

**Benefits and Challenges of Agricultural Marketing Cooperatives  
in Moshi District, Tanzania  
The Experience from Mweka, Sungu, Mruwia, and Uru North  
Njari Cooperative Societies**  
**By**  
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The International Cooperative Alliance (ICA 1995) defines a cooperative as an autonomous association of people voluntarily united to meet their common economy, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Bibby (2006) argued that cooperatives are internationally recognized as enterprises that are democratically owned and controlled by their members. Among all, agricultural cooperatives have been a successful and common aspect of rural life (Brennan and Luloff 2005).

Sub-Saharan Africa encounters many development challenges, including extreme poverty and unemployment, diseases, low

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productivity, and the lack of assured better future. International Labour Organization (2012) described that to survive in this increasingly complex world, poor producers and workers must become more competitive, be aware of their rights, and voice their opinions. One of the most effective methods of engaging in such activities is to join forces through their own democratic organizations. Cooperatives represent a viable form of a member-owned and member-controlled organization that can help the poor compete in the market and bring significant social benefits and changes.

Cooperatives have been important in the development of Tanzania for several years. They have experienced many successes and failures during this period, but no other institution has united so many people for a common cause. Following the Arusha Declaration, cooperatives became the main tool and for building self-reliance during the Ujamaa period. However, following the introduction of free markets, cooperatives struggled to compete with the private sector, and many could not provide their members with the required services. The United Republic of Tanzania (2002) addressed this problem by introducing a new Cooperative Development Policy to help cooperatives regain their importance in the economic lives of people (Tanzania Federation of Cooperatives [TFC] 2006).

To meet their complete potential, Tanzania's cooperatives need to enrol members who can participate and actively engage in the

activities of their organization. Traditionally, the dominant cooperative in mainland Tanzania is the one that focused on the marketing of farmers' agricultural crops. This type of a cooperative has been dominant in terms of the members and volume of trade since the establishment of cooperatives in the 1920s. Cooperatives developed historically, in Tanzania and elsewhere in the world, because they represent a valuable with almost no form of collective organization, at a high disadvantage when taking their products or crops to the market (Bibby 2006).

For several years, cooperatives have remained an effective strategy for people to control their economic livelihood. Cooperatives provide a unique tool for achieving one or more economic goals in an increasingly competitive economy. In the current environment where market access is poor and market information is inadequate, by not being involved in collective organizations, individual small farmers are left in a weak position. This not only affects the farmers but also the entire economy (Ainebyona and Tiruhungwa 2012).

Typically, successfully managed agricultural cooperatives are considered to have great potential in rural development, particularly in agricultural development. Bello (2005) argued that in the present era where people feel powerless to change their lives, cooperatives represent a strong, vibrant, and viable economic alternative. Cooperatives are formed to meet members' mutual needs; they are based on a strong idea that a group of people can achieve goals that none of them can achieve individually.

The history of the coffee sector is closely associated with the cooperative movement. During the 1920s, expatriate coffee growers formed a union to market their coffee. The first marketing cooperative of native cultivators was established in Kilimanjaro in 1932, primarily to promote coffee as a cash crop among peasant farmers. Subsequently, cooperatives grew in size and number, but they were confined to regions producing export crops (Baffes 2003).

The coffee cooperatives were among the most dominant agricultural cooperatives in Tanzania. Tanzania Coffee Board states that in 2015, approximately 450,000 families undertook direct coffee cultivation, accounting for 90 percent of the total coffee producers. The remaining 10 percent coffee was supplied by the estates. Indirect coffee cultivation was undertaken by 6 percent (2.4 million) of the country's population; this number is currently estimated to be 40 million. In Tanzania, arabica coffee is grown on the slopes of Mount Kilimanjaro and Mount Meru in the northern areas, under the shade of banana trees, truly an exotic location for this east African coffee. They are also grown in Southern Highlands of Mbeya and Ruvuma regions, where the coffee is both intercropped with bananas and grown as pure stand. Arabica coffee accounts for 70 percent of the total coffee production in Tanzania. Robusta coffee is grown in the western areas along Lake Victoria in the Kagera region; this crop constitutes 30 percent of the total coffee production in Tanzania. Compared with individual

producers, coffee cooperatives are the most dominant organizations engaging in coffee productivity.

The most important agricultural cooperatives in the Moshi Rural district are those dealing with coffee production and marketing. In their operations to serve members' socioeconomic interests, agricultural cooperatives in this district benefit their members. However, these cooperatives experience various challenges, which retard their capacity to serve their members. Furthermore, the capacity of any cooperative to achieve its goals and benefit its members as well as be able to overcome challenges depends on the key success factors affecting the overall operation of the cooperatives. This chapter focused on identifying various benefits, challenges, and success factors in (coffee) agricultural marketing cooperatives (AMCOS) in Moshi Rural district. Specific references are made from three cooperative societies: Mweka Sungu, Mruwia, and Uru North Njari.

## **OBJECTIVES**

The main objective of this study is to describe the challenges and benefits of coffee AMCOS in Moshi Rural district. To achieve this objective, the authors focused on the following specific objectives:

- i) To identify the social benefits of coffee cooperatives to the members.
- ii) To identify the economic benefits of coffee cooperatives to the members.

- iii) To identify the challenges encountered by coffee cooperatives in Moshi Rural district.

### **SIGNIFICANCE OF THE STUDY**

The study describes the concerns related to the benefits and challenges of AMCOS engaged in coffee production in Moshi Rural district. Therefore, this research clearly indicates the cooperative societies of various stakeholders and their members, policymakers, nongovernment organizations and government to comprehensively present the benefits of AMCOS as well the main challenges encountered by them.

The study also provides a basis for future studies by various scholars and researchers interested in studying the potential role and benefits of AMCOS as well as the encountered challenges.

### **OPERATIONALIZATION OF THE STUDY**

The study is based on the experiences acquired by the authors from their field visits to three AMCOS of Uru Njari, Mruwia, and Mweka Sungu. Therefore, the study has a multiple case design. The cases were selected based on accessibility and better comparison because they have different performance levels.

The data were collected through interviews, focus group discussions, and observations and documentary reviews, where both primary and secondary data were collected. To a large extent, the study applied a qualitative approach, and in few scenarios, a quantitative approach was applied. A total of twenty respondents were enrolled, comprising chairpersons, vice chairpersons, secretaries, board members, and some cooperative members from the three cases.

## **DISCUSSION**

### **Profiles of the Selected Case Studies**

#### *Uru North Njari AMCO society*

Uru North AMCOS is among the AMCOS established in Moshi Rural district. Its history can be traced to 1954, when this cooperative society was established; it is in this year that all villagers were cooperative members as mentioned by the Ujamaa and Ujamaa Village Act of 1975 (United Republic of Tanzania). The cooperative existed for some decades until being divided into three societies, namely Uru Ngoma, Msumi, and Uru North Njari AMCOS. The Uru North Njari AMCO society was formed in 1993, with a registration number KLR 422. Until 2013, the society had approximately 780 members. The current membership is different from the previous one because presently, only

coffee growers are cooperative members since this cooperative deals with coffee production and marketing.

AMCOS are managed by the board (five members), two employed staff (a secretary and clerk and a security guard), and the annual general meeting comprising all members. The Uru North Njari AMCO society is also a member of the Kilimanjaro Native Cooperative Union (KNCU), which helps this society by providing marketing assistance, loans, transport services, and funds to pay initial payments to the members' product (coffee) brought to the cooperative. The cooperative also has 500 hectares of coffee land that is now operated by settlers. The farm is divided into two main farms: Machari and Usagara (Uru) estates. The settlers pay 2 million Tshs annually, from which 60 percent is devoted to social services (health and education), and 40 percent is given to the members.

### *Mruwia AMCO Society*

The Mruwia AMCO society originated from the old cooperative called Uru East Cooperative Society. The increase in demand for new cooperatives in this area resulted in the establishment of the Mruwia AMCO society in June 1995 (registration number: KLR 482). This cooperative is a member of the KNCU. Because of the improving quality and increasing productivity of coffee, the members felt the need to be independent from the KNCU.



After being dissatisfied with the role of the union, the society joined the new union called Kilimanjaro New Cooperative Initiative—Joint Venture Enterprise (KNCI JVE), which is also called G-32. The society presently has approximately 707 active members.

### *Kibosho Mweka Sungu AMCO Society*

The Mweka Sungu AMCO society originated from the existing cooperative called Kibosho East Rural Cooperative Society (now called the Kimasio AMCO society). The Mweka Sungu AMCO society was established in 1955 and was called Kibosho Mweka Sungu Rural Cooperative Society. This society serves the two villages of Mweka and Sungu.

This society deals with the production of coffee (through its members) and supplying farm inputs to the members. The society currently has 778 active members.

## **BENEFITS OF COFFEE AGRICULTURAL COOPERATIVES TO THE MEMBERS**

The benefits of cooperatives are difficult to determine. Some benefits are tangible or direct, as in the case of net margins or savings. Others are intangible or indirect, such as cooperatives' effect on market price levels, quality, and service. The benefits are greater than some types of cooperatives or in specific areas. Most benefits are evaluated in

economic terms, but some may be socially evaluated (Mather and Preston 1990). Based on the three analyzed cases, the authors identified the following benefits:

## **Social Benefit**

### **Increased Access of the Members (and Families) to Social Services**

The improved income of cooperative members has led to the trickling down of the effects to the members. The income from coffee sales enables the members (and families) of Mruwia, Mweka Sungu, and Uru North Njari AMCOS to access better social services, such as paying for health services and educational expenses for their family members and children in secondary schools, colleges, and vocational training centres. Furthermore, the members can pay for other services, such as electricity and water bills.

Birchall and Simmons (2009) reported that some cooperatives run low-cost insurance schemes for the members to cover medical treatment or funeral expenses or form welfare committees to finance medical expenses. They help the members to access education to develop their skills and knowledge of young people and encourage them to save. Birchall (2004) argued that cooperatives increase the members' incomes and promote the status of women and encourage girls to complete their education. They also assist in providing other

services, such as water supply, dispensaries and hospitals, and medicine and equipment.

### **Improved Housing Conditions**

In the interviews and discussion, the respondents revealed that the income received from the sale of coffee helps to improve their housing conditions. However, it was found that cooperative members could not build new houses by using the income from coffee sale alone but by combining other sources of income, such as selling food crops, running small businesses, and livestock keeping. The members could mostly repair their houses, such as roofing new iron sheets, painting, and other decoration as well as buying furniture and installing water and electric supply systems.

A comparison of the older and younger members revealed that the older members could previously build new houses (in the 1970s to early 1990s) compared with the new members, namely those who joined from nearly the early 2000s until the day of higher outputs of coffee from members' individual farms, which were conducive to climate as well as minimal competition and better prices. Birchall and Simmons (2009) found that in the provision of improved housing and living conditions, cooperatives provide loans for building new homes and improving the condition of members' houses. Cooperatives often offer special loans for the development of water supplies and sanitary facilities, which have been popular.

### **Provision of Agricultural Education**

Cooperative societies are similar to schools; they are organizations for equipping members with various skills and knowledge to perform their work appropriately and be active cooperative members. Mruwia, Mweka Sungu, and Uru North Njari AMCOS provide agricultural education to the members, such as teaching more effective farming methods for both coffee and food crops and animal keeping skills and demonstrating how to treat coffee with various environment-friendly and chemical methods, spacing, planting, and processing of coffee or crops that are unfriendly or friendly to coffee, and storage of coffee and other concerns arising daily. These efforts aim to increase productivity from members' farms. Nonfarming education is also being provided to the members, such as encouraging them to attend various seminars on entrepreneurship and to establish or engage in small businesses and other farming and nonfarming activities.

### **Improved Food Security**

Agricultural cooperatives help to ensure members' food security. The income received from the sale of coffee helps the members to access (buy) enough food. The three cooperatives also educate the members on more effective farming practices for both coffee and food crops (e.g., banana, beans, and maize), thus helping to obtain good harvest to meet their personal and family food consumption needs.

Cooperatives contribute to food security by helping small farmers, fisher folk, livestock keepers, forest holders, and other producers to overcome numerous challenges encountered in their endeavours to produce food (ICA and ILO 2014). Chambo (2009) indicated a close correlation between food security in countries having a long history and large cooperative organizations. However, this correlation was possible because of small farmers who had disposable cash income from cooperative activities to buy food from ordinary village markets.

### **Increase in Solidarity and Extending Social Protection**

A cooperative society promotes solidarity among the members and protects from various risk and problems that are difficult to overcome on an individual basis. Cooperatives provide a new framework or re-enforce traditional mutual support habits, which are mostly event or hazard related (Develtere et al. 2008).

The members cooperate in personal lives by working together in their farms; finding foods for their domestic animals; and helping each in various personal and family problems, such as failure to pay school fees, accidents, sickness, burial and marriage ceremonies and other good and bad moments experienced by any of the members. This is possible because the members have a shared vision and common goals; hence, solidarity and the spirit of helping each other are their common ways of life as true co-operators.

### **Cooperatives' Concern for the Communities**

The findings identified that the three analyzed cooperatives devote part of their annual budget to social responsibilities in their areas.

Specifically, the Mweka Sungu AMCO society presently supports fifty-two secondary school students from poorest families and orphans Mweka and Sungu. These students include children and relatives of the members and non-members. The cooperative also operates a business of selling affordable farm inputs to both members and non-members at similar prices.

The three AMCOs receive a share of the lease fee from settlers (Chibo estates, now known as Kilimanjaro Plantations) who are farming their lands. These societies have allocated 60 percent of such lease for supporting social services in the communities (education and health) and 40 percent to the members. The Uru North Njari AMCO society receives 2 million Tshs from settlers for Machari and Usagara (Uru) estates and the Mruwia AMCO society receives approximately 3.5 million Tshs from settlers. Maghimbi (2010) reported that in some areas, such as Uru North, the cooperative provides services to the community that increases the community's quality of life, for example, building schools, water resources, and a dispensary as well as caring for orphans. Thus, both members and non-members benefiting from cooperative societies in their areas.

## **Economic Benefits**

### **Improved Members' Income**

The respondents from the three AMCOS indicated that the establishment of their cooperatives played a major role in improving their general levels of income. These cooperatives enabled the members to obtain a place to sell their crops (coffee) and earn money from such sales. This has consequently enabled the members to earn money to support their family and personal needs, access services, and buy assets and other basic needs. Hence, the members can overcome poverty to build a good living standard and live above the income poverty line.

Mather and Preston (1990) and Birchall and Simmons (2009) have reported that cooperatives conduct various business activities to help improve the income of the members and help them escape from the income poverty traps. Birchall (2003) argued that cooperatives can reduce poverty and increase income if their values and principles are respected.

### **Easy Access to and Availability of Affordable Farm Inputs**

Mruwia, Mweka Sungu, and Uru North Njari AMCOS have reduced the burden of members' access to farm inputs. Cooperative members previously had to travel to Moshi Municipal or Himo for affordable inputs or otherwise had to buy at them higher prices from the local retailers in their areas. These cooperatives understood the demand of their members by working with the government and other stakeholders and are helping their members to obtain affordable and

high-quality and quantity farm inputs, such as fertilizers, agrochemicals (pesticides and fungicides), storage facilities, seeds, and other necessary inputs. These efforts have resulted in increased coffee productivity by the three societies.

Chambo (2009) revealed that agricultural cooperatives facilitate the supply of required agricultural inputs so that the production of commodities is timely to enhance productivity. Mather and Preston (1990) described that farm supply cooperatives provide supplies that ensure the highest value-in-use for the farmers.

### **Increase in Assets and Properties of Cooperatives and Their Members**

This study identified the increase in assets and properties. The three analyzed cooperatives were observed to have taken a good decision in acquiring various assets by using the profits made from their activities since their establishment. The three cooperatives have almost similar assets and properties, including warehouses, vehicles (minibus, tractors, and lorries at the Mweka Sungu AMCO society), rental houses for business, and office facilities.

The profits made from coffee sales and other dividends shared have enabled the members to buy both movable (furniture, televisions, radio, and other home assets) and immovable assets (mainly land and farm plots). Nembhard (2002) reported that successful cooperative businesses create wealth and help their members accumulate wealth; a strategy to



enhance an individual member's wealth and to provide easier access to the member's investment is the use of a revolving payment system or minimum vestige.

## **Provision of Employment**

Cooperatives provide employment to both members and non-members (staff, secretaries, security guards or watchmen). Maghimbi (2010) argued that the quality of employment in cooperatives may be low. Though, the standard of living of the members in villages (peasants) is low but better compared with that of non-members. The standard of living of the members was measured by observing their housing; dressing; schooling of their children; freedom from debts; and ownership of bicycles, radios, and mobile phones. It was also measured by analyzing the socioeconomic activities in which they are engaged. Develtere et al. (2008) identified three levels of employment effects: (1) direct effects or wage employment: the personnel and staff of primary and secondary cooperatives and of supportive institutions ("induced employment" through government cooperative departments and cooperative colleges), (2) indirect effects or self-employment: the members whose membership has a substantial role in guaranteeing a decent income, and (3) multiplier or spillover effects: non-members whose professional activities are only viable through the transactions they have with cooperatives (e.g., tradesmen or suppliers of agricultural inputs and fertilizers). The ICA and ILO (2014) indicated that cooperatives play a significant role in employment creation and income generation. Roelants et al. (2014) reported that cooperative enterprises generate partial or full-time

employment involving at least 250 million individuals worldwide, either in or within the scope of cooperatives. Cooperative organizations provide employment opportunities to the teeming population of the rural populace, which markedly facilitate the socioeconomic development of both urban and rural areas (Ibrahim 2001). Similarly, Madane (2002) and Gordon (2004) have stated the tangible benefits of using cooperatives as a community and economic development tool, including increased economic traffic, employment opportunities, support for essential community structures, and potential declines in out-migration.

Similar to other organizations, cooperative societies need some permanent and employed staff who will render their services, such as professionalism, efforts, and time, to help them realize their goals and perform well. Cooperatives must also employ people having various skills, extensive knowledge, and experience. Apart from professional people, cooperatives also employ semiskilled people capable of performing some nonprofessional activities, such as security guards (watchmen). Mweka Sungu, Mruwia, and Uru North Njari AMCOS were found to have employed some personnel to assist the board members engaged in professional activities. However, the number and type of the employed staff differ in these cooperatives based on their varying needs and financial well-being. For instance, the Uru North Njari AMCO society has employed a manager, treasurer (volunteering), and security guard, whereas the Mruwia AMCO society has four staff: an accountant, a manager, a coffee inspector, and a security guard. The Mweka Sungu

AMCO society has a manager, two gardeners (for supervising the office surroundings), and a security guard (watchman).

However, this study also found that all staff employed in the three cooperatives were from within the cooperative and are not paid regular salaries but honoraria; only the security guards (watchmen) are paid wages. This is because these cooperatives do not have adequate financial capacity to employ full-time salaried staff, such as professional accountants, clerks, managers, marketing officers, and other staff members. Therefore, they use available internal skilled personnel, such as retired professional from public or private sectors and any other members willing to work as volunteers. Furthermore, in the Mweka Sungu AMCO society, their lorry and minibuses have provided jobs to the youth in the area as drivers and conductors.

### **Marketing of Members' Produce**

In Mruwia, Mweka Sungu, and Uru North Njari AMCOs, the provision of marketing services for members' crops is very helpful. The members enjoy the economies of scale by selling through their cooperatives and benefit from the low cost incurred because they perform all processes by using their cooperative as one economic unit.

Marketing cooperatives assist their members in increasing the sales volume by approaching new and bigger markets with greater bargaining power. Therefore, the members receive better prices for their goods and have increased personal profit (Zeuli and Cropp 2004). Borzaga and Calera (2012) and Nembhard (2014) reported that when cooperatives address market failure, they improve the "functioning" of

the economic system and well-being of a large group of people and improve market competitiveness. Chambo (2009) described that cooperatives also provide an assured market for commodities produced by isolated small farmers in rural areas.

## **CHALLENGES ENCOUNTERED BY COFFEE AGRICULTURAL COOPERATIVES**

In this study, the authors managed to identify various challenges encountered by AMCOS, specifically in Moshi Rural district which are as follows:

### **Decrease in Coffee Productivity and Quality Challenges**

The accessibility to markets and better price facilitated by AMCOS highly depends on the level of productivity and quality of the produce. In Mweka, Sungu and Uru North Njari AMCOS, the respondents indicated decreased productivity of coffee. This was found to be because of climate changes in the region, accompanied by intensive solar radiation, low rainfall, coffee diseases, inadequate capacity to obtain farm inputs at the correct quantity and time, and the domination of old (more aged) coffee plants that have low yield. The members also decided to grow other crops instead of coffee because of price uncertainties in local and foreign markets. Ponte (2001) and Baffes (2003) indicated that a clear shift from high to low qualities well before the policy changes in

the 1990s. The reasons for the declines appear to be the nationalization of estates, aging coffee trees, rundown central pulperias, farmers being forced to perform primary processing, the spread of coffee berry disease after 1975 to all arabica coffee-growing areas of the country, and the failure to introduce new disease-resistant high yielding varieties.

### **Old System of Farming**

The traditional farming system remains dominant in Moshi Rural district. The mixed farming system is dominant among the natives mostly because of land scarcity to grow different crops at different farms. In the same farms, coffee plants are mixed with beans, maize, and banana plants. This causes congestion and competition for nutrients; hence, coffee does not grow well.

The field visit revealed that farmers perform mixed farming because of the scarcity of land to separately grow coffee and food crops. Furthermore, the members are not aware of the trend of coffee prices in world markets and hence fear to experience loss if they decide to grow more coffee than food crops. This has also created a serious challenge in adapting organic coffee farming practice that demands a reduced number of banana plants and no cocultivation with other crops in the same farm.

### **Cost Implication of Planting New or Replacing Old Coffee Plants**

One of the strategies for increasing productivity from coffee cooperatives in Moshi Rural district is introducing new coffee seedling and species that have high yield and are tolerant to drought and diseases. However, the initiative for this transformation highly depends on

members' willingness to adapt and incur the costs associated with this initiative. In this study, a major challenge preventing the members from accepting organic farming is the cost related to transforming from inorganic to organic coffee farming.

All respondents from Mweka Sungu and Uru North Njari AMCOS and few from the Mruwia AMCO society reported being challenged by high costs for cutting and digging out old coffee plants, by the reduced number of banana plants to allow more space for coffee and the subsequent digging of new pits for planting new coffee plants, and time required to plant these new plants.

### **Late Payment of Members' Money after Selling Coffee**

The members of Mruwia, Mweka Sungu, and Uru North Njari AMCOS encounter the challenge of late payment for their coffee once they sell through their cooperatives. In the Mruwia AMCO society, such complaints are mainly temporary because the cooperative uses bank loans (obtained from KCBL) to buy coffee from farmers instead of depending on KNCI JVE. In Uru North Njari and Mweka Sungu AMCOS, such a problem is very serious; these cooperatives depend on KNCU for funds to buy coffee from the members. Considering financial problems (because huge debts) of the union, it typically fails to pay adequate amounts of money for coffee collected from members. This discourages the members to sell their coffee through their cooperatives,

and they decide to sell to private buyers, thus minimizing revenues of their cooperatives.

### **Price Fluctuations in Local and Foreign Markets**

Price fluctuations in local and foreign markets are another challenge encountered by cooperatives and have discouraged production. Therefore, some members diversify into growing more food crops, keeping livestock, and engaging in small businesses. Low prices result in little profit (and sometime losses) to the members because they cannot effectively cover the costs of production, such as that of preparing the farms; labor work; harvesting; transport; and access to farm inputs such as fertilizers, agrochemicals, and storage facilities. For instance, from 2010 to 2014, the prices fluctuated from 1500 Tshs to 5000 Tshs per kg of coffee. Unstable markets also influence the unions. For example, similar to other cooperatives under the KNCU, the union sometime pays more money to the members. However, in comparison with the world market, the prices are low. When the KNCU obtains loans from banks (mostly the CRDB bank), it fails to repay its loans, hence increasing its debts. Furthermore, the members' incomes are largely affected by such price instabilities because they find themselves only covering production cost with little surplus remaining. The prices also decrease because of a low quality of their produce.

Milford (2004) provided that constantly changing prices indicate that coffee farmers worldwide live in a situation of uncertainty, which complicates planning the future. Therefore, in most cases, low prices

are because of overproduction and low quality. Similarly, Kodama (2007) indicated that coffee farmers are particularly exposed to the international economy compared with domestic staple food farmers. They experience from export price fluctuations determined by foreign markets, which are out of their control.

### **Debt Burden to Societies after Required to Share the Union's Debts**

The respondents from Mruwia, Uru North Njari, and Mweka Sungu AMCOS reported that their cooperatives have to pay a share of the union debts for funds obtained from banks, particularly the CRDB bank. Currently, the union has a debt of approximately 3 billion Tshs. Each primary cooperative is required to contribute to paying this debt. For example, the Uru North Njari AMCO society was allocated to pay 16,774,660 Tshs, where 16,624,210 Tshs is the debt from members' advanced payment. This has happened because the union bought coffee at higher prices from the members. On sending this stock to the world market, the prices suddenly dropped, hence creating loss and failure to repay the loan. Furthermore, 150,450 Tshs is the debt for sugar that the union had given on credit to be sold to the primary societies, including the Uru North Njari AMCO society. Because the Mruwia AMCO society has separated from the KNCU and joined KNCI JVE, it refused to contribute to the debt payment.

Heavy debt reduces the cooperatives' net surplus and increases the burden of the cooperatives' members. The members also indicated that



the union leaders do not serve interests of members of the primary societies. The union is even borrowing from banks without involving the members before making decisions and is even involved in an intensive misuse of funds and believed to plan selling the farm belonging to the primary societies.

### **Inadequate Provision of Education and Training**

The scarcity of adequate budget for training the members, board, and staff is creating a challenge for the development of Mweka Sungu, Mruwia, and Uru North Njari AMCOS. With uncertain profitability (because of low productivity), the cooperatives are not receiving sufficient revenues to conduct all activities, including the training and provision of education to the members, board, and committee and staff members. The members were observed to not be well-versed with cooperative education, such as the understanding of member rights and responsibilities and their power and presence of overdependence on leaders for all affairs of the cooperative instead of direct participation.

As mentioned by the TFC (2006), cooperative education is necessary for developing enlightened and responsible cooperative leaders who can maintain cooperative values and operate efficient business enterprises; improve the management, business, and entrepreneurial skills of the employees and committee members; and ensure that the members are informed and aware of the nature of cooperative's economic activities, their duties, and responsibilities and benefits of the cooperative membership. Ainebyona and Tiruhungwa (2012)

indicated that educating, training, and re-training the members, particularly the officers, are always a challenge to cooperatives, mostly in developing countries. Nyoro and Komo (2005) indicated that, as the main decision-makers of cooperatives, farmers should be trained and be well sensitized on important concerns to ensure that they make informed decisions. Financial constraints hinder the organizations from training their members.

#### Excessive Deductions on Members' Coffee Sold

Excessive deductions discourage members and minimize their net profit and income from coffee sales in coffee auctions. These include deductions by Coffee Research Institute, expense of transport and escorting coffee to the curing machine, insurance charges, empty bag fees, processing fees at coffee curing machine, union and primary societies' levies, Moshi Rural district levies, health insurance, overpayment charges, price stabilization funds, bank charges, and loan interest. These deductions are a burden to farmers; hence, some farmers even decide to sell to private buyers.

#### **"Free Rider" Effect**

The respondents, particularly from Mweka Sungu and Uru North Njari AMCOS, indicated experiencing the challenge of free riders. Free riders are basically dormant cooperative members who have not yet paid the minimum required number of shares and other contributions

but still sell their coffee through the cooperative and enjoy other benefits, such as access to subsidized farm inputs (fertilizers, storage facilities, and agrochemicals [pesticides and fungicides]) for coffee production and even receiving various education and training services when opportunities arise. Free riders lead to dormant members, loss of revenues because of unpaid fees and other contributions, and selling coffee to private buyers in case of low prices in cooperatives. They affect the close relations among the members and freely use resources.

The Food and Agriculture Organization (1998) established that in most cases when the cooperative becomes a large group, there are increased chances of the free-rider effect. Briefly, some members try to obtain the maximum possible resources from the cooperative without contributing a fair share. Cooperative, particularly a growing one, should try to develop group management systems that discourage the free-rider effect, such as limiting large numbers of minimally contributing members.

### **Poor Record Keeping and Accounting Systems**

The success of cooperatives relies on appropriate record keeping of the cooperatives and the members. Failure to appropriately maintain records, such as financial and sales records, contracts, and other vital documents result in a poor record of the daily transactions, sales, income and expenditures, and agreements made with other organizations or individuals.

Poor record-keeping was identified in all three cases. Mweka Sungu and Uru North Njari AMCOS were observed to not appropriately

maintain their financial records, including writing financial reports following better financial (reporting) standards. This is mainly attributed to few skilled staff members, such as accountants, managers, loan officers, and other leaders, who would perform these professional activities. Furthermore, the low financial capacity of cooperatives to pay for external auditors and lack of professional accountants and managers lead to failure in preparing audited financial reports and maintaining updated financial reports. The Mruwia AMCO society indicated good progress in financial records because of a professional accountant.

Bruynis et al. (2001) indicated that accurate financial statements must be prepared and distributed on a timely basis to the management team. Financial problems occur because of poor accounting systems and lack of appropriate records on transaction made by cooperatives. Therefore, funds are lost or misused without notice by the members. The TFC (2006) indicated that appropriate records and performance reports were not maintained and audited accounts were not presented regularly at the Annual General Meetings.

### **Less Participation and Membership of Women and Youth**

Apart from other factors, the achievements of cooperatives depend on the level of participation and membership of the youth and women. Mweka Sungu, Mruwia, and Uru North Njari AMCOS have many adult men members because the customary land laws have prevented

women and the youth from accessing land and using them for coffee production. Therefore, men enjoy complete access to land and use the youth and women to prepare the farms, dig pits, and plant coffee as well as treat and prevent coffee diseases and assisting in harvesting. Men only actively participate during the selling (marketing) activities and collection of the sales revenues.

This relates to the study by Ainebyona and Tiruhungwa (2012) who found that the participation of women is limited in both membership and leadership of primary cooperatives' activities in Kilimanjaro.

### **Technological Constraints**

The studied cooperatives lacked the use of computers in their operations. They still use manual systems for performing their activities, such as maintaining financial records and other reports. This may lead to a risk of loss of information and possibility of fund misappropriation, such as staff leaders taking authorized loans and stealing cooperative funds. Similarly, in the comparative study of 450 cooperatives in Tanzania and Sri Lanka, Simmons and Birchall (2008) identified that the main constraints of cooperatives in Tanzania include the lack of technical knowledge and access to new technology.

### **Limited Capacity to Supply Adequate and Timely Farm Inputs to Members**

A main target of cooperatives in Moshi Rural district is maximizing coffee productivity (and certainly, food crops) from members' farms.

Cooperatives supply farmers with affordable and subsidized farm inputs, such as fertilizers, agrochemicals (pesticides and fungicides, etc.), storage facilities, seeds, and other farm equipment. The main challenge in Mruwia, Mweka Sungu, and Uru North Njari AMCOS is that the type of some inputs supplied, particularly agrochemicals and fertilizers, do not meet the demand of the members and mostly do not reach the members on time. Most farmers lack information on the correct type of farm inputs to use and their appropriate time of application. Key inputs, such as seed, pesticides, fertilizers, and equipment, are still not affordable by most rural farmers. Low affordability reduces the application of these farm inputs and eventually reduces the yield that farmers get from their coffee farms.

### **Management Challenges**

Appropriate management practices and capacity are essential for the success of cooperative societies. Poor management leads to the failure of various goals and plans, losing direction because of the lack of clear vision and even problems in the management of funds and other resources, and poor planning because of the lack of strategic planning. Management problems were identified in the cases, particularly in Mweka Sungu and Uru North Njari AMCOS. The problems exist because of poor planning, failure to diversify into other income-generating activities, poor record-keeping, failure to influence changes

among members (convincing them to adapt organic coffee farming), and inadequate training on managerial skills.

These factors delay the delivery of expected benefits to the members. Baka (2013) identified that because of weak management, cooperatives require assistance in hiring qualified and experienced employees who can overcome the new challenge of competition with other businesses.

### **Free Market Challenge (Competition)**

Market liberalization, similar to other local enterprises, has affected cooperative societies mostly in terms of price instability and competition. Mweka, Sungu, Mruwia, and Uru North Njari AMCOS reported encountering the challenge of competition from other coffee producers, such as Kilimanjaro Plantations (Chibo estates), and other cooperative societies in the region and nationwide. This creates difficulty for cooperatives to ensure maintaining quality and producing large quantities of coffee. Furthermore, private buyers are affecting the sales volume of coffee through cooperatives because the members sometimes decide to sell all or part of their coffee to these private buyers and organization. Private buyers, such as Doman, sometimes offer higher prices (slightly) exceeding the indicative buying prices offered by cooperative societies. This causes loss of revenues (primary society levies) of the cooperative societies.

Not all cooperatives have the leadership and financial abilities to effectively deal with other firms in the marketplace. Many agricultural

cooperatives have little or no influence on the basic price level for the farm products or supply of items (Mather and Preston 1990).

### **Financial Deficit**

The study also revealed that the three cooperative societies, particularly Mweka Sungu and Uru North Njari AMCOS, encounter the challenge of inadequate financial resources. The budget deficit obstructs these cooperatives to diversify their income-generating activity to provide more income benefits to the members. The shortage of funds has mostly been because of overdependence on revenue (tariffs) from coffee sales, the presence of many members who have not yet met the minimum number (amount) of shares, and the presence of non-trustworthy members selling coffee to private buyers and hence reducing the revenue amount of their cooperatives.

Zeuli and Radel (2005) indicated that cooperative members must own a portion of their organization. Equity constraints are a challenge for all cooperatives, but they might be particularly severe for cooperatives in limited resource communities, where the members do not have the surplus financial resources to invest in business ventures, cooperatives, or other organizations. The United Republic of Tanzania (2005) identified that the lack of adequate capital and sustainable finances are challenges encountered by cooperative societies.



## **Other Challenges**

This study identified the following other challenges: the presence of union leaders who are not serving the interests of the members, lack of entrepreneurial skills among the members, resistance to change, decline in the size of arable land because of the need of space (land) for building houses and burial activities for the families of the members, inadequate understanding of cooperative laws and policies, inadequate knowledge among the members regarding their rights and responsibilities, low educational levels of leaders (e.g., committee and board members) and staff, and the limited capacity of cooperatives to employ professional staff.

## **CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

Cooperatives mostly experience various challenges because of their limited capacity and mechanisms to overcome threats to sustain their operations and activities and offer expected socioeconomic benefits to the members. The development of cooperative societies in this era of globalization highly depends on the internal capacity of cooperatives. The capacity of cooperatives must be developed to be in a safe position to operate, well strategize their operations, compete, and bring more benefits to their members and the wider community and nation.

## **Recommendations**

Based on the identified challenges, the studied cooperatives may implement the following strategies to overcome the encountered challenges:

### **Cooperative Joint Venturing**

Liberalization makes cooperatives vulnerable to various economic shocks and lack of influence in the market. Apart from strengthening the capacity of unions, "Cooperative Joint Ventures" must be emphasized, namely two or more cooperatives must join and perform some business or activities together and share resources, surplus, and profits acquired. The joint ventures will facilitate increasing the bargaining power of the cooperatives, acquire more power to influence the market (e.g., influence prices and increase supply and quantities of coffee sold), and minimize costs of operations (e.g., share transport, warehousing, insurance, processing costs, and other expenses). Thus, typically, cooperatives will benefit from the economies of scale.

### **Warehouse Receipt Systems**

The Mruwia AMCO society was found to practice the warehouse receipt system. The cooperative uses its coffee preserved in the warehouse as collateral to take loans from banks, particularly KCBL, hence finding its own funds to finance its activities, such as

buying members' coffee when the harvest season is due. Therefore, if the same practice can be initiated and effectively applied to other cooperatives, it may help in securing adequate funds for cooperatives and the members, prevent cooperatives from experiencing losses and little surplus because of lower prices, and even increase safety for members' coffee until they get better prices.

### **Cooperative Entrepreneurship**

Cooperative entrepreneurship is a form of joint entrepreneurship. Because cooperatives aim to fulfill the needs of the members, a better strategy for sustainability and benefiting more members is by establishing new cooperative ventures. This may attract the commitment of the members and lead to a sense of collective ownership, rather than pure self-gaining. However, starting businesses requires the members to be ready to face and share risks and benefits. Following bylaws, cooperative values and principles, and appropriate management are essential for the businesses to be successful. Cooperatives in Moshi Rural district and those at regional and national levels should design businesses to produce goods and services that are or are not being provided by other companies and provide them at affordable prices.

## **Roles and Limits of the Union**

The KNCU was observed to cause some problems to coffee cooperatives in Moshi Rural district. Among the three analyzed cooperatives, Mweka Sungu and Uru North Njari AMCOS are members of the KNCU. These two societies indicated some of the union-based challenges, such as the misuse of the union's funds and a poor involvement of primary cooperatives in making major union decisions, such as decision to borrow and using primary societies to pay union's debts. Furthermore, it acts as a middleman instead of being a representative of cooperatives in marketing the coffee of the members, whereas cooperatives only act as buyers. The union has become more powerful than primary societies it formed. To reduce or remove complaints from the members, it is better for cooperatives to be granted and to let them decide to obtain complete autonomy to perform most functions performed by the union, including coffee supervision, processing, and marketing, and be able to borrow directly without involving the union. The KNCU should only be the overseer or supervisor and adviser of primary cooperatives and not a final decision-maker.

## **Extended Training and Education Programs**

Cooperatives must invest in the provision of training and education. The training and education programs must address the specific capacity-building needs of the board, staff, and members. Various

seminars must be held, and the members or staff must be sent for short- and long-term training programs in various institutions, such as colleges and universities and other institutions, to equip the members, board, and staff with the necessary skills and knowledge required for the smooth operations of cooperatives. For example, training on strategic and business planning, financial management and accounting skills, and risk management and marketing skills must be provided. Furthermore, training must be ensured on the awareness of rights and responsibilities of the members, board, and staff as well as on legal concerns such as cooperative policies and laws.

### **Diversification of Coffee Products**

To overcome the risks of price fluctuations and unreliable coffee markets, agricultural (coffee) cooperatives must diversify coffee products and businesses. For example, cooperatives, individually or jointly, may establish coffee bars in various areas, where people may sit and drink the locally processed coffee. They may also establish units for coffee roasting to provide materials to coffee vendors.

### **Extend Credit Services and Supply of Subsidized Farm Inputs to Members**

Improving the productivity of the coffee farms of the members, among other factors, highly depends on the availability of funds to finance the members' agricultural activities (coffee production).

Therefore, cooperatives, by working with cooperative banks and the government, must determine the best strategies to assist farmers with agricultural credits. A supply of various subsidized farm inputs, such as fertilizers, pesticides, fungicides, storage facilities, chemical pumps or sprayers, and tools, would enable farmers to adequately buy and apply these inputs, thus increasing coffee productivity in Moshi Rural district.

### **Government Interventions**

There should be more supportive business environment including cooperative legal (policies and laws) and economic (price stabilization) environments to enable cooperatives to flourish. Market-focused cooperative policy should be in place such as supporting cooperatives to access foreign markets, engaging in value addition, ensuring better prices for their products, providing funds at competitive interest rates, and so on.

### **Inclusion of Women and Youth in Cooperative Development**

It will be vital for cooperatives to involve women and youth in their activities and management by enrolling most of the population and enhancing realization of a larger multiplier effect. Efforts need to be directed in eliminating cultural issues hindering their participation, and developing attractive business activities and extending value chain where youth can participate.

## **Terminating Free Riders in Cooperatives**

Cooperative development and sustainability highly depend on the activeness of the members. It is vital for agricultural cooperatives to eliminate free riders. This can be ensured by regularly inspecting the membership registry, omitting the names of inactive members, preventing inactive members from voting and making decisions.

## **Involving in Fair Trade Agreements**

The concept of fair trade aims to build "a system of trade, in which the partners deliberately seek to establish a more direct relationship between groups of producers and consumers in the two worlds and a greater understanding among consumers of the need of the producers for support for their independent development" (Brown 1993). Fair trade is often called "alternative trade" because it aims to establish a trade network alternative to the commercial market. Once cooperatives receive their fair-trade certification for their coffee, they can obtain better prices for their coffee exports in various markets among fair trade members.

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