

AN ANALYSIS OF EXTERNAL INTERFACES LIMITING CO-OPERATIVE SUSTAINABILITY IN THE PRIMARY AGRICULTURAL MARKETING CO-OPERATIVE SOCIETIES (AMCOS) IN TANZANIA, EVIDENCE FROM SELECTED COFFEE PRIMARY AMCOS OF BUKOBA AND MOSHI DISTRICTS

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ABSTRACT

The importance of a co-operative as a member-owned socio-economic institution has attracted global focus to identify mechanisms by which co-operatives can meet members' needs and aspirations using co-operative democracy. In Tanzania, co-operative policy and legislation highlight ownership and participative democracy to co-operatives; various efforts have been made to ensure primary Agricultural Marketing Co-operative Societies (AMCOS) use member democracy in decision making to sustain co-operative institutions. The study assessed the extent to which democratic practices reflect member ownership in different decision making processes. The study objective was to examine external interferences limiting co-operative sustainability in the primary AMCOS in Bukoba and Moshi districts. A cross-sectional design was used whereby 400 members were selected from ten primary AMCOS of Bukoba and Moshi districts. The study used primary data by the use of household survey and interviews, focus group discussions and key informant interviews. Documentary review was done to collect secondary information. The findings on the external sustainability influence results shows government roles were more identified as to tax members' produce than regulation and creating enabling environment for co-operative business; a total of 47 deduction and tax items were found to effect member produce on Farm Gate Price. Also, the decline of coffee price was the leading factor affecting the co-operative business. The study recommends that ordinary members, board and managers of the Primary AMCOS should prepare strategies that will expand the capital base of their firm in order to have a sustainable capital system. Also, the role of the Government should be creating enabling environment to co-operative rather than taxing co-operative members.

Key words: External Interfaces, Co-operative Sustainability, Primary Agricultural Marketing Co-operative Societies.

BACKGROUND TO THE PROBLEM

The external background had been shaping co-operatives business management and sometimes conflicts with institutional sustainability. The primary Agricultural Marketing Co-operative Societies (AMCOS) democratic sustainability is based on addressing the future well being of members by ensuring members use democratic governance systems that enhance member ownership (Wanyama *et al.*, 2009). In the principle of sustainable

development in the AMCOS, an aspect of intergenerational equity that is defined as development which meets the needs of the present generation without compromising the ability of future generations to meet their needs had become a cornerstone to demonstrate internal and external co-operative environment that shape co-operative business (Fahlbeck, 2007). Birchall and Simmons (2004) describe such sustainability to be attained when institutions face intergenerational changes by externalities whereby, in that context, the co-operatives should try to achieve economic growth without affecting future generations adversely.

In developing countries, attempts to organize primary Agricultural Marketing Co-operative Societies (AMCOS) farmers into co-operatives have often failed, although AMCOS have the potential to supply farm inputs and market farm products that are both important for agricultural development (Hoyt, 1989). The Department of Industry and Trade (South African Republic) DTI (2003) provides a brief overview of co-operative development in African countries as cited in Akwabi-Ameyaw (1997) that, in Africa, primary AMCOS co-operatives have often failed because of problems in holding management accountable to the members (that is moral hazard), leading to financial irregularities.

Birchall and Simmons (2010) discuss the co-operative reform process in Tanzania. The reforms were based on mechanism for empowering the members and sustain co-operative in addressing different challenges that constrained the co-operative sector. The control exercised by colonial governments that was deepened under nationalist governments, with co-operatives becoming parastatals (Maghimbi, 2010). During the colonial period Tanzania small co-operative sectors grew up, promoted by government officials and highly regulated. In Tanzania it was on the organizing of cash crops for export. After independence Tanzania had a rapid growth in co-operatives in which the new government started a drive to create agricultural fishery and industrial co-operatives. In rapid expansion of the sector was associated with a decline in efficiency (Anania, and Rwekaza, 2016; Likwata, and Venkatakrishnan 2014). By 1966 there were rising complaints, and a Presidential commission of enquiry was set up to investigate charges of nepotism and corruption. The Commission urged the government to expand co-operative education, strengthen control over the movement, and increase the powers of the Registrar to fire incompetent and corrupt leaders. All these were enacted in a law passed in 1968 (the Tanzania Co-operative Act),

According to Birchall and Simmons (2010) assert that in Tanzania, in 1976 President Julius Kambarage Nyerere declared that co-operatives could not cope with his 'quick march to socialism', as they were capitalist organizations. All co-operative unions were dissolved and replaced with crop authorities that were required to do marketing directly from the villages (Seimu, 2017; Rwekaza and Nko, 2012; Danda and Bamanyisa, 2011). There was resistance; the unions failed to die a natural death and had to be forcibly closed by the police. The decision to abolish them was not accepted by many in government and, after a crisis in rural production that was blamed on the poor performance of the crop boards, in 1984 Nyerere changed his mind. The unions were reestablished, but only 'to serve primarily political interests' as a mass organization under the direction of the ruling party. Liberalization brought a sustained attempt by international agencies to reassert the distinctive nature of co-operatives as member-owned businesses (Wakuru, 2016; Seim, 2015; Sizya, 2001). In Tanzania, according to Birchall and Simmons (2010) the impact of liberalization was devastating to co-operative sector. Co-operatives were in a weak position at the start of the trade reform process, and had no breathing space to adjust, and so private traders took over much of their business. They had inherited structures and attitudes that put little emphasis on

membership, and they lacked professional management. Some primary societies began to operate as agents of private traders and rent out facilities to them.

According to Chambo and Dyamet (2011) and Birchall and Simmons (2010) propound that the reform process in Tanzania began in the 1990s, and was given impetus and direction by three developments agenda at the international level. First, in 1995 the ICA new identity statement and a new set of principles emphasizing the autonomy and independence of co-operatives: where this was the international lead that co-operative promoters had been waiting for. Anderson and Henehan (2005) commented that, in 2001, the United Nations produced new guidelines aimed at providing a supportive environment (UN 2001): this was for supporting the internal and external co-operative business management to sustain the economic challenges. On the same vein, in 2002 the International Labour Conference adopted a Recommendation (No. 193) on the promotion of co-operatives (ILO 2001). Like the UN Guidelines, it drew explicitly on the work done by the ICA to reformulate the co-operative principles (Birchall, 2011). With these argument promoting co-operatives as 'tools' of development is wrong; assistance has to be given to their members to create; income-generating activities, gain access to markets, improve their own social and economic well-being while respecting their autonomy. On the other hand, co-operatives were ill-prepared to adjust to a competitive market and the lifting of government regulation; many failed, some were corrupted, while a few became truly member-controlled.

Member participation in Tanzania, as presented in the Co-operative Development Policy of 2002 (CDP, 2002), was developed following the outcome and the aftermath of the government revival programme which was based on the recommendations of a Special Presidential Committee (Mbogoro, 2014; Urio, 2011; Chambo, 2007). The committee was formed in 2000 aiming at reviving, strengthening and developing co-operatives in Tanzania (URT, 2005). Basing on the committee's recommendations, the President acknowledged the contribution of co-operatives in enabling citizens to participate in building a stronger economy using the co-operative model, as it adheres to co-operative principles, ethics and values. Basing on the Co-operative Development Policy of 2002, the Co-operative Societies Act of 2003 and the Co-operative Society Rules of 2003 were formed. Later on, the enactment of the Co-operative Societies Act of 2013 was enacted to repeal the Co-operative Society Act 2003: Also the formulation of Co-operative Society Rules of 2015. The agricultural marketing co-operatives were studied basing on the evidence from Bukoba and Moshi Districts in looking into how members participate, and their democratic practice in addressing member ownership. The co-operative movement on AMCOS in Tanzania is presented in a four-tier system; these are primary, secondary, apex and federation.

Sumelius *et al.*, (2013) and Wanyama (2009) argued that co-operative business model for business-driven activities of the poor in Tanzania to address factors that can promote co-operative sustainability; marketing of co-operative member produce especially coffee, tobacco, cotton and other crops through co-operatives, some co-operatives specifically the coffee unions do not seem to be succeeding in reducing poverty, due to absence of good governance and accountability among co-operative leaders and managers. The procedures they follow do not completely correspond to systems and structures of governance, uphold the rule of law and democracy, institutional effectiveness, accountability, predictability, transparent, inclusive and corruption-free at all levels. Leiponen and Byma (2009) argued that, co-operative innovation are the best strategy for developing internal interfaces for innovators' capacity to benefit from their investments in knowledge creation as a central concern in innovation and technology policy; the use of intellectual property strategies as key

incentives for innovation in determine factors that promote primary co-operative sustainability. Most co-operative that engages in co-operative innovation activities with external partners emphasize speed to market as the most important protection mechanism. Wakuru, (2016), Seim (2015) and Sumelius *et al.*, (2013) was of opinion that, Tanzania Co-operative Societies Act should 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 existence of a policy implementation framework that called for Co-operative Reform and Modernization Programme whereby co-operatives can exploit opportunities offered by the government for achieving their own business objectives. Sacchett and Tortia (2013), Sumelius *et al.*, (2013) and Garnevska *et al.*, (2007) contend that, limited capacities in governing co-operative institutional financial, physical assets and human resource assets were identified as the major problem in governing the co-operative development toward to their objectives. Also limited service provided by the union which is not relevance and timely cannot sustain the co-operative sustainability.

The co-operative federation and co-operative training institutions in Tanzania need to increase its international linkage, more support be done with the joint venture in other regions in Tanzania (Rwekaza and Mhihi, 2016; Urio, 2011). Also, according to Maghimbi (2010) primary societies need the freedom for Associations to make decisions at the member's level; develop co-operative 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. According to Leiponen and Byma (2009) and Wanyama *et al.*, (2009) argued that, the intellectual property rights policies as internal interfaces for co-operative sustainability should be re-evaluated from the co-operative perspective. Co-operative should capitalize on strategies that can be used to small firm co-operative to address policy questions regarding the functionality of the existing system of intellectual property rights. Also, member ownership in the developing strategies for the use of intellectual property rights needs to be addressed.

In this study, primary AMCOS were used as units of analysis in assessing member ownership and democratic sustainability of the MCOS. The study was based on Co-operative Societies Act in Tanzania which is repealed and replaced by the Co-operative Societies Act of 2013. Member's interviews were done to acquire data from the ground to grasp primary data that may be used to enumerate the required reforms. Also the study end up with recommendations on what need to be done for co-operative reforms that will provide a sustainable member owned enterprise.

Statement of Problem

Theoretically, ownership of members of primary Agricultural Marketing Co-operative Societies (AMCOS) should play a major role to ensure democratic sustainability. Members in the primary AMCOS are the principal owners, whereby ownership is governed by a democratic process of managing their co-operative (Kaleshu, 2013; Maghimbi, 2010; Fama and Jensen, 1983) ICA (1995) provides co-operative principles which perpetuate co-operative democratic practices that increase business performance using member owned strategies that entail a democratic process (Wakuru, 2016; Rwekaza and Nko, 2012; Sizya, 2001). However, the question of delegating co-operative management to the Board and managers as members' agents has resulted into low member ownership that, on the other hand, constrains business sustainability and democratic rights of members (Mpunga, 2016; Mbogoro, 2014; Ortmann, and King, 2007). For internal interfaces on developing sustainable co-operatives, enabling

systems that delivers and disseminates information to primary societies to improve internal capacities of primary agricultural co-operatives is inevitable (Rwekaza and Mhihi, 2016; Sumelius *et al.*, 2013; Zheng *et al.*, 2012). More professional management of co-operative businesses is needed (human capital in co-operative management) at all levels. Primary societies should have mechanism stabilize prices, especially coffee prices. Tanzania Co-operative Policy 2002 and Tanzania Co-operative Society Act 2013 stipulate that co-operatives shall operate within legal frameworks and policies that provide how best the AMCOS should be governed; however internal and external factors have been affecting the primary AMCOS to attain business sustainability as expected.

Diverse efforts have been made to ensure primary AMCOS embark on member ownership and democratic practices that lead to institutional business sustainability; efforts such as implementation of Member Empowerment in Co-operatives (MEMCOP) (2000-2005) aimed at empowering members to have a voice in co-operative decisions and establishment of Co-operative Reforms and Modernization Programme (CRMP) (2005-2010) with effort such as “to initiate a comprehensive transformation of a co-operative to become organizations which are member owned and controlled competitively, viably, sustainably, and with capability of fulfilling member economic social needs”. Also, the establishment of Tanzania Co-operative Development Commission (TCDC) in Tanzania aimed at increasing viable co-operative institutions which are member owned and democratically sustainable. With these strategies and programmes in place, a puzzle comes on the impact of these efforts with low co-operative business growth and low sustainable democratic practices of primary AMCOS among members in Tanzania. In view of absence of empirical knowledge on low democratic sustainability and member ownership, this study aimed at examining external interferences limiting co-operative sustainability basing on primary AMCOS of Bukoba and Moshi districts.

Theoretical foundation

Theory and principles was adopted in this study explain external interferences which promote co-operative sustainability: this includes Principle agency theory which is the dominant theory of the study supported by ICA Co-operative Principles. The theory and principles describe how members in primary AMCOS can control different factors that affect their co-operatives in their effort to build a sustainable firm that provides their social economic needs. Principle agency theory and ICA co-operative principles were presented on the way they were used in this study hereafter.

The Principle Agency theory was used to describe the relations that exist between management (agent) who lead the co-operative on behalf of members (the shareholders): basing on those existing relations the assessment of members understanding of the agents and shareholders becomes inevitable. In principal-agent theory the managers are member’s agent who are employed by the board of directors chosen among members (Kaleshu, 2013; Fahlbeck, 2007; Fama, 1980; Berle and Means, 1932). The roles of the agents in the co-operative are defined in the co-operative laws, also, clearly described in the co-operative by-laws. The co-operative by-laws are prepared by members within which members use in controlling the agent and claim for their responsibility in of the agent’s role. The governing of co-operative according to the principle agency theory requires members to understand the ways which can lead them attain their needs without compromising the organisation objective strived by the agent. In order to attain organisational objectives the agent employs different strategy to attain co-operative sustainability. However, the challenge comes on member’s knowledge to control the managers who are expert in institutional governance, and manage

the existing conflicting interest of agent who are for organisational performance and members who are for obtaining social economic needs.

The ICA (1995) Co-operative principles were used where principle No. 3 based on Member economic participation becomes inevitable. In that principle the emphasis in member participation on co-operative activities for building ownership became necessary to sustain institutional sustainability. The principal advocate members to contribute equitably and democratically control the capital of their co-operative. Basing on member participation and capital being a common property of the co-operative, members allocate surpluses for developing their co-operative by setting up reserves; and part is divisible benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership. However, the principle face challenge in making member understand their obligation in offering their participation on different activities as it may be agreed. This leads to a fundamental role of Board as negotiating and resolving the potentially conflicting interests of different stakeholder groups in order to determine the objectives of the society and set policy that leads to sustain co-operative.

Methodology

The study was conducted in Bukoba and Moshi Districts in Kagera and Kilimanjaro Regions respectively. These areas had a long history way back in the 1920s on cooperation and co-operative establishment in Tanzania (Wakuru, 2016; Seim, 2015; Kihemba *et al.*, 1977). Also, the consideration of the nature of the crop that is coffee in both districts provides a comparative study from the same cash crop marketed by co-operatives in different geographical environments. In Kagera and Kilimanjaro regions, the study was done in two districts' AMCOS; the districts that were selected for the research were Bukoba District in Kagera Region and Moshi District in Kilimanjaro Region where AMCOS were found to operate their businesses under the umbrella of unions and networks. In Bukoba District the primary AMCOS were operating under Kagera Co-operative Union (KCU), while in Moshi District they were operating under Kilimanjaro Native Co-operative Union (KNCU). However, in Moshi District, some primary AMCOS were operating under a network known as G32. The number of primary AMCOS dealing with coffee in those districts was 50 in Bukoba District and 39 in Moshi District. A cross-sectional design was used whereby data were collected once and used as a basis for generalization. Member ownership and democratic sustainability concepts in the primary AMCOS of the studied areas could have similar results that fitted in other primary AMCOS in Tanzania and other countries that have similar characteristics.

The study used both probability and non-probability sampling methods in order to have objectivity and respondents representing the population from which the data were collected. Probability sampling was adopted so as to provide equal chances for every population element to be selected and to avoid biasness, which might arise in the course of selection to get respondents. The sampling unit in this study was an individual member of primary AMCOS which was dealing with coffee in Bukoba and Moshi Districts. In selecting members, randomisation was done by using lists of members from primary AMCOS registers. The managers and board members were identified basing on the villages where the members were coming from. In non-probability sampling methods, purposive sampling technique was used in selecting key informants, who were selected from the co-operative stakeholders. The list included co-operative movements that included KCU, KNCU, G32 TFC, district co-operative offices, Regional Assistant Co-operative Registrars, Tanzania Co-operative Development Commission, Tanzania Coffee Board, Co-operative Auditing and

Supervision Company, Moshi Co-operative University lecturers, and Tanzania Coffee Development Fund. In Focus Group Discussions (FGD) purposive sampling technique was used to select discussion groups, but in the Unions, FGDs involved board members and managers.

The population of the study was not known because members of the primary AMCOS in the studied areas had not been updated as from 1992 to 1994 when the new register was updated. The adequacy of the samples size for this study had to take into account the minimum number provided by Tanzania Co-operative Society Act No 1 of 2013, Section 20 (a), whereby 20 to 30 persons is the minimum number for a registered AMCOS. Taking 40 AMCOS members were over and above the minimum number prescribed by the Act to ensure inclusion of enough AMCOS members. Basing on these facts, the sample size was selected following the formula developed by Cochran (1977) for large populations (ten thousand and above):

$$n_0 = \frac{Z^2 pq}{e^2}$$

In which case, n_0 is the sample size; Z^2 is standard normal deviation, set at 1.96 or 2.0, which is equal to the desired confidence level of 95%; p is the estimated proportion of an attribute that is present in the population (if not known 50% is used); and q is $1-p$. The value for Z is found in statistical tables and represents the area under the normal curve; and e is the desired level of precision which is set at 0.05.

Therefore, the sample size for this study was:

$$n = \frac{2^2(0.5 \times 0.5)}{(0.05)^2} = \frac{4 \times 0.25}{0.0025} = \frac{1}{0.0025} = 400$$

Therefore, 400 members were selected from ten primary AMCOS (five from each district of Bukoba and Moshi).

Both primary and secondary sources of data were used. The source of primary data was respondents from whom the data were collected through a structured questionnaire whereby primary AMCOS members were interviewed and the researcher and his assistant filled in the questionnaire. The other primary data sources were from focus group discussants and key informant interviewees. The focus group discussion involved primary AMCOS, board members, management and ordinary members. On the other hand, focus group discussions were held with board and management of Co-operative Unions and Tanzania Federation of Co-operative management. Secondary data were collected by using different co-operative documents concerning members' ownership and democratic sustainability. The documents included Co-operative Act, Co-operative Regulations, AMCOS by-laws, Ministry reports, research reports, files and other related literature sources.

Data were analysed qualitatively and quantitatively. Qualitative analysis used content analysis whereby open ended questions were summarised and grouped. The procedures for content analysis included post coding whereby the researcher categorised opinions, comments and ideas from each statement made by respondents during Focus Group discussions and during key informant interviews. Various opinions, comments and ideas were placed into appropriate themes/contents (Sekaran, Bougie, 2010; Yin, 2014). Quantitative analysis was done using descriptive analysis whereby frequencies, averages, minimum and maximum values of individual variables were computed using SPSS and Excel software. It

was also done using chi-square analysis, t-tests and F-tests. Chi-square analysis was done to determine associations between some variables recorded at the categorical (nominal and ordinal) levels, for example between strategies to increase internal funding sources and AMCOS capitalisation. T-tests and F-tests were used to compare values of variables recorded at the scale (interval and ratio) levels, including points scored on various scales that were used, like comparing points scored on levels of members' obligation fulfilment and voluntary contributions payments in Moshi and Bukoba Districts, and comparing points scored on members' feelings on primary AMCOS ownership and on indicators of democratic participation of primary AMCOS.

RESULTS AND DISCUSSION

External interfaces hindering primary AMCOS sustainability

External factors for co-operative sustainability were assessed based on different issues such as the role of government and primary AMCOS and auditing. Also, the co-operative offices and co-operative sustainability in primary AMCOS, external capitalisation strategies and changes in government ministries dealing with co-operatives was assessed. Primary AMCOS operate their businesses not in isolation from other players who support the value chain of coffee business and in managing the co-operative institution which is a public private institution. The following sub-section provides a discussion on external factors such as the role of government, AMCOS and auditing, AMCOS and external capitalisation and the member identified challenges facing the AMCOS for attaining sustainability.

The role of Government

The government had a vital role in ensuring Co-operatives fare well to attain members' needs (Danda and Bamanyisa, 2011; Chambo, 2008). The Co-operative Society Act 2013, Section 4, provides the roles of the government to the co-operative society. Also, the whole of Part III and IV present the roles of government by creating the Co-operative development Commission and registration of the co-operative society respectively. Also, the government regulates the co-operatives by having different sections and departments that cut across the dual function of the co-operative activities; government institutions and agency have direct control of the co-operative societies (Wakuru, 2016; CRMP, 2005; Tanzania Co-operative Policy 2002). These include the following: TCDC, TCB, TBS, TACRI, PORALGE, TRA and COASCO that are involved in different tasks of the co-operatives in their daily activities. This was supported by a Moshi Co-operative University Professor who a Key Informant was arguing that:

“Government has a great role of creating enabling environment for AMCOS, but such a role has not been done for a number of years to date. The Co-operative department is understaffed; that creates absence of optimal service to co-operatives. Marketing of coffee is no longer the duty of TCB, and primary societies have been left to find by themselves selling mechanisms. Subsidies of inputs support are no longer accessed by farmers from government through the co-operatives. Education and training is no longer provided to primary AMCOS leaders and members. Government auditors are characterised by delays in auditing; that contributes to financial embezzlement. On that interplay, primary AMCOS need to have a mechanism to sustain their businesses for sustainability”.

Since coffee is among the imperative crops in Tanzania among other crops such as cotton, cashew nuts, tobacco and sugarcane; it's the role of the government to set strategies that

enable different stakeholders, especially the farmers, benefits from these crops. The government being the key player in ensuring AMCOS sustainability as presented in Table 41, members in the Primary AMCOS expected these government roles to be visible in their co-operative s. Ten variables were given to respondents, and those variables were auditing the AMCOS, providing AMCOS business enabling environment, providing governing rules and regulations and providing enabling market environment to AMCOS. Others were: regulating produce price, providing co-operative education, providing agricultural inputs to members, rehabilitation of AMCOS assets, quality control of the produce, and taxing members' produce. An index summated scale was used to determine members' understanding level of the role of the AMCOS. The government roles were listed and members rated them based on how they see the government faring in their primary AMCOS. The rating was from 0 for "not at all", 1 for "a little" and 2 for "much". A total of ten points was given expecting the maximum possible score of twenty and a minimum of zero score. Table 1 present assessment made to determine members' understanding on the role of government on ensuring AMCOS sustainability.

Table 1: Government role in the AMCOS (n = 400)

Government role in the AMCOS	Range	Min	Max	Sum	Mean	%	Std. Error	Std. D	Variance
Providing agricultural inputs to members	1.00	0.00	1.00	26	0.06	3.25	0.01	0.24	0.06
Providing governing rules and regulations	1.00	0.00	1.00	50	0.12	6.25	0.01	0.33	0.11
Providing enabling environment for markets to AMCOS	2.00	0.00	2.00	62	0.15	7.75	0.02	0.47	0.22
Audits AMCOS	1.00	0.00	1.00	68	0.17	8.5	0.01	0.37	0.14
Provide co-operative education	1.00	0.00	1.00	74	0.18	9.25	0.01	0.38	0.15
Rehabilitation of AMCOS assets	1.00	0.00	1.00	82	0.20	10.25	0.02	0.40	0.16
Providing business enabling environment	1.00	0.00	1.00	84	0.21	10.5	0.02	0.40	0.16
Quality control of the produce	2.00	0.00	2.00	234	0.58	29.25	0.03	0.60	0.36
Regulate produce price	1.00	1.00	2.00	596	1.49	74.5	0.02	0.50	0.25
Tax the members produce	0.00	2.00	2.00	800	2.00	100	0.00	0.00	0.00
All	6.00	3.00	9.00	2076	5.19	25.95	0.06	1.34	1.81

Table 1 evaluates whether primary AMCOS members understood the role of the government. The assessment shows that all (100%) primary AMCOS members agreed on the roles of the government to be taxing members' produce (with a standard deviation of 0.00 and a variance of 0.00). In taxing members' produce they included cess deductions and contribution that goes to the government and other coffee funds. The financial collections done by the government through different collection agents were viewed as a burden to the AMCOS members. Members' voices to mitigate burden reduction through democratic procedures at primary AMCOS have not yet become apparent. Also, regulation of coffee price was another identified role that was said by 74.5% of the respondents; the role was given because members of the primary AMCOS that expected the government to fix price regardless of the costs associated with the coffee in the value chain before reaching the coffee market. This is hijack of member ownership in making decisions of their produce by considering costs of production that would determine produce profit margins. Member ownership in coffee produce price were affected by coffee deductions; data from Tanzania Coffee Board (TCB) indicated (Table 8) that Kilimanjaro and Kagera coffee sales and tax deductions for the previous 4 years (2012 /13 to 2015/16) showed different tax deductions made for research cess to Tanzania Coffee Research Institute (TACRI) and Tanzania Coffee Development Fund

(TCDF). As seen in Table 2, the total coffee sold from Kagera and Kilimanjaro alone in four years was 112,930,084 kg, which were sold for 237,871,611 USD and taxed 2,259,782 USD whereby both the two institutions, its contribution to members on coffee development was not apparent.

Table 2: Kilimanjaro and Kagera coffee sales & tax deduction for the past 4 years (2012/13 to 2015/16)

CROP YEAR			Research Cess to TACRI	Tanzania Coffee Dev. Fund	District Cess	Total Deduction
CROP YEAR 2012/13						
Region	KGS	USD	(US\$)	(US\$)	(US\$)	US\$
Kilimanjaro	3,671,174	10,677,978	80,085	21,356	NA	101,441
Kagera	37,584,701	77,475,604	581,067	154,951	NA	736,018
CROP YEAR 2013/14						
Kilimanjaro	4,267,695	13,420,837	100,656	26,842	NA	127,498
Kagera	19,425,179	36,132,209	270,992	72,264	NA	343,256
CROP YEAR 2014/15						
Kilimanjaro	3,590,852	14,536,381	109,023	29,073	NA	138,096
Kagera	16,034,618	32,069,537	240,522	64,139	NA	304,661
CROP 2015/2016						
Kilimanjaro	3,800,570	10,349,324	77,620	20,699	NA	98,319
Kagera	24,555,295	43,209,740	324,073	86,419	NA	410,493

Source TCB, 2016

In the surveyed districts, the FGD conducted with board, management and members reported that these two institutions were not known despite their impact on members produce price where their deduction affects members Farm Gate Price (FGP). On the other hand, in the variables presented in Table 2 show that responses from the respondents were: providing governing rules and regulations (6.25%) and providing enabling environment for markets to AMCOS (7.75%). This is because governing instruments were not at members' disposal, and most of them had never got the instruments. The enabling environments to primary AMCOS members were not apparent to members since they saw the government having the most role of taxing their produce which reduced coffee farm gate price. The above findings were supported by a Moshi Co-operative University Professor and a key informant who gave the argument that:

“The roles of government are supervision, training, and education. And these roles have highly been done. But still no change has been experienced. With the establishment of the Tanzania co-operative development commission, may be, changes can be apparent...”

On the other hand, there were some counter arguments with the establishment of the Tanzania Co-operative Development Commission as presented by a **Moshi District Co-operative Officer who was a key informant** and argument that:

“The Tanzanian Co-operative Development Commission is now in place. The establishment of the commission had been in demand for many years in the co-operative sector development. But until now the commission business operation is not known since the chain of command is fragile. The Regional Co-operative Assistant Registrar is still reporting to Regional Administrative Secretary; the District Co-operative Officer is still under District Head of Department of Agriculture, Irrigation and Co-operatives (DAICO). The same District Co-operative Officer also reports to the District Administrative

Secretary and Council and Municipal Managing Director as well as Council Chairman. These multiple reporting structures cannot bring efficiency in co-operative business management, if we need a sustainable co-operative sector”

Basing on the above two quotations, primary co-operative societies are still having insufficient training and education to their members on co-operative governance. This has made member ownership and exercise of members’ democratic rights not to be apparently available. From Table 1, the factors which scored lowest were government to provide agricultural input support (3.25%) which is the role of Tanzania Coffee Development Fund (TCDF), and TCDF is not doing it effectively since primary AMCOS do not receive such service. The coffee money deductions that TCDF receives its percentage share goes to Tanzania Coffee Research Institute (TACRI) for research activities. Also, providing rulers and regulations that had 6.2% and the information from primary AMCOS FGD of board, management and members indicated none of the AMCOS had a copy of the Co-operative Acts of 2003 and 2014, Co-operative rules and regulation 2004 or Co-operative policy 2002. In auditing the primary AMCOS (8.5%), the reports from primary AMCOS FGD of board, management and members showed that none of the visited AMCOS had the auditing report in three years previously from when the data were collected. And the primary co-operatives had to receive annual audits done by co-operative department as it is their internal auditors. In determining primary AMCOS sustainability, the government roles should be identified in the co-operative societies. The lowest percent reported by members (25.95%) indicated the underperformance of co-operatives; that hinders sustainability.

Government has a key role to play in promoting co-operative sustainability. However, absence of emulating strategies that take members’ feelings on their role has not been apparently adopted. Information from FGD with TCDC staff indicated that members in the primary AMCOS lacked the spokesman to present their agenda to the decision making machinery. TCB, TCDC, TCDF, TACRI and other government agencies are institutions of the government. They don’t have a feeling of members at the grassroots and no deliberate mechanism to reach them. There is a big gap between this institution which makes decisions and the recipients who are the members of the primary AMCOS. On the other hand, there is still emerging confusion on understanding of the key role needed to be played by different organs in the government sections and departments.

Focus group discussions (FGD) with TCDC staff reported that the issue of tax and cess are all decided without consent of the primary AMCOS members. The tax governed by tax law dictates deductions of coffee sales from the Primary AMCOS while, on the other hand, cess and deduction is made under meeting agreements where members of the primary AMCOS are not part of the discussion. The issue is who will represent the members of primary AMCOS who had the feeling of these grassroots coffee growers. The deduction system had not created the process of decisions ownership which is democratic and which taps the grassroots people, decisions on amount to be deducted, amount collected, decision on its usage and the benefits obtained are not at members’ disposal. Furthermore, the data from KCU Export Office presented in Table 3 indicate coffee sales deductions to be extreme in numbers and affect farm gate price.

Table 3: Tax and levies induced in co-operatives (charged on gross sells)

Item	Description	Amount	%
TCB levies	Research		0.375
	Coffee Development fund		0.20
	Export fee		0.01
	Buyers license	1,020 USD	
	Processing	1,020 USD	
	Premium coffee export	1,020 USD	
	Warehousing	520 USD	
TRA	Roosting	270 USD	
	Corporate tax		20
	Skill development levy		5
	Directors remuneration		
District	Rental tax on warehouse		
	Cess		3
	Trading license	150,000 TZS	
	Ant smuggling contributions	350,000 TZS	
	Seeding	350,000 TZS	
	OSHA inspection fee		
	Fire safety fee		
	Coffee factory environmental inspection		

Source: KCU Export office (2017)

All these had an impact on Farm Gate Price (FGP), which affected the price indicative price given to members. The information from TCB manager and KCU export office showed that KCU was doing export business and had an export office. However, its effort to raise members' produce price was facing other licence taxes and deductions on export that affected AMCS members' produce price. However, this licence tax was removed as presented in the 2017 Tanzania budget speech.

There were also other budgetary expenditures that primary AMCOS produce was supposed to take into account; all these are deductions which were made to AMCOS members' produce. These deductions were determined by the government, and thus primary AMCOS members had no influence on deciding the percentages of deductions. However, there were other deductions that were made from members' produce which were due to budgetary influence of either primary AMCOS or Union operations; these included those presented in Table 4.

Table 4: Union levy on produce deduction on net pay to AMCOS members

Produce costing	Measures of deductions
Financial transaction and transportation cost	On net collection
Crop insurance	On net collection
Financial insurance	On net collection
Produce parking bags	On each bag of farmer
Clearing and forwarding	On net collection
Warehouse charges	On net collection
Weighing verification charges	On net collection
Books and stationeries	On net collection
Interest on loan	On each Kg of produce
Union contribution	On each Kg of produce
Insurance management cost	On net collection
Processing cost deductions	On net collection
Export bags	On net collection
Bags transportation costs	On net collection
Coffee processed coffee transportation	On net collection
General meetings costs	On net collection
Sample chargers	On net collection

Source KCU Export (2016)

The democratic process of deciding tax and levy as well as cess in primary AMCOS had not been in place. It was noted that deductions made from members' produce were immense, as indicated in Tables 2, 3 and 4 where different tax and deductions affected member produce on Farm Gate Price (FGP). These deductions were found to be made by the government and coffee stakeholders. The coffee stakeholders include producers, transporters, produce control agents, co-operative movements, training institutions, co-operative practitioners, politicians, government authorities, exporters and others who were involved in value chain and marketing chain. All these taxes affected the benefits of members of co-operatives on the produce sold whether negatively or positively. Chambo (2009) argues that the current development discourse in most African countries is guided by governments, putting too much emphasis on the need and impact of Foreign Direct Investment (FDI) for the development of African economies at the expense of local private agents and co-operatives. This was done on the expense of co-operative members whose businesses were not protected. According to Wanyama (2009), Trewin (2004) and Vitaliano (1983), the types and structures of co-operative organizations are disintegrated and are distinguished by type, depending on who promoted such types of co-operatives. Such promotion dependency leads to failure in having a common agenda in addressing market challenges. There is a complete divide within agricultural co-operatives and such division can be identified in the model of business operation and in governing the co-operative (Seleke and Lekorwe 2010). The co-operative stakeholder and government, being the key stakeholders, are responsible for reforming the co-operative sector to respond to members' objectives in their efforts to make primary AMCOS drive the agricultural sector that captures the Tanzanian majority of citizens. Sacchett and Tortia (2013), Chambo (2009), and Chambo *et al.* (2007) argued that the policy and legislative processes on co-operatives in Africa are still constraining co-operatives' development process which is not participative; the state continues to be the main promoter of co-operatives; that makes citizens understand that the state-controlled co-operative movement and continued minimal support to co-operatives. Such thinking leads co-operatives stakeholders face complicated systems in transforming co-operatives to a new frame that can be competitive and that can attract capital expansion.

Procedure for becoming a manager in the primary AMCOS

In determining primary AMCOS sustainability, an assessment was also done to see the procedure of acquiring managers. Managers are key players in ensuring rules and regulations are adhered to in the AMCOS. Also, managers are the key players in ensuring primary AMCOS's objectives are met using their professional competence and skills they have in co-operative business management. These are employed experts in different fields of their managerial career as they are placed in different positions in the AMCOS. Managers are employees in the AMCOS, and the employment procedures need to be followed as stipulated in Co-operative Society Act 2013 second schedule, code of conduct, part IV sections 14, 15, 17 and 18 respectively. In ensuring AMCOS sustainability, the employment procedures need to be adhered to. The findings present the members' knowledge on the procedures used to employ the managers in different AMCOS as presented in Table 5.

Table 5: The procedures for selecting managers (n = 400)

District	Response on criteria for selection									
	Its advertised, and qualified candidate is selected		They are chosen among the members at the AGM		They are chosen among the members by the board		They are employed by the Union		They are selected by the government on behalf of the AMCOS	
	F	%	F	%	F	%	F	%	F	%
Bukoba	93	46.5	60	30.0	17	8.5	25	12.5	5	2.5
Moshi	68	34.0	109	54.5	23	11.5	0	0.0	0	0.0
All	161	40.2	169	42.2	40	10.0	25	6.2	5	1.2

In assessing the procedures for selecting the managers, the findings indicated a statistically significant association between the districts where data were collected with a Pearson Chi-Square coefficient of 48.989 ($p = 0.000$) and the likelihood ratio was 60.803 ($p = 0.000$) and a One-Sample Test = 59.925 ($p\text{-value} = 0.000$). Also, the findings in Table 5 indicate that managers were chosen at the annual general meetings; choice was made among members (42.2%). This had been experienced by most of the primary AMCOS in the surveyed areas. The findings from FGD with managers, board and ordinary members showed that all AMCOS had managers who were members, and professionalism was not the leading factor than trust. However, the process of advertising and selecting qualified candidates for managerial post in the AMCOS was supported by 40.2% of the respondents: that indicates some AMCOS follow the normal recruitment procedures. Despite these facts, trust was the leading factor from the data obtained in the FGD with AMCOS board management and members. That also corresponds with the fact that all managers were also members, and they were from the same geographical location of the AMCOS operational areas. The sustainability of AMCOS cannot be attained if professionalism is not among the criteria for selecting AMCOS managers. Most of the managers in the surveyed areas had attained ordinary secondary school. The basic reasons for recruiting such members were more based on trust capital than professionalism due to inefficiency to pay professional managers. Most primary AMCOS lack financial capacity for running daily activities and paying salary to professionals. Mbogoro (2014), Kaleshu (2012) and Meyer (2011) argued that, for co-operatives to be sustainable, the question of recruiting competent managers that are professionals is inevitable. This helps the co-operatives to be sustainable in attaining a competitive edge in doing business. Different skills of competence need to be assessed so that the co-operatives can get skilled managers.

AMCOS and auditing

Auditing is one of the key aspects on understanding standards performance of AMCOS. The Co-operative Society Act 2013, Part X, Sections 91 to 95, presents inspection of affairs of co-operative society, where inspection is part of audits. The auditing is done on financial, human resource and managerial audits. The internal auditors are in the co-operative department, and external auditors are COASCO and other independent auditing firms with capacity to audit public and private institutions. The status of auditing in status of the AMCOS was as presented in Table 6.

Table 6: The status of AMCOS annual audit (n = 400)

District	Response on whether AMCOS are audited			
	Yes		No	
	F	%	F	%
Bukoba	30	31.2	170	55.9
Moshi	66	68.8	134	44.1
Total	96	100	304	100

In assessing the status of AMCOS annual audit, the findings indicated a statistically significant association between the districts where data were collected; the Pearson Chi-Square coefficient was 17.763 ($p = 0.000$) and the Likelihood Ratio was 18.109 ($p = 0.000$). The findings in Table 6 show absence of AMCOS annual audits which was said by 31% of the respondents in Bukoba District AMCOS, agreeing with such a situation as compared with Moshi District AMCOS (68.8%). The Pearson Chi-Square indicated a statistically significant relationship (17.763) between Moshi and Bukoba District AMCOS, with a likelihood ratio of 18.109. Information obtained from FGD done with AMCOS Board, management and members in the surveyed AMCOS showed that annual audits had not been done for the previous three years from when the data were collected; only Mwika North AMCOS had done the annual audits in 2014, and Kibosho Central AMCOS that did audits every year. The response from COASCO in Bukoba Kagera was that KCU Ltd was collecting AMCOS audits fee on behalf of COASCO with the Memorandum of Understanding (MoU) done between them to submit to COASCO. However, the amount collected was not submitted, and that made COASCO not do annual audits in all the AMCOS. Also, KCU Ltd board members said that they were responsible for collecting books of accounts and sent them to KCU Ltd for financial reconciliation and audits (as internal auditors). Thereafter, they used to send the reconciliation report to COASCO for audits. By that procedure, the co-operative departments which are internal auditors had no room to make internal audits. However, Bukoba District Co-operative Officers agreed on the matter that they had not called for audit; rather KCU Ltd did that and sent their reconciliation reports to COASCO. The findings from the FGD with AMCOS board, members and management in Bukoba District indicated that each AMCOS on annual bases had to pay TZS 216,000 as COASCO inspection fee which was not even reimbursed to COASCO as reported by COSCO Manager. The internal audit deduction amount which was TZS 40,000 was not reimbursed to the co-operative department. That also made the department not to have enough funds to perform audits. All these are done to legalise financial embezzlement, and it is done purposely since the management and board of AMCOS at primary and secondary levels know the procedures for inspection and audits.

The Co-operative Society Act 2013 section 91 to 95 stipulates that a co-operative audit is done after internal audit is completed by co-operative department. The annual general meeting discusses and agrees on who shall be given the auditing assignment who has the capacity to audit the society. This should be done at the level of the primary society. However, Union and COSCO had hijacked that decision right on primary society. This is due to ignorance of the primary AMCOS and the Union had capitalised on such ignorance to hijack the legal practice. This was supported by the Kilimanjaro COASCO Manager who provided a counter argument that:

“The auditing is done in the primary AMCOS and the audit report is presented at the general meeting after being presented to the Assistant Regional Co-operative Officer. When primary AMCOS was found to do better some members were encouraged to join. However, it raises expectations gap when it reports poor performance. That raises questions as to why an audit is

done and wrong doers are identified but no legal action is taken. COASCO as an institution to do auditing has no mandate to institute cases of co-operative; it's left to members and their board. The problem comes when board and management are together in making those financial embezzlements; who will point a finger to the other; members were left to observe their co-operatives dying when they had not been educated on what are the best procedures to rescue their AMCOS... ”.

From the above argument, the importance of auditing would be to motivate institutional performance and take legal actions to the identified misconduct. However, auditing reports end up providing information to managers and board who have personal interest with auditing uncertainty. It was noted that AMCOS audits in Moshi District are done at the lowest level; because of lack of funds the primary co-operative does not settle the amount given annually for audits. To that extent they were found being not audited. Members also provided their reasons for the co-operatives being not audited as presented in Table 7.

Table 7: AMCOS reasons for co-operative not being audited (n = 400)

District	Reasons from respondents											
	Whether auditors come for auditing				Absence of fund for auditors				Reluctance of management and board			
	Yes		No		Yes		No		Yes		No	
	F	%	F	%	F	%	F	%	F	%	F	%
Bukoba	97	57.1	73	42.9	27	15.9	142	83.5	91	53.5	79	46.5
Moshi	75	56.0	59	44.0	24	17.9	110	82.1	67	50.0	67	50.0
Total	172	56.6	132	43.4	51	16.8	252	82.9	158	52.0	146	48.0
Pearson Chi-Square	0.849				0.609				0.541			
p-value	0.000				0.000				0.000			
Likelihood Ratio	0.849				0.506				0.541			
Fisher's Exact Test	0.907				0.000				0.565			

In assessing the reasons for AMCOS being not audited across the two districts (Table 7), the findings indicated a statistically significant association between the districts and auditing status with a Pearson Chi-Square coefficient of 0.849 ($p = 0.000$) and the Likelihood Ratio was 0.849 ($p = 0.000$) while Fisher's Exact Test was 0.907. On absence of funds for auditors the Pearson Chi-Square coefficient was 0.609 ($p = 0.000$) and the Likelihood Ratio was 0.506 ($p = 0.000$) while Fisher's Exact Test was 0.000. On reluctance of management and board, the Pearson Chi-Square coefficient was 0.541 ($p = 0.000$) and the Likelihood Ratio was 0.541 ($p = 0.000$) while Fisher's Exact Test was 0.565. In assessing reasons for Primary AMCOS not being audited, the respondents were given a chance to provide their reasons that were analysed using multiple response analysis. Among the given reasons for not coming to audit the primary AMCOS was of the opinion that auditors do not come to audit the primary AMCOS which was said by 56.6% of the respondents, followed by reluctance of board and management (52.0%) as the most important reasons for AMCOS not being audited. These are agents of the shareholders; they were trusted to lead the AMCOS on behalf of members in that they were responsible for ensuring firm audits is done on an annual basis. These findings were supported with reasons given by co-operative departments that AMCOS don't pay auditing fee. On the other hand, Bukoba District primary AMCOS were found to be audited by the Union Management. Other reasons were absence of funds for auditors which were said by 16.7% of the respondents. That can be an extension of reluctance of board and management to set the funds for auditing as presented above. The findings were supported by

Kagera Assistant Co-operative Registrar who was a key informant and provided the argument that:

“Co-operative Officers at the District level do not audit AMCOS by negligence; if SACCOS are audited regularly why not AMCOS. And AMCOS are frustrated due to absence of financial audits. However, financial embezzlement is a daily game in the AMCOS. On the other hand, most of the information reported in the primary AMCOS is based on financial reports that neglect other important items in managing primary AMCOS when carrying out audit assignment. COASCO doesn't audit managerial audits, human resource audits, assets maintenance audits and others which are not in monetary terms”.

Co-operative officers being internal auditors to co-operative societies were expected to carry out auditing on annual bases after negotiation with primary co-operative on terms of carrying out auditing assignment. This has an impact on deterring the understanding of the status of co-operative effective management in making the owners understand their institutional performance. The FGD with TCDC staff reported that all AMCOS are supposed to carry out annual audits, and that had to be done by the internal auditor which is the Co-operative Department, and its reports be communicated to the Assistant Co-operative Registrar. Thereafter, on the basis of internal audits, COASCO or other independent auditing firms perform audits as external experts. If COASCO agrees to do so, it should be communicated to the annual general meeting. The auditing reports are presented to the annual general meetings after consultation with the Regional Co-operative Assistant Registrar. On the other hand, Kilimanjaro COASCO Manager provided a list of issues in co-operative audit, as follows:

“In auditing, the most issues that usually have problems are books of accounting being wrongly posted into different entries, most AMCOS being unable to prepare books of accounts up to balance sheet, most AMCOS having up to five years passing without auditing, some AMCOS delaying in submitting books for auditing, most AMCOS making crop realization accounts especially when sales are done in foreign currency, most AMCOS not operating by the use of budgets that make them fail to control the managers, most co-operatives not having and not knowing Co-operative Act, Rules and Regulations, even AMCOS by-laws. Also co-operative officers do not visit the primary AMCOS; most AMCOS do not have guiding policy such as financial, human resource policy and business plans as well as strategic plans. Also, the auditing recommendations are not followed, and little knowledge on members in co-operative business management was some of the shortfalls in the AMCOS. In Kilimanjaro, Primary AMCOS are audited especially when there is a necessity to take a loan from a bank. The COASCO charges per primary co-operative society TZS 500,000 that has to be paid in advance and paid by the primary society itself. However, the previous arrangement was done by the Union to ensure its safety of its funds sent to the primary societies.”

Basing on the above quotations, the problem of auditing comes on the disseminating the auditing report and members understanding of issues reported in the audit report. This is because the auditing is read by the manager after having meetings with the board; he/she reports on issues that are positive to the members while leaving horrific issues. Information from key informants revealed that absence of timely audits in the primary AMCOS had been causing mishandling of institutional resources and causing members low capacity of

understanding and managing their co-operatives. The FGD findings from KCU board and managers reported that co-operatives lack directions in practising audits; managers are not trained in co-operative practice, so they don't see the importance of auditing. Also, funds for auditing deducted from the AMCOS do not work on the matter as it was directed. They further claimed that KCU takes the mandate of internal audits of the primary societies due to small produce collected (where some primary AMCOS collect below 2 tonnes per season); that was regarded as being incapable of carrying out the auditing process assignment. With that, members auditing process management was hijacked by the Union, and since Unions carry out auditing as their normal activity the auditing process discussion had never been in their meeting agenda, which is contrary to the legal requirement.

According to Jussila *et al.* (2012) and Chambo (2009), from inside the co-operative movement itself, agricultural co-operatives have faced the challenge of leadership, management and general governance complexity. The principle agent theory regards members being the principle owners who make decisions on the selection of the right managers who will be members' agents. However, member driven and member owned agricultural co-operatives are ultimately affected by capacity to distinguish among different traits and skills that are needed to be possessed by the managers for co-operative development (Anderson *et al.*, 2005; Dubell, 1981). The subject of members choosing the right skills as proposed by the board of directors in co-operative is still tricky and needs more time for reflection to have a sustainable primary AMCOS.

The co-operative offices and co-operative sustainability

The co-operative departments are the patrons of the co-operative. They were employed to ensure co-operatives get the nearest extension service, audits, advisory service, ensuring adherence to principles, policy and laws, and other economic sustainability of the co-operative. The researcher examined the availability of the officers in assisting and visiting co-operative officers in the AMCOS, and the findings were as presented in Table 8.

Table 8: The status of co-operative officers visit in the AMCOS (n = 400)

Name of the AMCOS	The visits made by co-operative officers by 2011-2015									
	Once every year		Three times in five years		Twice in five years		Once in five years		Not at all	
	F	%	F	%	F	%	F	%	F	%
Kagege	0	0.0	0	0.0	9	8.7	8	25.8	23	18.7
Mweyanjale	0	0.0	0	0.0	9	8.7	6	19.4	25	20.3
Bumai	0	0.0	0	0.0	7	7.7	6	19.4	26	21.1
Kobunshwi	0	0.0	0	0.0	9	8.7	5	16.1	26	21.1
Lubale	0	0.0	0	0.0	11	10.6	6	19.4	23	18.7
Kilema North	0	0.0	30	27.5	10	9.6	0	0.0	0	0.0
Mwika North	12	36.4	19	17.4	9	8.7	0	0.0	0	0.0
Kiruwa Vunjo North	9	27.3	20	18.3	11	10.6	0	0.0	0	0.0
Kibosho Central	8	24.2	19	17.4	13	12.5	0	0.0	0	0.0
Mawela	4	12.1	21	19.3	15	14.4	0	0.0	0	0.0
Total	33	100	109	100	104	100	31	100	123	100

Pearson Chi-Square = 336.76, Likelihood Ratio = 438.025, P-Value = 0.000

The association between Primary AMCOS and the visits made by co-operative officers was statistically significant with a Pearson Chi-Square coefficient of 336.76 ($p = 0.000$) and a Likelihood Ratio of 438.025 ($p = 0.000$). Also, the findings in Table 8 indicate that Co-operative Officers were not visiting the AMCOS at all in Bukoba District Primary AMCOS (Kagege, Mweyanjale, Bumai, Kobunshwi, and Lubale) as compared with those of Moshi

District Primary AMCOS (Kilema North, Mwika North, Kiruwa Vunjo North, Kibosho central and Mawela). That indicates that Co-operative Officers didn't regularly visit the AMCOS since members should have accessed the service of the co-operative department officers from their regular visits. This is due to the fact that Moshi District primary AMCOS had received training and education through different programmes, a thing which led to increase in capacity to demand their rights from the management and from the government. Also, the geographical proximity in terms of Moshi Primary AMCOS being physically close to the District councils as compared to that of Bukoba primary societies affects service accessibility. For example, from Luhunga Primary AMCOS to Bukoba District council is 70 km with rough-road in most of its distance, while from Mwika North to Moshi District council is 30 km and tarmac road. Many visits were made by Moshi Co-operative Officers though not sufficient, which was three times in five years. That was supported by a Moshi Co-operative Department Officer who agreed with not visiting the primary AMCOS due to absence of funds and transport facilities offered by the government. This was supported by the argument that:

“The main problem in co-operative industry is brain drain, whereby graduates in co-operative business management are taken by banks, and other service occupations rather than being employed in the co-operative sector. The employees in the co-operative commission and departments are full of other specialties rather than co-operative experts” (Kilimanjaro Regional Assistant Co-operative Registrar, key informant).

“The office of the co-operatives is understaffed, as compared with the rising demand for promotion, education, inspection and supervision as well as providing consultancy services. The government should understand the importance of the co-operative department and co-operative commission. With that, we need more staff than any other department as we are dealing with the majority of Tanzanian citizens” (Moshi District Co-operative Officer, key informant).

From the above argument, the co-operative department is understaffed. That has led the co-operative members to face a problem of being not reached by the co-operative officers. Absence of the co-operative offices in the primary societies leads to the underperformance. Despite that fact, the findings from FGD of board members and management of the AMCOS in all the surveyed areas reported that Co-operative Department Officers visited SACOS more than AMCOS, and they visited AMCOS when they reported misunderstandings and financial frauds. In the list of choices, one variable was not selected at all, which was “they always make visits”. That indicates that more efforts need to be done if we want co-operative sustainability by increasing co-operative officers visiting the primary AMCOS. Primary AMCOS visits by co-operative officers were found to be characterised by absence of funding from the government and from the co-operative themselves as reported by the Bukoba District Co-operative Officer that:

“The problem of co-operative officers not visiting the AMCOS is due to presence of few co-operative officers in the co-operative department in the Districts. We visit AMCOS when they approach us to do so, and mostly when there is a problem. The charges are AMCOS to pay DSAs for a number of days spent: they are supposed to pay TZS 50,000 per day. However, every AMCOS is deducted TZS 40,000 annually by KCU though it's not submitted to the department. We are AMCOS internal auditors, but KCU is doing that job”.

Co-operative officers' visits to the primary AMCOS were expected to give guidance to board and managers on different issues related to co-operative governance and business

management timely. Board members' term of office is three years after which new faces with less experience come in; that needs concurrent training and education. Also, the timely visits can lead co-operative offices as co-operative patrons to identify auditing problems and identify strategies that can be given to primary AMCOS to carry out institutional audits. The ownership status of AMCOS to make decisions related to audits is hijacked; funds for audits are not reimbursed from Primary AMCOS to auditing firms and to the government. The auditing process as provided by the co-operative law is not followed. Also, Co-operative Officers face low financial capacity to make visits to AMCOS.

AMCOS and external capitalisation

Co-operative Society Act (2013) shows that a co-operative can acquire funding for different institutional activities as presented in Section 71, 72 and 73 that a co-operative works with financial institutions for getting financial assistance in terms of loan and overdraft. The findings from FGD done with AMCOS board, management, and members in the surveyed AMCOS reported that all primary AMCOS received loans from banks; the loans were received differently across districts. Among the AMCOS that were doing coffee business through Unions, the loan arrangements and collateral were done by the Unions, while among the AMCOS that were doing business by themselves loans were self-processed by AMCOS. Among the financial institutions which offered loans were KCBL, CRDB, NMB, NBC, and TIB. The status on whether members knew whether their AMCOS received loans was as presented in Table 9.

Table 9: Loan receiving status, use and AMCOS capacity to accept (from 2011-2015) (n = 400)

Name of the AMCOS	The status of loan received from banks				The use of loan				Ability to accept or reject loan			
	Response				To buy coffee		For Purchase of assets					
	F	Yes %	No F	%	F	%	F	%	F	Yes %	No F	%
Kagege	0	0.0	40	16.7	NA	NA	NA	NA	3	2.8	37	12.6
Mweyanjale	0	0.0	40	16.7	NA	NA	NA	NA	3	2.8	37	12.6
Bumai	0	0.0	40	16.7	NA	NA	NA	NA	4	3.7	36	12.3
Kobunshwi		0.0	40	16.7	NA	NA	NA	NA	5	4.7	35	11.9
Lubale	0	0.0	40	16.7	NA	NA	NA	NA	10	9.3	30	10.2
Kilema North	0	0.0	40	16.7	NA	NA	NA	NA	11	10.3	29	9.9
Mwika North	40	25.0	0	0.0	40	26.7	0	0.0	9	8.4	31	10.6
Kiruwa Vunjo North	40	25.0	0	0.0	40	26.7	0	0.0	11	10.3	29	9.9
Kibosho Central	40	25.0	0	0.0	30	20.0	10	100.0	31	29.0	9	3.1
Mawela	40	25.0	0	0.0	40	26.7	0	0.0	20	18.7	20	6.8
Total	160	100	240	100	150	100	10	100	107	100	293	100

Loan usages are expected to come from members' discussions in general meetings through democratic systems. In assessing AMCOS members' understanding of loan usage, the findings indicated loan receipt behaviour that was presented by individual AMCOS. In AMCOS that were doing coffee business through the Union it had all members who accepted not receiving loans as opposed to those primary AMCOS that had self-business operations. This is because Unions process loans and use Unions and primary AMCOS assets where the primary societies do not have any point to process loans than receiving money to buy coffee in their societies.

On the other hand, the use of loans by AMCOS was assessed to determine the leading factors that were financed in the AMCOS, and the findings showed that most of the loans were used

to purchase coffee as the main function of the primary AMCOS. An assessment was done to determine the aspect of sustainability; it was found that none of the Primary AMCOS had used the loan for project investments. That might raise capital to sustain future capital demand to create capital sustainability for AMCOS. On the other hand, the capacity to accept or reject loan was assessed, and the findings showed that most primary AMCOS in Bukoba District could not reject loan as compared to Moshi District AMCOS (Kibosho Central 29.0%, Mawela 18.7%). This was due to the capacity of Moshi primary AMCOS to process loan on their own as opposed to those of Bukoba where the loan processing was normally done by the Union. However, the business operation using external sources such as loan did not bring a positive effect in increasing primary AMCOS capital capacities. This was supported by the argument raised by **G32 Manager** and Moshi District Co-operative Officer **who was a Key informant** that:

“The presence of multinational companies which are private buyers in the co-operative sector is a threat. Firstly, they have been given business licenses to do all activities on crop value chain without restrictions: buying on the villages, transporting, storing in their warehouse, processing, buying on export markets, and shipping. Secondly, they come with capital from their home countries where loan is of low interest, which is 6 to 10 % under their countries' subsidized schemes, while co-operatives borrow at 18% to 25% interest rates in our local banks. The foreign companies enjoy the lowest interest rates from their home countries. With these situations, how will co-operatives sustain the situation? There should be a deliberate regulation system to make sure private buyers do not harm co-operative business and co-operative existence” (G32 Manager).

“Loans from banks are received by AMCOS at higher interest rates and increased debts that have killed our co-operatives. Co-operative institutions do not use co-operative banks; with such analogy, always there is a deliberate effort to kill co-operative banks from bigger financial oligarchy and even the government. In liquidation of the co-operative banks, members were not involved; in selling of Co-operative and Rural development Bank (CRDB) and establishing CRDB Bank and National Microfinance Bank (NMB), members were not involved. Co-operative shares are not even known up to date after those liquidations and amalgamations” (Moshi District Co-operative Officer).

Basing on the above two quotations, co-operatives are affected by absence of credit guarantee system which needs a government initiative. Members in co-operatives need to have a government protection on their efforts to raise internal capital by the use of bank loan. The problem of rising internal capital by members' investment had been termed as a portfolio problem that was presented by Ortmann and King (2007) and Cook (1995) who refer to it as another equity acquisition problem from the co-operative's perspective. This problem occurs in co-operatives because members invest in the co-operative in proportion to their use and because equity shares in the co-operative cannot be freely purchased or sold. Therefore, members are unable to diversify their individual investment portfolios according to their personal wealth and preferences for risk taking (Sacchett and Tortia, 2013; Royer, 1999). This leads to suboptimal investment portfolios, and co-operative members have to accept more risk. In order to minimise risk, board of directors and managers should reorganise co-operative investment portfolios diversification to reduce risks associated with inefficiency in capital flows (Cook, 1995). Royer (1995, 1999) contends that co-operative members have to

carry these risks alone because potential outside investors, who could diversify the risks, are generally excluded from investing in a co-operative. The increase in capital base can be solved by employing the Stakeholder theory whereby membership rights in the primary AMCOS can be used in investing in share capital purchase as used by new generation co-operatives (Chaddad and Cook, 2003). This is in line with ICA (1995) co-operative principles whereby Principle No. 3 is on member economic participation, and members are encouraged to participate in their co-operative activities for building ownership and increase institutional sustainability. This leads to a fundamental role of Board as negotiating and resolving potentially conflicting interests of different stakeholder groups in order to determine the objectives of the society and set policy. The primary AMCOS cannot invest due to managerial low capacity to organise members to diversify their investment capital base that in turn would increase the co-operative capital sustainability.

Member identified challenges facing the AMCOS

The study assessed members' challenges that face primary AMCOS; members were given an open-ended questionnaire to fill in the changes that faced their Primary AMCOS and propose solutions. Among the challenges were administrative challenges that were internally generated, and these challenges were interrelated. The challenges and solutions were as presented in Table 10.

Table 10: The AMCOS identified challenges and proposed solutions (n = 400)

Challenges	F	%	Proposed solutions	F	%
Union over control the AMCOS	186	14.7	Improve Member Education	271	24.9
No education to members	207	16.3	Government support on input support	250	22.9
Absence of input support	211	16.6	Capital from the government	190	17.4
Absence of internal capital	213	16.8	Co-operative practitioner to be closer to AMCOS	283	26.0
Fall of coffee price	264	20.8	AMCOS annual audit	96	8.8
No auditing of the AMCOS	188	14.8			
Total	1269	100		1090	100.0

Based on those challenges that were identified by the members (Table 10), the findings showed that fall of coffee price had the highest percent (20.8%) when compared to other variables. The fall of coffee price in the Primary AMCOS had several factors associated with it, such as increase in government tax and deductions, increase of un-regulated private buyers, increase of managerial costs of the co-operative in primary co-operative and co-operative movement, uncontrolled interest rates from the banks and other money lenders, absence of coffee branding that would isolate coffee smugglers (product origin) and other factors, just to mention a few. Also, absence of internal capital (16.8%) was among the other factors that were mentioned by the respondents. Most co-operatives in the surveyed areas did not have a capital base for coffee business (with exception of Kibosho Central AMCOS that had billions of shillings in their capital account for coffee business marketing); they depended on bank loans which was associated with increase in tax that affected farm gate price.

On the other hand, primary AMCOS members suggested solutions to some of the challenges that were raised. Among the solutions was that co-operative practitioners should be closer to the AMCOS (said by 26%), something which could have a positive change to the primary AMCOS in attaining institutional sustainability. Co-operative experts include Co-operative Officers, Co-operative University Lectures, members from co-operative movement who have capacities in co-operative business management and other co-operative promoters.

Information from FGD with primary AMCOS board, Management and members argued that practitioners' availability in AMCOS can advise members and management on different fields of member education, accounting, management, investment, ICT, business management and other fields. Also, Member education (said by 24.9%) was identified as a solution to different members and managerial problems facing primary AMCOS. The suggested solutions had equal distribution across primary AMCOS that showed to have similar characteristics.

Changes in the co-operative sector in different ministries was another identified challenge facing co-operatives; notwithstanding the economic benefits of coffee to the nation and the rural poor. The effects of changing ministry that deals with co-operatives undertakings were mentioned as a challenge in all the discussions with FGD and key informants in the entire study. As from independence, the co-operative sector was placed in different ministries depending on political will and government decisions in different time periods. Table 11 presents the changes as from independence to date, showing the challenges by the co-operative sector for not having a special ministry responsible for co-operatives.

Table 11: Changing Ministries in Co-operative Department since independence (1961-2017)

Name of Ministry	Year
Ministry of Trade and Co-operatives	1961-1964
Ministry of Trade and Co-operative Societies	1964-1976
Prime Minister's Office	1985-1990
Ministry of Agriculture and Co-operatives	1990-2000
Ministry of Co-operatives Development and Marketing	2000-2005
Ministry of Agriculture, Food and Co-operatives	2005-2015
Ministry of Agriculture, Food and Irrigation	2015 to date

Source: Tanzania Co-operative Development Commission Reports

The changes made the co-operative section in the government to lose the responsible organ that could support and have a sense of ownership. The changes of government in nominating the ministry responsible for co-operative were due to failure of government politicians to mainstream the role of co-operatives in driving the majority of citizens who are the farmers towards attaining its socio-economic development. This was supported by an argument given by a Moshi District Co-operative Officer who was a key informant and said:

“The co-operative section, which falls under the Department of Irrigation and Livestock in Moshi District Councils, makes our co-operative section to lose the stakes in planning, budgeting and funds allocation. In this financial year (2016/17) the co-operative section which is under the Department of Agriculture, Irrigation and Co-operative (DAICO) was allocated TZS 250,000 which cannot do anything at the co-operative section level. In the council's meetings, co-operatives lose the touch as they are headed by councillors who are politicians, and whose co-operative act removes them in the co-operative leadership. With that, they claim that co-operatives have no value to them”.

Co-operative sustainability is determined by internal capacity of the institution that needs to be supported by the government structures. The government as an enabler creates structures that fit into systems that support co-operative institutions in its efforts to build institutional sustainability. Chaddad and Cook (2003) and Schrader (1989) argued that, for agricultural co-

operatives to have the survival challenges as a finding of the agricultural business competition the competitive strategies, AMCOS should respond to environmental and structural changes in produce market system. The survival strategy would include value-added processing, brand name development, and entry into international markets that require substantial capital investments. In order to acquire the necessary risk capital to implement these growth related strategies and remain competitive, AMCOS strategies cannot avoid adapting to organizational innovations. These organizational innovations, according to Chaddad and Cook (2003), Hendrikse (2007) and Vitaliano (1983) include, but are not limited to: new generation co-operatives, base capital plans, subsidiaries with partial public ownership, preferred trust shares, equity seeking joint ventures, combined limited liability company-co-operative strategic alliances, and permanent capital equity plans.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Primary AMCOS operate their businesses within an environment that is subjective external variables as presented in this paper. Factors such as government role; the study concluded that government efforts be directed in creating enabling environment than taxing. Also, auditing which was found not to be done effectively in the primary AMCOS; the study concluded that auditing firm need to abide by auditing procedures and legal requirements stipulated in their by-laws and co-operatives Acts. In external capitalisation strategies, the study concluded that co-operatives were highly dependent more on bank loans than raising internal funding capacities. On the other hand, bank loans were for buying member produce before auctioning of members coffee, which made members sell their produce to the AMCOS rather than AMCOS being used as collection centres. In that case, the study concluded that produce ownership ceased as primary AMCOS bought members' produce rather than collecting them to look for better markets.

Recommendations

Board and managers of Primary AMCOS should prepare strategies that will expand the capital base of their firm in order to have a sustainable capital system that capacitates all AMCOS activities as shown on primary AMCOS capitalisation. Co-operative promoters and stakeholders should plan for capacity building on programmes that will educate Primary AMCOS in project entrepreneurship and capital expansion strategies.

The Government should create enabling environment to co-operatives rather than taxing co-operative members as the main source of income because that constrains members' income generation as discussed. Despite the effort made in 2016 government budget whereby coffee tax was reduced, the Government should do more coffee tax reduction, reduce deductions from coffee sales and reduce district cess on coffee so as to increase primary AMCOS Farm Gate Price.

The auditing firms that audit primary AMCOS should include all dimensions of management, finance, human resource and others to generate a broader general picture of how best the Primary AMCOS fare in their performance as presented. Also, the legal procedures in tendering provision in doing primary AMCOS audit should follow proper channels as it is directed by the Co-operative Act and other laws.

Co-operatives need government protection; Primary AMCOS need to be protected from private buyers if we need to ensure co-operative sustainability as discussed on the roles of government and on external capitalisation. Members' produce is not sold to co-operatives due

to uncontrolled coffee business. TCB which is a government agency to regulate coffee marketing should have strategies that control unregistered coffee buyers and registered ones but without business license for coffee business.

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