments, which were reported to be at an average of TSZ³ 5,000,000 to 8,000,000 each year. Of the 17 persons that participated in the interview discussion there were seven board members (five men, one woman and one youth), the manager, two primary society personnel (a technician and a secretary) and two extension officers (one male and one female) and six non-members (four male and two female).

G32 Kilimanjaro New Co-operative Initiative, Joint Venture Enterprise (G32) was started in 2002/2003 by 32 primary societies which have been members of the Kili-

³ 1 euro = 2100 TZS June 2013

manjaro Native Co-operative Union (KNCU)⁴ which is the dominant coffee Secondary Union in the Kilimanjaro area. The reasons for starting the cooperative was the failure of KNCU to fulfil some obligations such as not paying the farmers on time or failing to pay the societies levy on time and because of sales of immovable assets (Brief information on G32 KNCI-JVE LTD, 2012). The KNCU is the secondary coffee cooperative in the Kilimanjaro area, and is in a sense a similar organisation as the Kagera cooperative Union (KCU) (described in chapter 4.1.1). Since its foundation several other primary societies have joined the original 32 primary societies. Some of the primary societies sell coffee to G32 through the Mruwia AMCO. The report on Mruwia AMCO and SACCO is given in Box 3. G32 was founded by the current General Manager Gabriel Ulomi, who studied Marketing at the Finnish Business School of Economics, apparently in the beginning of the 1980s. The studies there were financed by the Finnish Ministry of Foreign Affairs. A similar organization, the Dunduliza network of SACCOs, also exists and seems to have many features in common with G32 (see Joint Dunduliza Network of SACCOS, 2011). An interview with the General Manager of Dunduliza in Dar es Salaam revealed common features.

Karansi AMCO was established in 1987 in order to market members' coffee production. Coffee is a main crop that is produced by members and other households in the area. However, farmers are also engaged in the production of other agricultural crops such as beans, maize, and soya beans which are produced primarily for domestic consumption although surpluses are also marketed to earn cash income. Currently Karansi AMCO has 700 active members of which 640 are men and only 60 are female. Members are required to pay a membership fee of TZS 2000 and buy TZS 10 shares of TZS 5,000 each.

4.2.3 Governance and management of coffee cooperatives

The KCU has an executive committee that consists of six members, five men and one woman. The total number of employees were not mentioned but the number seemed to be quite high, judging from the office of KCU (see photo 2, below). In the annual meeting one or two representatives from each of the 125 primary societies participates. Usually about 375 members attend the annual meeting. The Governance structure of KCU follows the traditional model of unions and the cooperative structure was inherited from Britain. In the British model, known as the unified cooperative structure, primary societies are unified at the union level whereas at the local level they operate on a stand-alone mode. This governance structure was not reviewed when the policies of liberalization and competition were implemented. As a result, more powers remained at the union level, whereas the primaries became more marginalized.

G32 employs only three persons, the General Manager, one young female executive and an accountant (see photo 3, p. 28). It can be considered as an example of a

⁴ Note that the team initially planned to interview KNCU officials. KNCU approved the meeting some weeks before. However, one day before the planned meeting KNCU backed out citing too much work to be done for its annual meeting that was going to take place soon. The team, therefore, contacted the General Manager of G32 instead who was willing to have a meeting the following day. Therefore, the authors have not had the opportunity to discuss the issues directly with KNCU

modern union structure, which does not deal with products directly. The joint venture is a facilitator for guidance, education, training and knowledge management for the member primary societies. Through the activities of the joint venture, primary societies are able to enter into competitive markets at reduced transaction costs. The primaries concerned are shareholders of the Co-operative Bank and they trade by the Warehouse Receipt System (WRS) for a description, see chapter 4.3.3) by using the WRS they can access crop loans and pay their members promptly. Therefore, G32 does not handle any money nor does it handle physical commodities. The primary societies provide the coffee directly to the buyers themselves. G32 supervises and advises on the trading process. It also carries out business negotiations.



The Headquarters of KCU in Bukoba. Photo 2: *J. Sumelius*



The Headquarters of KNCU in Moshi. Photo 3: *J. Sumelius*



The one room Headquarters of G32 in Moshi (General Manager Gabriel E. Ulomi, Professor S. Chambo and the Officer employed by G32). Photo 4: *J. Sumelius*

The Karansi AMCOS is managed by a committee of six persons who are all men. There is also a Finance and Planning Committee with three members all of whom are men. The society is staffed by three staff (managers, accountant and a secretary).

Annual general meetings and other meetings where members meet to make decisions are conducted as stipulated in their constitution. In the last meeting a total of 267 members attended which is far in excess of the quorum of 100 members. The primary societies do not have any written business plan. Two persons are responsible for the authorization of payments, the procurement of money and the release of funds. Gross margin analysis of business activities is normally done. The Chairman of the board has been in that post for eight years and he still has one more year of service. Treasurer and the secretary have been in their respective position for 19 years.

4.2.4 Coffee business (processing and marketing)

KCU is a traditional coffee union, it basically collects coffee from primary societies and takes care of the selling. KCU has also created two value added products: 1) roasted coffee and 2) instant coffee. It owns 53% of the Tanica factory (Tanganyika Instant Coffee Company), whereas the Karagwe District Co-operative Union owns the rest. The factory has a limited capacity so it is maximally used. KCU also owns a hotel. KCU pays over 70% of the government set price in advance. There is a second payment later.

KCU markets fair trade coffee. It receives a social premium from the buyers that corresponds to a fair trade price of TZS 5-8 million (euro 2,380-3,800) that has been paid to each primary society such as the Mwenyanjale primary society. Fair trade money has been used to improve roads and offices, schools and payment of school fees. Individual members of the primary societies have not received individual fair trade premiums, the decisions are made collectively. Similarly, exact figures of how many km of roads, how many schools, at what time, the numbers of children sponsored etc. were not readily available although it was claimed these were given in the files. It seemed that the head office of KCU did not have a clear picture of the situation in the primary coffee societies from where the coffee was harvested.

On the other hand, G32 has succeeded in serving its members well in a number of ways that the secondary coffee unions have had difficulties in accomplishing. In which way does G32 differ from KNCU, the established secondary union in the area? Based on an interview with the General Manager of G32 we found the following differences:

First, *G32 pays a higher price to farmers and has a lighter cost structure.* The G32 exports fair trade directly to Japan to three different buyers of fair trade coffee. Each primary society obtains a *social premium*, which the Japanese buyers pay. Because of this, the price is better. Of the final price the primary producers are paid approximately 75-85% (USD/kg 1.75) and in addition a USD/kg 0.15 social premium, or together USD/kg 1.90. G32 sometimes also sells to other buyers in Tanzania. In addition to receiving a better price the overall cost structure of G32 is minimal because of low administrative costs, including a low number of employees. The staff of G32 comprises only the general manager, an officer and an accountant.

The office consists of one single room which is a fraction of the space of the headquarters of KNCU (see photos 1-3). This light cost structure has been made possible by giving as many functions as possible to the primary societies themselves in addition to the agricultural marketing cooperatives and the SACCOs.

Second, *G32 provides timely payment* to farmers. This is important since the farmers need money to buy inputs. The G32 Primary Societies obtain loans from the Kagera Farmers' Co-operative Bank (KFCB). One reason for using KFCB is that G32 is a shareholder of that bank and this facilitates getting loans.

Third, G32 always tries to *provide quality*, which is one of its strengths. G32 also runs regular training of farmers to obtain good quality of coffee. Farmers are called to visit the auction. They are also trained in the handling of coffee in order to maintain its quality. Producer-consumer relations relating to the Japanese buyer and the primary societies have been improved through mutual visits.

Fourth, G32 provides the following services to its coffee producers: 1) technical advice on standards, transport and knowledge on risks, market situation, risks connected to obtaining various credits; 2) negotiations with government and external donors, e.g. organic coffee; 3) financing of a trainer for producing organic coffee; 4) negotiations on joint transportation from village to town, so that no lorry goes empty either way; 5) checking the quality of coffee; 6) sample testing by a roaster before milling the coffee and 7) blending different coffee samples from different societies in such a way that the combined sample has the qualities the buyer is seeking.

G32 also encourages coffee consumption in the internal market in Tanzania. It also encourages primary societies to have electricity so that they can obtain computer systems, which enables access to the internet.

The Karansi Society collected a mean of 353,710 kg of Arabica coffee for the period of five years that is 2008/2009 – 2012/2013. However, the collection varied from one year to another and among individual members. The coffee collection by Karansi is presented in Table 6.

Table 6. Coffee collection by Karansi Society, 2008/09 to 2012/13 (in kg)

SN	Year	Amount of Coffee Collected in kg	Price per kg sold	Amount of Money Received	Amount of Money Retained in Society	Amount of Money Distributed to Members
1	2008/2009	108,757	2156.7	234,556,268.75	31,521,618	203,034,650
2	2009/2010	73,348	2836.7	208,064,882	60,538,082	147,526,800
3	2010/2011	33,838	4127	139,664,949	929,149	138,735,800
4	2011/2012	121,117	5339	646,763,069	71,224,869	575,538,200
5	2012/2013	16,650	3939.4	65,591,672	15,641,672	49,950,000

Source: Karansi AMCOS, 2013

Box 3. An example of some successful cooperatives and a concrete example of poverty reduction: the Agricultural Marketing Co-operative and the Savings (AMCO) and Credit Co-operative (SACCO) in Mruwia.

Mruwia is situated approximately 16 km north of Moshi. The main cash crop is coffee of the Arabica type, whereas bananas and rice are the major food crops grown. Coffee production has been successful for a long time. There are five primary societies that sell the coffee to AMCO in Mruwia, which exports coffee directly to a Japanese trader and not through KNCU (secondary co-operative). This arrangement has been extant since 2003 and the AMCO has been able to receive a better price in this way (a price of coffee of USD/kg 6 was mentioned). The primary society belongs to G32 group, a group of primary societies in the Kilimanjaro area that exports coffee directly through the AMCO and not through the union. Thus, the AMCO is able to deduct the costs of marketing. Apparently the cooperation is works well and the AMCO is expanding. Most members of AMCO (a total membership of 417) are also members of Mruwia SACCO to which they deposit their savings. The SACCO (membership 1,405), in turn, is able to provide short term credit of 6-12 months to coffee producers or other entrepreneurs for buying inputs or smaller investments of up to three years. The interest rate is 2% and there is a one month grace period in repaying loans. The primary society is also cooperates with the local cooperative bank. On the whole, the integration of the three cooperatives has been successful. All business activities are in the hands of the local people, who seem to have been able to reduce their poverty and raise their income levels. Such a model of partnership could be repeated in many other areas and for other crops and products in Tanzania.

What kind of advantages does this business model and co-operation provide? The benefits compared to the earlier system when the primary society and AMCO marketed through the union are the following:

- 1) Primary producers receive a better price.
- 2) Primary producers are paid in time through up to three payments
- 3) Transparency is better¹ to improve price information through the boards
- 4) Except coffee, also other products like bananas and dairy produce could be taken up by the marketing activities of this AMCO.
- 5) Some property was lost during the marketing through the union.
- 6) The AMCO exports directly to the Japanese buyer without going to the coffee auction in Moshi.
- 7) Sometimes it is even buying coffee on the auction, when the price is low and sells it further to the Japanese buyer.

¹ In some places the coffee sacks are weighted without presence of the seller who is simply told the weight of the sack of coffee

Box 3 continued

The challenges of the AMCOs include 1) to become a member the SACCO as institution, this is a weakness; 2) to obtain enough seedlings to grow new coffee trees; 3) to increase the numbers of coffee buyers; 4) to be able to increase the coffee price, e.g. in Kenya still higher coffee prices are obtained for some coffee types and 5) diversification into other products such as bananas and dairy products, which are being marketed on the other side of Kilimanjaro. Currently, 80,000 tons of bananas are being sold from the whole area of Kilimanjaro) and 6) education and training of members is needed.

In the board of the SACCO there are 13 members of which five are women. The chairman of the SACCO is a woman. As yet the AMCO has no woman on its board although the plan of action is to include a woman. Of the AMCO members, few are young. Many young coffee producers who inherited a farm from their parents avoid becoming members because of the entrance fee (TZS 2000 \approx EUR 1 \approx USD 1.3) and since they can use the services of the AMCO anyway. The plan is to make a membership card obligatory for attending the annual meeting.

What are the success factors of the SACCO in combating poverty? One success factor is expansion of businesses. The young members of the SACCO have been able to expand their existing business activities or to invest in new activities. Some have bought cows or pigs or requisitioned for these through a loan from the SACCO. In the traditional agro-ecological system the cows were kept primarily for their provision of manure. Now milk production is slowly developing in some localities.

The existence of a SACCO has provided an opportunity for entrepreneurship, partly through the training connected to the availability of credit. When youth join a SACCO they become interested in entrepreneurship, investments and agriculture. Many members of the SACCO have children who work in other places such as Dar es Salaam, who send remittances back to their ageing relatives. The SACCO also provides a safe account.

The SACCO provides the facility for members to take out a loan to pay school fees. It also provides an opportunity to pay for university education of young people and advises on the insecure associated with taking on insecure projects.

SACCO was started by people who saved money on an account in the cooperative bank. One current challenge, according to the chairman, is to make the AMCOs members of SACCO so they could use the same account, thereby simplifying procedures further without a bank. Other problems include that amortizations of loans are being delayed. The SACCO would like to become fully self-sufficient so that it could also provide loans to non-members. Some parents take out loans for the education of their children. Other development plans includes health insurance and pension funds for the members.

4.2.5 Impact on poverty reduction and challenges

The members of Mwenyanjale primary society were asked to mention success stories within the last five years. The answers given were the following: 1) the two coffee processing machines that the Society obtained and subsequent benefits for members by which these machines value to their harvest in terms of processing and at the end sale of the processed coffee; 2) financed social services and infrastructure such as building roads, paying school fees for members' children and recently they released about TZS 1,500,000 to build classrooms in schools in five villages; 3) a good relationship with the union, a statement which was mostly rejected by most of the group members at the end of the discussion 4) the society has bylaws and 5) the society has managed to involve women and youth in board's activities.

Challenges and constraints mentioned by Mwenyanjale primary society includes several issues, the first of which is the flow of information. Information is lacking about the fluctuation of coffee price, price changes, important decisions within the primary society itself and dissemination of information from the union to the primary society. It was asserted by one member that dissemination of information was previously done but was stopped to reduce running costs of the union. The said costs include stationery and transportation. A second challenge is that private buyers compete for the coffee harvest by offering producers higher prices. Third, is the delayed payments from the union. According to the members the livelihood of people has not improved much regardless of the coffee cropping they do. Their share price has not increased for a long time.



Persons interviewed at the Mwenyanjale Primary Society.
Photo 5: *G. Machimu*

One may conclude G32 seems to have an impact on poverty reduction through an efficient organisational model that provides clear advantages to members of primary societies in terms of product prices and timely payments for produce. Its involvement with direct fair trade importing buyers in Japan is a clear advantage. The coffee producers in Mruwia, market their coffee through the G32, were clearly better informed, more encouraged and more active entrepreneurs (see Box 3) than the primary coffee producers providing coffee to KNCU.

Karansi AMCOs finally have achieved major impacts on poverty reduction and in helping members to develop their livelihoods. Members of Karansi have been able to do a number of things, which they could not have done before becoming members. Cooperatives enable them to obtain reliable cash incomes throughout the year as they get paid twice in a season when coffee attracts better prices. Again they reported that cooperatives enable them to pay school fees for their children and support the building of modern houses. Furthermore, it was reported that by being members of AMCOs they are able to get farm inputs at affordable prices.

Karansi is faced with a number of challenges that affect its effectiveness and profitability. Challenges include coping with droughts and unreliable rainfall. The majority of inhabitants in the area have opted for tree felling and the timber business as a coping strategy against declining coffee prices. Coffee trees are also too old and less resistant to disease. Farmers lack knowledge on the following: how to grow coffee, how to market and in business skills.

4.2.6. Cross-cutting issues

KCU had no special measures or policy for youth, although youth are not prohibited from participation. More women are needed in the cooperatives and on the boards. At primary society level women and youth, do participate, a fact we could see during the visit to the Mwenyanjale primary society. Women, youth and persons with disabilities become participatory agents through capacity building by seminars, workshops and member meetings. Women were said to be offered opportunities to participate through these meetings. Environmental protection strategies do in KCU.

KCU receives support from the following OXFAM, support for organic farming, Caffé direct, Coffee support network and Carbon credits, a recently started project tries to encourage members to store CO₂ by using less thereby conserving existing trees for firewood and by planting more trees. Coupons for this are given to the primary societies, which award them to their members who comply G32.

On the other hand, G32 has two projects:

1. Support for child and mother care by taking care of health issues that cover the whole village and children below 5 years of age.
2. National health insurance scheme. TZS 10,000 is paid per family per year.

In addition, one of the Japanese fair trade buyers pays USD/bag 22 for the health issue, directly to this, but outside the scheme.

One may note that some of the dairy cooperatives for women (Kalali and two others) have been generated from coffee cooperatives in the Kilimanjaro area. This has been possible since the coffee cooperatives have been independent. The coffee trees benefit in growth from the manure that the cows produce. It is also easier to produce organically grown coffee.

In Karansi AMCOs it was noted that women are poorly represented. Out of 700 active members there are only 60 women. In an executive committee of six members, there are no women. With regard to inclusion of youth there are few young members - the youngest member is 25 years old, whereas the oldest is 80. Young members in Karansi AMCOs and are involved in managing their farms, selling coffee to AMCOs and are involved in environmental protection programmes. There is only one member with a disability problem (deaf and cripple) it was reported that currently he is the only one who has dared to secure membership, though the door remains open for others.

There are three major environmental protection programmes at Karansi; one seminar, some training on environmental protection and the other one is establishment of nursery for trees seeds where members are to be supplied with seed tree at an affordable price. The field visit is one of the strategies used whereby the co-op's management and board members visit farmers to observe the type and number of trees planted on a farm.

4.2.7 Kagera Farmers' Co-operative Bank

The Kagera Farmers' Co-operative Bank (KFCB) was started in 2002 by small farmers who saved small amounts of money with a starting capital of less than TZS 200 million (euro, 23,070)⁵. Today, most of its deposits come from ordinary members, not cooperative members. The total amount of savings by members is no more than TZS 225 million (euro 10,700). One major problem of KFCB is therefore a lack of capital. Another problem is that many of its potential customers are unaware of KFCB existence. A third problem is that the KFCB operates under two different laws that have different stipulations, the 'financial' law and the 'cooperative' law. A fourth problem is that all customers do not understand repayment and interest obligations. One success of KFCB is the recruitment of young people. Over 10 per cent of staff are young graduates who receive modest salaries but are competent and easily trained. Training the successful board members of Buga SACCOs is another event in KFCB.

Some critical issues that concern the secondary coffee cooperative KCU were raised in discussions with the KFCB. According to KFCB, the secondary coffee cooperative KCU did not inject capital into the bank for a period of 10 years. As a consequence, the cooperative owners of the bank went to the last annual meeting of KCU where

⁵ Exchange rate in 2002 1 euro =867 TZS

they were informed that the Bank was to be closed unless capital was injected. This convinced KCU of the necessity to inject capital into KFCB. However, the way in which capital was injected into the bank was controversial. The KCU used the assets of the primary societies to infuse capital into the bank. But these assets were registered in the name of the KCU thereby implying that KCU owns the assets. Therefore, the primary societies cannot use their own assets as collateral for loans. Members of the primary societies seem to be ignorant of this fact, which became evident from the visit to the Mwenyanjale primary society (For more information see section 4.2.8).

It was stated that the KCU was not active in contacting KFCB in order to ask for a loan. As a matter of fact KCU did indeed ask for a loan to expand the coffee factory, which has too limited capacity to process coffee. However, KFCB could not give them the loan since the Bank cannot give loans that exceed 80% of its deposits. According to KFCB KCU would have had the capacity to receive that amount of money from its members. However, the problem was that they would have had to go to the members and inform them about these prerequisites. It seems business opportunities are being missed, possibly because of the risk involved. Another question is why KCU could not buy the fair trade coffee from the primary societies with a bank loan that would make payments to the primary societies much faster? This is a matter of financial arrangement.

4.2.8 Analysis of KCU, KFCB and Mweyaingale Primary Society

Cluster III of the Second National Strategy for Growth and Reduction of Poverty of the United Republic of Tanzania (MKUKUTA II, p. 72), states that good governance and accountability are fundamental components to shaping a favourable environment for economic growth and poverty reduction. The first goal of this cluster is to ensure that cooperative bodies' systems and structures of governance uphold the rule of law, are democratic, effective, accountable, predictable, transparent, inclusive and corruption-free at all levels. Similarly, the first principle of the Finnish Development Policy Programme 2012 is 'Democratic ownership and accountability'. We question whether KCU is fulfilling these principles mentioned in the MKUKUTA II.

We also note that according to article 19 part of IV the Co-operative Societies Act 2003, of the United Republic of Tanzania, and the objectives of secondary societies shall be

- a. to facilitate the operation of member societies;
- b. to provide services to primary societies as will be provided for in the by-laws of the secondary society;
- c. to collect, process and sell products of member societies;
- d. to provide consultative services to member societies.

One may therefore pose the question as to whether the Kagera Co-operative Union (KCU) fulfils the above listed objectives?

The answer to this question is that it seems that the KCU only fulfills point c) of these objectives. This objective may also be fulfilled by other means in a better way, from the perspective of primary societies. Let us look at each objective in turn:

The first objective a) is clear. During the interview at KCU surprisingly little information about the primary societies were available. It seemed that not only the statistics but also first-hand intuitive knowledge about primary societies were lacking. This may be an indication of a lack of interaction between the KCU and the primary societies. Such interaction must be fully realized to fulfil objective a).

The second objective b) stated in the law may be regarded as a central objective to be provided by secondary societies in most parts of the world. However, at KCU some critical services to the members were scrapped:

1. Lack of information and publicity

During the visit to Mwenyanjale primary society the chairman complained that he has to go to various departments of KCU such as the accounts department and the marketing department to obtain information. Earlier an information department in KCU existed. The union has since abolished this department. Dissemination of price changes and important decisions was previously done but stopped ostensibly to reduce variable costs at the Union. The costs include stationeries and transportation.

2. Distribution of physical inputs has ceased.

There is a lack of coffee trees seedlings on the part of the primary societies. As land is not scarce in region of Kagera, the provision of coffee tree seedlings could increase the production of coffee. However, KCU no longer provides seedlings, which now have to be bought in from a separate government research institute. Either the Union should have a nursery to provide seedlings and other inputs such as fertilizers and pesticides, or it could be handled by the market. In this latter case the primary societies could handle the situation, if they were independent central business entities.

We conclude objective b) has barely been met and it is therefore questionable whether the KCU provides any relevant services to the primary societies.

The third objective c) of the secondary societies is to collect, process and sell products of member societies. The KCU collects raw coffee beans, which have been dried and sorted at the primary society level. Through the fair trade premium payments, which were reported to be at the average of TZS 5,000,000 to 8,000,000 each year, the primary society Mweyanjale has managed to buy two coffee processing machines. With these machines members add value to their harvest in terms processing and at the end sale processed coffee. The fair trade premium obtained for KCU enabled the society to finance roads, pay school fees to members' children and recently they released about TZS 1,500,000 to build classrooms in five schools.

Therefore, one could say that objective c) of the Co-operative Societies Act 2003 is being partly realized. However, fully meeting this objective could be achieved by implementing a number of measures. First, the KCU is possesses 53% of the shares of

the Tanica coffee factory, which produces roasted coffee and instant coffee. The Management of KCU pointed out that the factory has limited capacity so it is being used at its maximum. However, processing facilities could be expanded or some alternative processing activities could be installed. According to KFCB, KCU is not active in contacting them and has not asked for loan. However, KCU did indeed express a wish to take a loan from KFCB to expand the coffee factory. The KCU seems to avoid risk taking. According to the bank KCU would get a loan from the bank if they had sizeable deposits and financed cooperative investments. As it turned out, KCU had a deposit of TZS 2 mill and wanted a loan of TZS 600 mil, which was insufficient resources to meet the bank's lending criteria. The 80% deposit formula restricted the KCU loan to TZS 1.6 mill.

One may reflect on the creation of added-value, a factor pointed out as a way forward for poor people to create more income and get out of poverty. Through a higher degree of processing the primaries could obtain a bigger piece of the final price paid by the buyer in theory. However, strange as it seems, all processing incomes generated by the Tanica factory (instant coffee and roasted coffee) seem to stay at the union level. While the union could have a role to play in the processing and marketing of coffee products such as instant coffee, it is not clear how the primary producers of coffee would benefit from these activities. It seems the value-addition is done for the sake of the union only. Value added or processing was not mentioned as success in either the KCU or in the primary societies. Furthermore, we noted that mixing coffee beans of different quality was actually taking place thus reducing the price paid for coffee beans of superior quality. Obviously those who do not produce good quality beans gain at the expense of those who produce good quality beans. We think quality standards should be better accounted for and underpinned at the local level. As a summary of objective c) we conclude that although the objective is partially achieved by KCU it could be managed in a far more efficient and dynamic business-like way.

Finally objective d) is to provide consultative services to member societies. KCU has to obtain support from a number of organizations and NGOs. Although somewhat difficult to judge, the question is to what extent this support reaches down to primary society level and how much simply stays at the union level.

Furthermore, from the discussions with KFCB we found that the recent injection of TZS 1.5 billion of capital by KCU was done with the money of the 125 primary societies for crop stabilization funds. Members of Mwenyanjale Primary Society were not even informed about this injection by KCU of their funds although the decision was taken at the annual meeting in which their representatives took part. This completely goes against the principles of good governance and accountability.

One may add that from the point of view of the cooperative Bank it is a big problem to inform the Societies that they own the Bank, because the bank was created by the union. Since the assets of the primary societies used to infuse capital in the Bank were registered in the name of KCU the Primary societies cannot use them as collateral.

This is something a trust possibly should address.

The current cooperative law has changed the organization of the cooperative system to reduce the number of tiers so that only two instead of four the primary societies and the Federation are definitely needed. In theory the primaries should therefore decide upon the need for unions and apexes. Unfortunately members of primary societies have not been given the opportunity to express what kind of union they want.

Legally primary societies are recognized legal entities and they must have the freedom and autonomy to their own assets and do free cooperative business. The situation in Kagera is different. Not only are the primary society assets under the control of the union, their autonomy and independence to do cooperative business is controlled from outside. The primary society is the critical centre for poverty reduction mediated through business action but this is not encouraged in Kagera where the union attempts to prevent primary societies and ordinary members from alleviating poverty.

A summarized conclusion is that it is highly questionable whether full and effective poverty alleviation is being carried out by KCU. During the field study it became obvious that one of the four districts of KCU, Muleba, seems to wish to obtain independence from the KCU. What are the reasons for such an objective? We suggest the possible reasons are the following:

1. lack of services;
2. the potential for producing much more coffee in Muleba, which is not being adequately realized;
3. too many changes in cooperative policies. These have changed very often over the period 1960-2013 and are difficult to anticipate;
4. lack of transparency of KCU (on assets, prices, costs etc.).

As a summary, the procedures followed by KCU are contrary to the principles of good governance and accountability mentioned as a principle of MKUKUTA II. Moreover KCU can be called democratically owned and it lacks accountability as stated in the Finnish Development Policy Programme 2012. Finally, many issues are questionable from the point of view of The Co-operative Societies Act 2003.

Box 4. Strengths, weaknesses, opportunities and threats of the G32 Killimanjaro New Co-operative Initiative, Joint Venture Enterprise

Strengths:

Transparency. G 32 sends the documents from auctions, including costs so that the farmers can scrutinize all the deductions made. This is one way that G32 differs from traditional coffee unions.

The farmers have the *liberty to control the product*. They are free to sell to other buyers if they so wish.

Grass roots decision making. All decisions are made on a village level

Advice/extension. G32 gives advice on loans from the bank

Timely payment. G32 gives timely payments so that farmers have funds before planting. Farmers can expedite paying back their loans and thereby reduce costs of interest on loans. Some of the primary societies have been able to boost prices with this money as a way of price stabilization. Under the system of traditional unions this is difficult because they use loaned funds.

Using stabilizing funds. Some societies under G32 borrowed money and have already paid it back. Stabilizing funds are from the societies themselves. This is because different primary societies have different growing seasons. The money available from one society can be reciprocally used by another.

Independence in decision-making. The payment to G32 is a payment out of a commission on price.

Weaknesses:

Funding in G32 is a problem.

G32 has some difficulties in the running of training for tasters.

Acceptance by government authorities.

Low levels knowledge and education among its clients

Opportunities:

Buyers *overseas accept* G32 as trading partners and have confidence in the organisation. G32 is able to sell coffee to Japan, a demanding market. Therefore, G32 is likely to be able to expand into other international markets, including those of western Europe.

In *terms of quality* G32 has certain advantages over those of its competitors, e.g. knowledge of how to combine what to improve the quality of the product.

G32 also plans to *diversify* and market other crops than coffee e.g. banana and dairy products.

The main target of G32 is to *empower the primary societies*.

8 new primary societies are in the process of joining G32.

Threats/challenges:

Coffee prices are *very volatile*.

Costs of production are high.

Climate change may affect the area in the future. Some areas have *no water*, water conservation may be needed.

Box 5. CHAWAMPU Agricultural Marketing Co-operative. A case of failure of leadership at primary society level

Chawampu was founded in 1993, to benefit from a new irrigation scheme that covers 1,100 ha developed for rice cultivation. The cooperative currently has 2172 members, each one has her/his own plot within that irrigated area. In order to realize the scheme each individual member originally went over to produce rice only on their plots instead of other crops. The scheme works according to the warehouse receipt system.⁶ The initial aim was to produce three rice harvests per year, which was realized in the beginning. The scheme used four tractors, which were provided as a grant by the Japanese government to the Kilimanjaro Agricultural Development Programme. The farmers of the cooperative paid the importation duties for the tractors (TZS 17 million/tractor). The tractors were used for powering the water pumps to pump water from channels into the fields. As a primary cooperative it is a member of the secondary cooperative of KNCU (Kilimanjaro National Coffee Union), whose main produce is coffee. The systems worked like that until 2002. In 2003 there was an agreement with the government officials that the whole scheme would be handed over to the cooperative after a three year transition period. The cooperative prepared for this by collecting money from its members. However, when the transition period ended the government did not hand over the scheme or the tractors. Apparently did not want to lose control over the assets. Instead an association was formed, the Lower Moshi Irrigation association (LOMIA) in 2006. LOMIA controls the scheme for the four villages in the cooperative, an operation which was carried out in just one day. LOMIA interfered with the water distribution. In 2007-2008 the warehouse receipt system was introduced, and initially worked well since rice prices rose to TZS 1000/kg, apparently in the wake of the global food shortages at that time. The policy changed, when the interest rate the cooperative bank was claiming rose to 19%, which seriously affected the cooperative and the government imposed export restrictions. As a consequence, the tractors and all equipment had to be sold by the government to pay part of the increased debts. The irrigation scheme stopped working and the cooperative has been producing only one crop of rice for five consecutive years of drought. The area that produces rice has decreased and most of the area produces maize instead (currently the ratio is 30% rice and 70% maize). Apparently, the cooperative is now in big trouble because of the lack of water, an inability of members to pay back loans, and because bylaws are not being followed (e.g. the members closest to the water sources uses most of the water so little is left over for others). Heavy losses of rice (46 tons lost) and maize (123 tons lost) because insects has also aggravated the situation. Recommendation that has been taken is the following: a new caretaker committee has been formed. The objective is to obtain water, pumps and tractors somehow, preferably from a river (Kikuletwa) 26 km away.

CHAWAMPU is an example of a failure of a primary society because of weak leadership. It shows the need for strong cooperative organizations at the grassroots level. Strange as it may seem, CHAWAMPU deals with rice, a food commodity in strong demand in Tanzania. In a certain sense it represents the challenges faced by subsistence farming communities in Tanzania. Although CHAWAMPU is limited by water supply systems, the past leadership demonstrated a major weakness on how to network with administrative structures of the system and how the cooperative fell victim to politics rather than dealing with economic issues and challenges facing its membership.

⁶ The warehouse receipt system (WRS) is a special mechanism whereby members deliver the crops which are then stored in registered warehouses as collateral and selected banks can provide loans up to 80% of the crop value at the prevailing prices. After the produce has been sold the net price after deductions is paid. The advantages of the system are it enables the sell of bigger volumes, tonnages which improves the negotiations power to obtain better prices for the producers. This mechanism has benefited cooperators who could not subscribe to standard requirements of traditional collateral such as immovable assets. See also chapter 4.3.3.

4.3 Financial cooperatives: Cooperative banks and SACCOs

4.3.1 Overview of financial cooperatives

Financial cooperatives are currently the quickest growing type of cooperative in Tanzania. A financial cooperative is a financial institution that is owned and operated by its members. The goal of a financial cooperative is to act on behalf of a unified group as a traditional banking service (www.investopedia.com/terms/financial_cooperatives.asp 28 August, 2013). The cooperative Financial Institutions (CFIs) are diverse in nature and varies between countries but the most popular institutions include cooperative banks, savings and credit cooperative societies (SACCOs), and cooperative Insurance. In Tanzania the common CFIs are SACCOs, and cooperative banks. Currently, there are two regional cooperative banks and a national cooperative bank is currently in the process of being established. The two cooperative banks are the Kilimanjaro Co-operative Bank Limited (KCBL) and Kagera Farmers Co-operative Bank (KFCB) Limited.

SACCOs are perhaps the fastest growing financial entities in Tanzania today (PFCMP, 2006: Mataba and Bamanyisa, 2010). Their growth is reflected in terms of memberships, deposits and savings accumulation, capitalization and loan portfolios. Official statistics indicate that by March 2012, there were 5,424 SACCOs countrywide with a total of more than one million members. Out of these members around 590,000 were men and 437,000 were women. Members own shares worth TZS 54,968 million, savings worth TZS 310,899 million and TZS 44,078 million as deposits. Moreover, within the same period SACCOs have issued loans that amount to TZS 703,286 million (URT, 2012).

This study involved two cooperative banks – the KCBL and KFCBL; and three SACCOs – Umoja SACCOs in Siha District, Mruwia SACCOs and Umoja wa Wakulima wa Mpunga (UMVIWAMPU) SACCOs in Moshi District.

KCBL was established by the cooperative societies in the Kilimanjaro region because they were not accessing the financial services offered by the then existing commercial banks in the region. After the introduction of the free market economy in the 1990s the cooperative sector was considered to be uncreditworthy and a high risk regard to credit for their agricultural activities. Therefore KCBL was established in 1996 to fill the gap and mobilize savings from the public and particularly the cooperatives. A further aim was to lend to the public and particularly in rural areas for the advancement of production, crop marketing and other services/social activities of the rural population.

KCBL was first registered as a cooperative society under the provision of the Co-operative Society Act 1991. This act was later replaced by a newer 2003 Co-operative Act. KCBL was later issued with a license to operate as a Regional Co-operative Bank under the Banking and Financial Institutions Act, 1991. Therefore KCBL has a dual registration and dual purpose i.e. both as a cooperative society and as a bank. On the one hand, KCBL has to follow cooperative principles. On the other

hand it is required to operate and be supervised by the Bank of Tanzania since it performs banking activities.

Umoja SACCO is one of the SACCOs that operates in the Kilimanjaro region and draws its members from three districts namely: Hai and Sia in Kilimanjaro and Arumeru in Arusha. The idea of establishing the Umoja SACCOs originated from the PADEP supported project of construction that occurred in Magadini Village in 2005. It was formally registered in 2006 with the registration number KLR 661 with 20 founding members, start-up capital was TZS 2,000,000 currently they have 620 members with capital of TZS 161,000,000. The members of the society are both men and women of different age groups including the young, however, men still form the majority. In addition, there are 20 institutions/groups that are members of the SACCOs.

4.3.2 Governance

KCBL as a cooperative society, the administration of KCBL is executed according to 'cooperative's' principles. The highest governing body is the annual general meeting (AGM). All policy decisions are made at this meeting of all members. The AGM is assisted by two boards namely the management board and the supervisory committee, whose members are elected at the general meeting. The management Board is in charge of the administration of the bank. It employs the chief executive officer, who oversees the running of the day-to-day banking activities. The supervisory committee acts as the shareholders watchdog. It checks, if the decision and directives made at the general members meeting are being properly implemented. The committee reports back to the shareholders on the status and gives recommendations.

All banking and other technical operations in KCBC are supervised by the Bank of Tanzania (BOT), thus KCBL has to adhere to the banking and financial institutions acts. Regulatory requirements, directives and circulars issued by BOT.

Umoja SACCOs is governed by a board of directors comprising nine members elected as per the cooperative society act 2003. Umoja SACCOs is managed by a committee of nine people. The board has three committees of three members each as follows, supervision committee, education committee and loan committee. The day-to-day activities of the society are managed by the loans officer, internal control officer, SACCO's clerks, guard and an attendant. In addition, there is a volunteer board member on duty every day to oversee the daily operation of the SACCOs. This volunteer's work is done on a rotational basis among all board members and there is always a board member on duty who oversees the operation of the society.

The society has been audited by COASCO and the last audit was conducted in 2011. The society has its own internal control system that consists of a supervisory committee, loan committee and internal controller office that controls financial transactions of the society.

4.3.3 How the KCBL is doing business with the AMCOs

Shareholders of KCBL are registered as cooperative societies in the Kilimanjaro region. The initial capital required to establish the bank was provided by the cooperatives who agreed to buy shares. The subscription was made by agreeing that a certain amount should be deducted from every kilogram of parchment coffee sold by the AMCOs and through cash for the SACCOs.

Although the shareholding is limited to the cooperatives, the services are open to the public, as in any other commercial bank. However as clients, cooperatives get preferential treatment, such as lower interest on loans and higher interest on deposits, compared to other customers. The *vision* of KCBL is to be a leading and sustainable cooperative development centred bank. According to its *mission* the bank exists to provide efficient and appropriate financial and other services to the cooperative's members and the surrounding communities in its area of operation.

The objectives of establishing KCBL were set by the members of AMCOs and SACCOs with the aim of assisting them at the grassroots level to obtain adequate financial services through their relevant cooperative society. These cooperatives are considered an important link between bank and the rural majority. KCBL offers all bank products, such as savings accounts, current accounts, time deposits, loans and overdrafts. However, they have a special product that is unique to KCBL. KCBL realized that it is not possible for the ordinary farmer to have land or a house with only a small deed alone to mortgage at a bank and access credit. Consequently, KCBL introduced the warehouse receipt system (WRS) to enable the farmers to raise other forms of collateral. This was a clear example of how a cooperative bank can be innovative and introduce something that is very good and when others have since imitated.

The WRS was introduced to coffee growing farmers in 1998. This enabled the farmers to use their coffee as collateral. Under this arrangement, the farmers could access funds for their coffee harvesting through their cooperatives without the conventional collateral commonly used by other financial institutions. The only collateral required by KCBL is the farmers produce, good leadership of the cooperatives and the maximum liability certificate to verify that the leadership has been allowed to borrow by the members.

The WRS requires the society leadership to obtain the following:

- 1) Submit proof of the societies resolution on the amount, purpose and duration to borrow from the KCBL. This would be contained in the minutes of the members annual general meeting (AGM).
- 2) Submit a Maximum Liability Certificate (MLC) for that purpose from the Office of the Assistant Registrar of Co-operative Societies.
- 3) Submit a formal letter application to the KCBL with the above documents.

- 4) Accept the terms and conditions of the credit facility by signing KBL's 'Letter of Offer'.
- 5) Sign a letter of Hypothecation of goods (Produce).
- 6) Guarantee by at least three leaders of the cooperative Society who will be handling the cash.
- 7) Agree to have the cash and the crop insured both in storage and in transit.
- 8) Write a letter to the miller i.e. the Tanganyika Coffee Curing Company (TCCCO) authorizing them to cure their coffee and subsequently that coffee consignment send to the coffee auction. This letter must be copied to KCBL.
- 9) Write a letter to the Tanzania Coffee Board (TCB) authorizing them to sell the coffee consignment and remit to the proceeds to the producers overdraft account with KCBL.
- 10) Agree to reduce the overdraft in tranches proportional to the quantities of the coffee delivered to the approved warehouse.

The quantity of a producer's produce in the store is the property of KCBL until the whole amount of the credit facility granted to the producer is fully liquidated. The amount is the guarantee/ collateral for the overdraft. Upon obtaining credit the initial funds to collect the produce are issued to the cooperative. After collecting the crop, the first payment is given to the producers. Then the crop is delivered to the designated warehouse, which issues a receipt acknowledging the delivery. Only then can the next tranche of funds be released to the society for another round of collection and storage of the farmer's crop. After the sales are concluded the proceeds are deposited at the KCBL, which in turn deducts the necessary expenses incurred on behalf of the cooperative society, including interest. The excess/ remainder is paid back to the farmers as second and or final payment.

The WRS has been of great assistance to the members of the cooperative. At the beginning, the bank operated the WRS for coffee collections only. The outcome was very positive and consequently KCBL decided to extend the arrangement to cereals such as Maize, rice and Beans. KCBL is proud to be the pioneers of the WRS in Tanzania, which is now well-known and widely used in the country especially in the rice, cotton, and cashew nut growing areas. Before introducing the WRS, farmers were getting TZS 500/= per kg of parchment coffee sold. The situation changed quickly, within a few seasons, farmers currently get up to TZS 6,000/= per kg of parchment coffee. Below is the performance and the price trend between 2002-03 to 2010-11 coffee seasons in Table 7.

Table 7. Producer performance and price trends between 2002/03 to 2010/11 coffee seasons

SN	Season	Collection/ (kg)	Purchases	Price Paid to Farmers (TZS)
1	2002/2003	1, 046,000		800 – 1,000
2	2003/2004	991,725		900 – 1,200
3	2004/2005	1,210,825		1,400 – 1650
4	2005/2006	997,709		1,400 – 1,750
5	2006/2007	1,479,705		1,600. 2,100
6	2007/2008	914,230		1,950,2,200
7	2008/2009	1,521,044		1,600 – 2,500
8	2009/2010	1,297,577		2,500 – 4,600
9	2010/2011	842,816		3,500 – 6,000

Source: KCBL reports

The WRS provides many advantages to the farmers and to their cooperatives some of which are:

1. The farmer is now well-informed and knows the coffee business better.
2. Democracy has improved at the AMCOs because they know good leadership will be of great assistance in their business.
3. Quality of coffee has greatly improved; the farmers realize that good quality coffee receives higher prices.
4. Economic activities have increased due to higher income.
5. The improved livelihoods of members of the AMCOs directly relate to the use of WRS.
6. Some of the Societies have now ventured into direct coffee exporting. The price increase in the farmer produce can be attributed to a reduction of those intermediate costs that were not necessary. Example of such costs include transport, insurance and interest on overdrafts.

Societies now take cash only when they need to purchase the produce, unlike the former situation when they took the whole amount for the season and incurred higher interest charges. The price increase and the resulting improvement in income generated by the farmers have had a positive impact on the livelihoods of many people. A documentary programme had been prepared by KCBL to assess the impact of WRS.

The main business of Umoja SACCOs is savings and credit. The capitalization of the SACCOs is realized through shares, additional shares, accumulated surplus and statutory reserves. In addition, the society also earns some income from different projects. Members are required to buy 10 shares TZS 10,000 each. Currently they

have increased the value of share from TZS 10,000 to TZS 15,000, they are also required to buy additional shares whenever granted a loan of TZS 250,000 each. Each member is required to pay membership fee of TZS 10,000.

Products

a) Financial Products- Savings, Loans

Common types of loan include agricultural loans, having monthly interest rates of 2.5% and business loans with monthly interest rates of 3%. Movable asset loans for consumer durable items such as TV, bicycle or motorcycles are charged at an interest of 3% per month, a social loan has an interest rate of 2.8% and cheap loan has an interest rates of 3%. The maximum amount of loans is TZS 1.0 million and is paid once. Others are emergence loans which have an interest of 5% and do not exceed TZS 100,000. An informal warehouse receipt scheme for crop storage can advance depositors no more that 75% of the market price of their deposit and charged the interest of 3%.

b) Non Finance Products- Education and training, provision of solar system and equipment for biogas productions- dividends

Members were paid dividends in 2006 and 2007, but from 2008 to 2011 members decided to utilize the surplus for the construction of a society office building. The construction of a society office building started in 2011, so far about TZS 63 million have been spent on it. Besides members contributions towards construction of the building external donations or grants from the USAWA network of TZS 12,000,000, from RC Kilimanjaro TZS 500,000 have been paid. CRDB bank also paid TZS 23800 000 a grant to cashier of constructions. The district commissioner for SIA District donated timber for roofing (the value was not disclosed).

4.3.4 Impact on poverty reduction

Members have the following benefits, 1. improving housing condition 2. able to pay schools fees for the children 3. members now have a solar system installed 4. They have bio-gas system at affordable costs 5. they have been able to get better disease resistant seeds and 6. others have managed to purchase Dairy cows.

4.3.5 Cross cutting issues

There are 642 members 458 males and 184 are females. It was also noted that the vice chair and the internal controller are women. By supporting member's alternatives for energy sources they also support environmental conservation in addition to tree planting.

4.3.6 Challenges and future plans

Umoja SACCOs face the following challenges:

1. Maintaining geographical coverage and diversity and dispersed membership as its administrative area covers two districts of Kilimanjaro and one in Arusha
2. A lack of common cohesion as there is no clear common bond
3. Voluntarism of board members who are required to be on duty
4. Lack of furniture, equipment and security systems
5. They don't have a qualified manager
6. Operating Informal warehouse receipt system using a building that is hired from Village administration
7. The society has no cooperative act and policy for reference and guidance

The society is expecting to diversify its activities by starting a dairy cattle enterprise and implement an appropriate housing scheme.

5. CONCLUSIONS

Good cooperative work in Tanzania is characterized by the following features:

1. The primary cooperative society is the engine of cooperative development, business promotion, job creation and poverty reduction. Primary societies are strong. The business is in the hands of the local people.
2. Financial services are close to the members of the primary society. Financial services include services offered by SACCOs, AMCOs, cooperative banks and cooperative insurance companies.
3. Members are trained and educated in order to know their rights and to improve their knowledge of how to run a cooperative efficiently. Members are trained to maintain their autonomy and independence from external pressures and agencies.
4. The secondary structures (unions or similar) must be light. Primary members of the secondary structure are at liberty to sell through other channels than the union.
5. The secondary structure provide relevant information to all members. It carries out business negotiations with buyers of produce including foreign buyers

and domestic buyers. It does not handle any money nor does it handle physical commodities directly.

6. Activities carried out by the secondary cooperative are transparent.
7. In cases where the cooperative is clearly market oriented, developing new products partnership with a foreign investor seems beneficial.
8. The mutual relationship between the cooperative and the foreign investor is also based on mutual relationship between the c-operatives themselves.

Concrete examples of effective, profit-driven businesses that improve the situation for poor people in Tanzania are an AMCO and a SACCO working together in the Kilimanjaro District (see Box 4). In this example five primary societies market coffee through an AMCO. Members receive higher prices, more timely payments and transparency is better. About a third of the sold coffee is sold as fair trade coffee directly to Japanese buyers who pay a fair trade premium on the price. The SACCO provides short term credit of 6-12 months for buying inputs or smaller investments up to three years. The interest rate is 2% and there is a one month grace period in repaying the loan. The primary society also works along with the local cooperative bank. On the whole, the integration of the three types of cooperatives has been successful. Poverty has been reduced and the living conditions of the cooperative members seem to have improved.

One success factor is in this case that all business activities are in the hands of the local people whose voices are heard. They seem to have been able to reduce poverty and raise their income levels. Other success factors are that the secondary structure is light with few employees, entry or exit is facilitated. Knowledge management is good and the management of managing business negotiations with buyers is good. Dissemination of information to members is also fast. Entry or exit by primary members is easy. They have the option to sell through other marketing channels as well. The secondary structure provides the opportunity of diversification by nurturing the growth of other commodities. The participation of women is encouraged by giving them a part of the coffee yield. Such a model of partnership could be repeated in many other areas and for other crops and produce in Tanzania. This model accords well with the principles stated in the Finnish Development Policy Programme 2012 and the NSGRP II- MKUKUTA II.

Another concrete example of a business driven cooperative success can be found in the processing of milk. In this case the TDCU cooperative collects and processes the milk. It markets the dairy products through a dairy that it jointly owns with a foreign investor. The cooperative has been able to grow and create employment, reduce aid dependence and contributes to the tax base for the government. It is clearly a cooperative that is in line with the Country Strategy for Development Co-operation with Tanzania 2013-2016. New dairy products have been created and these are mainly sold in Dar es Salaam. Nearly, 2200 of the approximately 4900 TDCU members (45%) of this nationwide dairy union are young. The success factors include market

orientation, partnership between local and foreign cooperatives, high demands of products, expanding market, the inclusion of young producers and facilitating their needs, the provision of equipment and establishment of collection centres and efficient milk collection. This type of cooperative is clearly business and market oriented and plays a role on the national dairy market.

This dairy union had been able to both reduce poverty by expanding markets and to include young producers in its development and membership. In this way they have been able to improve the employment situation. The TDCU used a business approach based partnership between local and foreign cooperatives to increase production. This type of secondary cooperative reduces aid dependency and translates growth of production into overall development.

A third concrete example of a cooperative that has been able to reduce poverty is KWDCS, a dairy cooperative managed by women in the Kilimanjaro region. Women have been empowered and the households' incomes have improved through sales of milk and milk products. Through their membership of the cooperative the payment of school fees for the children and getting access to medicare have both improved. Availability of extension, access to market information and other services has also become better. The social status of women at the household level has risen as now they can contribute to household income and tax revenues to the government have increased. Generally, this type of dairy cooperative has contributed towards the realization of the Millennium Development Goals (MDGs). Dairy cooperatives are a way to increase the incomes of women through local marketing activities. However, problems for these cooperatives relate to poor facilities, low technology, relatively low management skills, lack of capital for expansion and lack of promotion. Although the markets are local the impact in a particular community may be large.

The availability of extension and other services have improved. Employment, nutritional status and the social status of women have all improved. Generally these cooperatives contributed to the realization of the Millennium Development Goals (MDGs). The basic purpose of establishing the women's dairy cooperative is the genuine empowerment of women in the Kilimanjaro community, but there are still technical deficiencies that limit the potential of this aim.

In contrast to the successful cases described above, it was noted that some cooperatives, specifically the coffee unions, did not succeed in reducing poverty in line with expectations set in the Finnish Development Policy Programme 2012 goals of good governance and accountability. Some of the procedures they follow do not completely correspond to the MKUKUTA II, cluster III first goals which are to ensure systems and structures of governance, uphold the rule of law, be democratic, effective, accountable, predictable, transparent, inclusive and corruption-free at all levels.

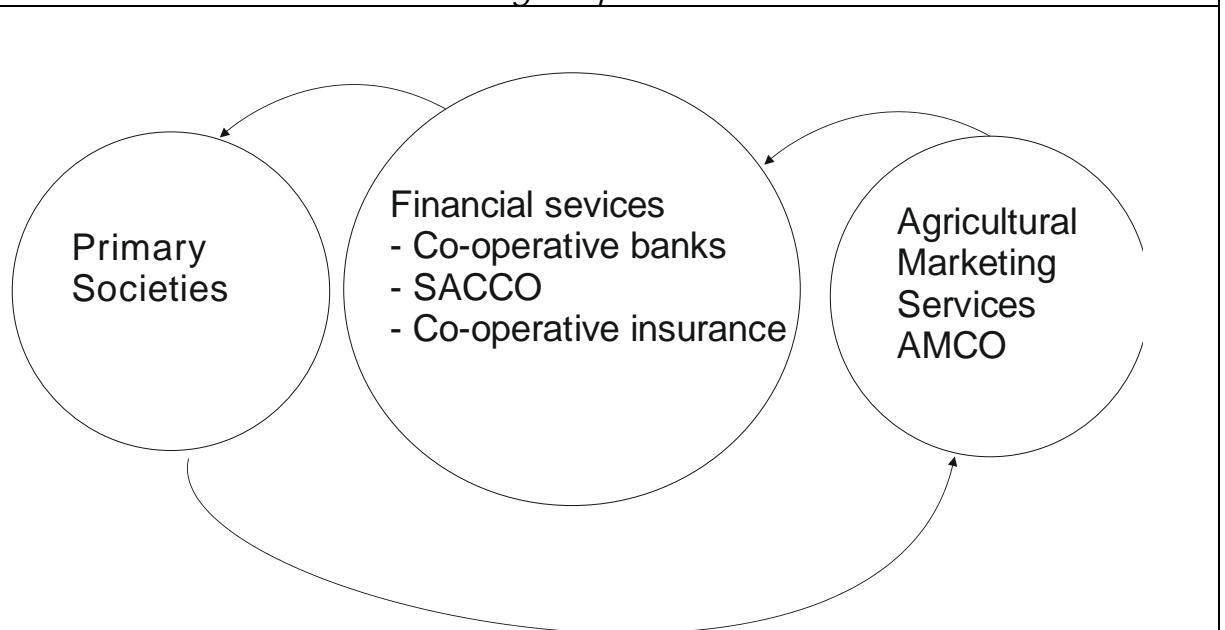
On the other hand, some other structures for marketing coffee and providing service to Primary Societies seemed to assist in reducing poverty with good governance. This other structural option for a union deals with facilitating business knowledge rather than dealing with physical commodities thereby competing with traditional

union and primary societies. The formation and implementation of such innovative structures, should be determined by the members of respective primary societies.

The Cooperative Societies Act 2003 of the United Republic of Tanzania recognizes two structures only namely: the primary society and the federation at the national level. This allows greater flexibility and space for primary societies to exercise freedom and autonomy to make choices on business development for their members. The act is clear.

The existence of a policy implementation framework called the Co-operative Reform and Modernization Programme allows cooperatives to exploit opportunities offered by the government for achieving their own business objectives.

Box. 6 Model of well-functioning cooperative institutions in rural Tanzania



The members are served by the AMCOs in the marketing of their produce. It is very important that the primary society has a SACCO nearby. The members of the primary society are also members of the SACCO and members of the AMCO. The SACCO provides the financial services to the primary society. A cooperative bank could provide the financial services as an alternative. The AMCOs provide the marketing services. Currently, various unions try to provide these marketing services and some other services, but they seem to fail in this. The AMCO and the SACCO in Mruwia is a good example of well-functioning cooperatives that have been able to facilitate the improvement in the condition of local people using local people's own entrepreneurial activities. The Kilimanjaro Co-operative Bank is another positive example. When the Bank approaches the primary society it is because the society has money. When the primary society approaches the bank it is because it has something to produce for a market. Do we need a union? This is a decision that has to be made by the primary society. In this respect cooperative law is very positive. There are primary societies in Kilimanjaro that do without unions and do it better.

The union is of relevance, but it must be determined by the primary society itself. The primary societies should be dealing with some organization that uses the internet.

6. RECOMMENDATIONS

The mission of this study was to propose how Finland can support cooperative actions with the aim to promote business and reduce poverty in Tanzania. It is recommended that the *Ministry for Foreign Affairs of Finland* carries out the following:

1. Develop interactions between the Tanzania Federation of Cooperatives (TFC) and Cooperative Apex organizations in Finland in order to share the experience of effective performance of cooperative management. This might include the exchange of TFC and such apex representatives with the aim of familiarizing both parties to the circumstances of cooperative activities in both countries.
2. Support the expansion of light secondary structures such as the G32 KNCI-JVE Ltd network to other regions of Tanzania. This can be done through training activities that draw upon the experience of G32 (or a similar organization, the Dundiliza network of SACCOs) and by scaling-up activities of such organizations. Activities consist of the dissemination of information the facilitation of business negotiations with buyers and lobbying. The experience of G32 can be used in other areas, by other AMCOs of coffee or of other agricultural products. Potential cooperative officials of such secondary structures could be trained in specializations such as managing business negotiations with buyers, financial services, marketing, grading of coffee products and price stabilization through reserve funds.
3. Support women owned dairy cooperatives. For example, the Kalali Women Dairy Co-operative Society by renovating milk plants for the improvement of processing raw milk and milk products, to increase production capacity and avoid contamination.

It is also recommended to continue with the established partnership between the Moshi University College of Co-operative and Business Studies (MUCCoBS) and the University of Helsinki in the field of cooperative education and research. Research and teaching at MUCCoBS can gain from this.

The *United Republic of Tanzania* may on policy level support cooperative actions in the following way:

1. Primary societies need the freedom for Associations to make decisions at the member's level.
2. Develop cooperative actions at village level to empower farmers to seek other opportunities to address risks, gain access to financial services, encounter more economic opportunities and improve the democratization processes.
3. Help the system that delivers and disseminates information to primary societies to improve.

4. Women and youths participation in cooperatives should be encouraged and enhanced. With regard to gender participation, the role of women as land owners might be emphasized when coffee is traded.
5. More professional management of cooperative businesses is needed (human capital in cooperative management) at all levels.
6. Primary societies should have reserve funds to stabilize prices, especially coffee prices. The government of Tanzania could support this by ensuring that the officials of the secondary structure work with cooperative banks or other banks to create stabilization funds for this purpose. Furthermore, the government of Tanzania should also guarantee that these officials have enough knowledge and competence for creating such stabilization funds.
7. Financial services should be in close proximity and easily available of members and the cooperatives. The government of Tanzania may support encouraging the independent and well-functioning SACCOs, which are characterized by good governance.
8. Professional management of cooperative businesses is needed (human capital in cooperative management). The government of Tanzania may support this by providing training for managers of primary societies. Training of secondary cooperatives in management issues is another area that the government of Tanzania might support.
9. Secure that the Cooperatives Act 2003 is implemented.

Finland could encourage the government of Tanzania to implement these reforms through policy dialogue within General Budget Support, agricultural and rural development, and private sector development.

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Appendix1. Interview guide for ordinary members to measure cooperative as a tool for poverty reduction and promoting business in Tanzania

A: SOCIAL ECONOMIC PROFILE

1. Name of farmer cooperative
2. Contact person:
3. Contact Address: Box:
4. Telephone: Fax: E-mail
5. Core Commodity (s)
6. Year of formation Month
7. Location.....
8. Type of cooperative.....
9. Sex, 1= Male 2 = Female
10. Age in years.....
11. Education Level in years.....
12. Marital status 1= Married/ Co-habiting, 2 = Separated/ Divorced 3 = Wid-
owed
13. Household size
.....
...
14. Annual income from the core
crop.....
15. Annual income from other crops not covered by the coopera-
tive.....
16. Annual total in-
come.....
17. Occupation 1 = day labourer, 2 = Paid employment, 3 = Studying, 4= Oper-
ate own enterprise 5= home maker, 6 = Other specify

B: CROSS CUTTING ISSUES

1. How have the cooperatives succeeded in making women, youth and handi-capped participative agents 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how?

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2. Do the cooperatives offer particularly women, possibilities for participation in business life? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how.....

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3. Do the cooperatives offer particularly young people possibilities for participation in business life? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how?.....

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Do the cooperatives offer particularly disabled possibilities for participation in business life? 1= Yes 2 = No If yes in what ways

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.....
.....

4. Has the cooperative affected the relations between men and women in business life?

1= Yes 2 = No If yes in what ways

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.....
.....
.....
.....

5. If the answer in 10 is yes: What are the conditions for membership in your co-operative

Free entry	Entry Fee	Subscription Fee/Year Fee	Shares	Others specify
TZS	TZS	TZS	TZS	

6. Does your cooperative keep register of the members 1= Yes, 2 = No

7. What strategies does your cooperative have on protecting the environment?

8. Have you participated in any environment protecting program 1= Yes 2 = No
If yes in what
ways.....

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.....
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.....

9. What challenges do belong to the environment where cooperatives are functioning?

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.....
.....

10. What are the challenges and constraints

a) Leaders members challenges

.....

 b) Policy and Legislation constraints

.....

C: GOVERNANCE AND MANAGEMENT

1. Does your cooperative have a constitution? Y/N
2. Does the constitution contain the following?

Item	Yes	No
Name of the farmer organization		
Rights and obligation of the members		
Quorum for AGMs		
Qualifications of eligible members		
Objectives of the FO		
Election procedures of the committee members		
Signatories of the FO members		

3. How do you apply the constitution?.....

.....

4. Does your organization have cooperative act and policy for reference Yes/No
5. Does your organization use cooperative act and policy Yes/No
6. Are you Knowledgeable with cooperative act and policy 1 = Yes, 2 = No, 3 = I don't Know
7. Does your cooperative have Management information System 1 = Yes, 2 = No
8. What kind of information system does your organization have?

.....

9. Does your cooperative have clear lines of relations Yes/No

10. Are the lines of relationship followed? Y/N, If yes how?.....

.....

11. Does your cooperative have organizational structure? Yes/No

Name of the office	Period in office
President/Chairperson	
Treasurer	
Secretary	

12. How long has the present Executive Committee been in office?

13. Do you know anyone in the main committee misused funds or being involved in fraud related case and was reported to the police or any other authority? Y/N

14. Does the cooperative focus on the right things, consistent with needs and priorities of the members?

Item	Yes	No
Right things		
Consistent with needs and priorities of the members?		

15. Do cooperatives in Tanzania bring coherence to other forms of development policies of Tanzania? Y/N. Mention the policies.....

.....

16. Do you normally attend General Meetings? 1= Yes 2 = No

17. Do you participate in making decisions on issues affecting your cooperative?

18. Does your organisation conduct other meetings apart from the AGM where members of the cooperative meet to evaluate and plan for the future activities? 1= Yes 2 = No

D: BUSINESS

1. Does your cooperative have a business plan? Yes/No
2. Does your cooperative has the Auditing structure Yes/No
3. How many people in your co-operative are responsible for authorizing and preparing of payments
4. How many people in your organisation are responsible for procurement and releasing of funds
5. Does your cooperative have an Auditing Team Yes/No
6. Does the cooperative have an Audit report for the past year? Yes/No
7. Does the cooperative have a Gross Margins Analysis for its business activities? Yes/No
8. What is the amount of income generated by your cooperative.....
9. What kind of value addition does your cooperative deal with?.....

10. Do you think your cooperative is financially sustainable? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/how? why/how

11. Are there new possibilities that could enable members of cooperatives to participate in the following

	Yes	No
innovation,		
services, testing and launching of products		
distribution and logistical		

solutions		
partnerships?		

12. What kind of service should your cooperative offer so as to benefit from the co-operatives the most?.....

.....

13. What sort of support do the cooperatives need in order for them to function properly?

.....

14. Among the following training categories, indicate your preference

Training Category	Yes	No
1. Financial Management		
2. Record keeping		
3. Leadership		
4. Market and Marketing Information		
5. General Management		
6. Certification		
Other specify		

15. How do the stakeholders regard the activities carried out by the cooperative? What are the experiences of stakeholders at project level? Are the stakeholders and interest groups aware of and satisfied with the project activities?

.....

16. Which factors in the environment of the cooperatives are obstacles for better profitability?

.....

17. Which factors in the market are obstacles for better profitability?

.....

18. Which factors relating to inputs are obstacles for better profitability?

19. Which is the financial sustainability? Do members pay any membership fee?
 Will the activities stop when financing stop?

20. Are the resources used in an appropriate way?

21. How well have the activities of the cooperatives transformed the available re-
 sources into the intended outputs/results in terms of quantity, quality and
 times?

22. Are the costs of the cooperatives justified with regard to the benefits they of-
 fer?

23. What are the challenges and constraints
- a) Leaders members challenges

- b) Policy and Legislation constraints

E: IMPACT OF COOPERATIVE ON POVERTY REDUCTION

1. To what extent has the cooperative achieved its purpose or will it do so in the
 future?
 1 = Larger extent, 2 = moderate, 3 = Less extent, 4 = I don't know
2. Are the cooperatives making any contribution towards reducing poverty, ine-
 quality and promoting sustainable development? Yes/No. If yes
 how.....

.....
.....
3. Which are the most visible outcomes of the cooperative

.....
.....
.....

4. Are members of the cooperatives satisfied with the activities? Y/N. If yes, why? if not why? What factors do the members point out?

.....
.....
.....
.....

5. Are the managers of cooperatives satisfied with the activities? Y/N. If yes, why? If not why? What factors do the managers point out?

6. Has the cooperative been able to reduce poverty? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how.....

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.....

7. The impact on the standard of living of members Are the members better off because of their cooperatives? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how

.....
.....
.....

8. Are the members better off because of their cooperatives? 5=Very much, 4 = Much, 3.Somewhat, 2. Little, 1. Very little, 0= I do not know, In any case why/ how? why/how

.....
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.....

9. Are the overall objectives of the cooperatives, as well as activities in line with the rights, needs and aspirations of the members? Y/N Are the activities of the co-operative consistent with the rights, needs and priorities of the mem-

bers? Y/N if yes

how.....
.....
.....
.....

10. How as the cooperative activities intended to reduce the poverty of the members, including women, youth and disabled?

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11. What are the challenges and constraints

a. Leaders members challenges

.....
.....
.....

b. Policy and Legislation constraints

.....
.....

c. Membership challenges-----

d. Leader-Manager challenges-----

THANK YOU FOR YOUR COOPERATION

Appendix II. Checklist of issues/questions

- 1) Basic facts of the society (name, location, membership, turnover)
- 2) Governance and management structure (board, organizational structure, policies and laws, employees and welfare, departments, skilled labour, professionalization of cooperative, access to inputs)
- 3) Management of business (strategies, business ideas, entrepreneurship, joint ventures, mergers and acquisitions, certifications, value added)
- 4) Economic sustainability (financial information, profitability, supply and demand, location, access to markets, access to credits, annual reports/auditing accounts)
- 5) Cross-cutting (gender, people with special needs, juveniles, environment, green cooperatives, conservation agriculture,)
- 6) Social responsibility (vulnerable children)
- 7) Obstacles, challenges and success factors (what works and not, strengths and weakness, environment, policies/legislation, mindset,)
- 8) External support
- 9) Pros and cons of cooperative
- 10) Innovations and new ideas for development (Competiveness of cooperatives)
- 11) Other issues

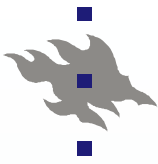
Appendix III. Map of Tanzania showing where the cooperatives studied are located.



Source: infoplease, map Tanzania
<http://www.infoplease.com/atlas/country/tanzania.html>

Appendix IV. Tentative work plan 2013

Phase 1. Analysis	Work to be done by	Month
<i>Task 1.</i> General theoretical framework stating the interrelations between co-operatives, its members and factors affecting success and obstacles and obstacles. Start-up seminar. Visit by Prof. Faustine Bee to Helsinki, Finland	Prof. John Sumelius, Prof. Faustine Bee. Prof. Suleman Chambo M.Sc. Shimelles Tenaw, Dr Stefan Bäckman,	March
<i>Task 2.</i> Start-up document submitted Jan 31.	John Sumelius, .Shimelles Tenaw	March
<i>Task 3.</i> Designing questionnaires Literature surveys done	Shimelles Tenaw	April
<i>Task 4.</i> Field trip to Tanzania, visit to co-operatives	John Sumelius, Shimelles Tenaw	May-June
<i>Task 5.</i> Midterm seminar integrating the analysis and results, Moshi	J Sumelius, Faustine Bee, Shimelles Tenaw	June
<i>Task 6.</i> Analysis of questionnaires and writing of results	Shimelles Tenaw, John Sumelius, Stefan Bäckman Faustine Bee and Suleman Chambo	August-October
Intermediate conclusion of phase 1, draft report submitted to Ministry for Foreign Affairs	Shimelles Tenaw, John Sumelius, Stefan Bäckman. Faustine Bee and Suleman Chambo	October 30
<i>Phase 2 Formulation of policy recommendations as to how Finland can promote inclusive business for poverty reduction through supporting the co-operative business.</i>		
Based on the conclusion of Phase 1, formulation of a report for creating a Sustainable Agriculture and Rural Development within climate change.	Shimelles Tenaw, John Sumelius, Stefan Bäckman Faustine Bee and Suleman Chambo	November-January
Submission of final report	Shimelles Tenaw, John Sumelius, Stefan Bäckman	December 15



Discussion Papers:

No.

50. Liisa Saikkonen (2011). Drainage and agricultural biodiversity: should society promote surface or subsurface drainage?
51. Riikka Sievänen (2011). *Practicalities bottleneck to pension fund responsible investment?*
52. Riikka Sievänen (2011). Two sides of the coin: mapping responsible investment definition versus the definition by pension funds.
53. Emmi Nieminen, Marko Lindroos & Outi Heikinheimo (2011). Optimal bioeconomic multispecies fisheries management: A Baltic Sea case study
54. John Sumelius (2011). Strengthening Farmer-led Economic Activities and Agribusiness through Producer Organizations in ZambiaA Country Specific study of Zambia for the Farmers Fighting Poverty – Producers' Organizations Support Programme.
55. Nea Teerioja, Henna Punkkinen, Elina Merta, Katja Moliis, Markku Ollikainen & Ulla-Maija Mroueh (2011). Jätteiden putkikuljetusjärjestelmän ympäristökuormitukset ja yhteiskunnalliset kustannukset rakennetussa kaupunkiympäristössä - Tapaustarkastelussa Punavuoren alue.
56. Jussi Lankoski & Markku Ollikainen (2011). Counterfactual approach for assessing agri-environmental policy: Theory with an application to Finnish water protection policy.
57. Anna-Kaisa Kosenius & Markku Ollikainen (2011) . Economic valuation of ecosystem services provided by coastal habitats in Finland, Sweden, and Lithuania.
58. Chiara Lombardini & Leena Lankoski (2012). Helsingin koulujen kasvisruokapäivä: oppilaiden reaktiot kestävien ruokailu- tottumusten edistämishankkeeseen.
59. Anna-Kaisa Kosenius & Markku Ollikainen (2012). Valuation of environmental and societal trade-offs of renewable energy sources.
60. Anna-Kaisa Kosenius (2012). Preference discontinuity in choice experiment: determinants and implications.
61. Chen Qiuzhen, Timo Sipiläinen & John Sumelius (2012). Assessment of Agri-environmental Public Goods Provision Using Fuzzy Synthetic Evaluation.
62. Silva Wilander, Jussi Lankoski & Markku Ollikainen (2012). Maatalouden vesiensuojelupolitiikan analyysi: tapauksena Saaristomeren valuma-alue.
63. Emmi Nieminen & Marko Lindroos (2013). International Agreements of the Multispecies Baltic Sea Fisheries: A Partition Function Game Approach.
64. Katja Parkkila & Emmi Haltia (2013). Subjective assessment of choice difficulty and uncertainty in choice experiments: who learns and what do they learn?