Barriers to the Accountability Mechanisms of co-operative Unions on Primary Agricultural Marketing Co-operative Societies

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Abstract

The co-operative unions' role in flourishing the existence of agricultural primary co-operatives are scantly observed. This is justified by 98% of primary co-operatives with unclean reports from the account point of view. Following the Agency theory, this article explores the accountability barriers of the co-operative union to the primary agricultural co-operative societies in Tanzania. The purposive sampling technique was used to select fifteen agricultural primary co-operatives actively involved along the supply chain of coffee in three co-operative Unions. Focus group discussions were held with five board members chosen from each primary co-operative. Also, individual interviews were conducted with the co-operative union's management. The thematic content analysis was used to analyze the gathered information. The transcribed data were scrutinized into sub-themes, themes, categories, and global themes and redefined into collective themes. According to the study findings, cooperative unions are hindered by several barriers in fostering accountability practices to primary co-operatives. Such barriers include delays and absence of regular meetings, low information dissemination, lack of transparency on coffee collection and marketing channels, and low access to agricultural inputs. These barriers have discouraged the primary co-operatives from cooperating with the co-operative unions. The study findings recommend active policies to reduce accountability barriers and ensure the sustained growth of the co-operative sector in Tanzania.

Keywords: Accountability, Co-operative union, primary co-operatives

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INTRODUCTION

Co-operatives are member-based organizations formed voluntarily to meet the needs and goals of their members (ICA, 2014). Different forms of co-operatives exist today. Some are associated with financial services such as Savings and Credit Co-operative Societies, others are consumer, housing, transport, and agricultural co-operatives (Sylvester & Rutabanzibwa, 2023). The Agricultural co-operatives can be divided into production, processing, multipurpose and marketing co-operatives (Dary & Grashuis, 2021). The philosophy of these co-operatives is to build collective bargaining regarding markets, services, and access to basic production inputs for their members (Shirima, 2022). Arguably,

collective bargaining reduces average transaction costs. Indeed, individual Co-operative members are likely to incur higher costs when selling products or purchasing/sourcing inputs (Bijman & Iliopoulos, 2014; Miroro et al., 2023). The structure of the co-operative sector in Tanzania is highly driven by the British model. The model emphasized the vertical integration of co-operatives through their affiliations (Wanyama et al., 2009; Kusmiati et al., 2023). The integration is founded on the sixth of co-operative principle, which is co-operation among co-operatives (ICA, 1995). In Tanzania, the affiliation is of three tiers- the primary co-operative societies, the secondary co-operative, and the federation. At the lower level, primary agricultural co-operatives join to form the secondary co-operative society (co-operative unions). The aim is to expand collective bargaining power in selling produced outputs and buying inputs (Emmanuel & Nhlanhla, 2014; Gurung & Choubey, 2023). The main purpose of the unions is to locate the market for the crops that the primary co-operatives have gathered from their members (Shirima, 2022). Subsequently, the Co-operative Societies Act No. 6 of 2013 mandates the existence of co-operative unions and specifies their respective goals. According to the Act, the objectives of the co-operative union are "to facilitate the operations of the primary societies; to provide services to the primary societies; collect, process and sell products of primary societies; provide consultancy and information of its undertaking to the primary co-operative societies"(URT, 2013). Scholars suggest that co-operative unions are expected to fulfil their responsibilities. This includes meeting the needs and demands of its main stakeholders (Seimu, 2015; Nakayiso & Andrew, 2023). Even though unions are formed and owned by primary co-operatives, studies exploring accountability barriers among the two tiers are scantly documented.

Theoretical postulations: The role of agency theory on the relationship between principal and agent has been the subject of considerable debate. The agency theory is centred on the argument that the separation of ownership and control in firms creates conflicts of interest between the principal and agent (Jensen & Meckling, 1976). The agency relationship exists in co-operative unions-primary co-operative relationships because unions must wield power delegated to them by members (primary co-operatives) who are also owners (Hakelius & Hansson, 2016). The unions are governed by a board, whose members are from the primary co-operatives and are elected democratically at the Annual General Meeting (AGM). This is to say that the union board members are farmers with unique interests, much like the rest of the members, and they have their primary co-operatives. Unlike in most primary co-operatives, where the board manages the operations (Bijman et al., 2013), specialists are hired to manage the Union's operations. This implies that board members are accountable for making strategic decisions while management and staff oversee the board decisions and union objectives as stated in the regulations and by-laws. Following Bijman et al. (2014), the agency relationship in a co-operative union can be considered differently than it is for investor-owned organizations. This is because members of unions (primary co-operatives) are both the owners of the union since they provide equity capital, receive a return on investment, and are users of the union's services. Accountability can be viewed as downward accountability. In this

regard, a dissatisfied customer can leave the union and join any competing tier. Upward accountability to investors or owners, entails that dissatisfied shareholders can exit the business (Ebrahim et al., 2014; Ghauri et al., 2024). This suggests that co-operative union accountability is hinged on the members (primary co-operatives). Thus, the primary co-operative can exit if not satisfied with the services provided by the union. According to Sumarwan et al. (2021), co-operatives are also answerable to their stakeholders- both internal (management's accountability to itself) and external (government, network, community). Nevertheless, there is less documentation of the challenges facing the co-operative unions in maintaining their legitimate accountability to the primary Agricultural Marketing Co-operative Societies in Tanzania. This study fills this gap by exploring the factors hindering (barriers) the co-operative unions in building a strong primary Agricultural Marketing Co-operative Society.

METHODOLOGY

This article explores factors hindering (accountability barriers) the co-operative unions from effectively managing the operations of the primary co-operatives. In answering this question, an explanatory research design is adopted. According to Ritchie & Lewis (2003), Solomon, (2023) and Wilmsen et al., 2023), qualitative design is a good approach for learning about people's social and material conditions, experiences, viewpoints, and histories. It is worthwhile to use qualitative research to explore the accountability barriers in the context of co-operative unions and the agricultural primary co-operatives nexus with a focus on the coffee industry. In that, a purposive sampling procedure is used to select only the primary co-operatives collaborating with the co-operative unions. Thus, the sample size was drawn from three active co-operative unions namely the Kilimanjaro Native Co-operative Union (KNCU), Kagera Co-operative Union (KCU), and Karagwe District Co-operative Union (KDCU) in Kilimanjaro, Karagwe and Kagera respectively. A sample of five districts namely, Siha, Hai, Karagwe, Kyerwa and Bukoba were purposively selected. The selection of these districts was based on their active involvement with the three co-operative unions. Thus, five board members from each primary co-operative society were chosen as respondents to represent the primary society. The information was gathered through Focus Group Discussions (FGD) and Key Informants Interviews. The focus group discussions were held in groups of five board members. Depending on the intricacy of the subject matter, the focus group consisted of a few individuals, ranging from four to twelve (Saunders et al., 2009). Thus, five focus group discussions of five board members were conducted with five primary co-operatives that are members of the co-operative unions. The next step was to conduct key informant interviews with the assistant registrar of co-operative from the two selected regions (Kilimanjaro and Kagera) and a manager from each union to glean additional insights. The Key informant interviews were also used to validate the responses from the focus group discussions. Following keenly on the facial expressions of some of the members during the FDG, we identified some members whose explanations could not come up clearly because of fear. We deliberately selected 6 of them for individual interviews. Consequently, 5 key informant interviews, 6 interviews and focus group discussions involving 75 board

members were conducted. Information was collected from May 2022 to September 2022. This was the season for coffee harvesting in the selected districts in Kilimanjaro and Kagera. Different interview guides were developed and used to explore barriers affecting the effective interaction of the co-operative unions and primary co-operatives concerning accountability practices. Interview questions were developed from the previous related literature regarding accountability practices of the non-profit organizations, unions and primary co-operatives (Westwood, 2014; Ghauri et al., 2023). The following were the sample of the questions asked: What are services provided by the union to the primary co-operative? what the systems are used by the union in providing feedback to the primary co-operatives, and explain the accountability barriers to effective interaction between co-operative unions and primary co-operative society. What should be done to have a smooth implementation of the core activity of the co-operative unions to the primary co-operative union? The Focus Group Discussions were held at the primary co-operative societies offices because it was convenient for board members to meet. The discussion lasted on average for 55 minutes. Swahili was used during the interviews to ensure that every respondent could communicate the key message neatly and promptly. The interview was conducted by a lead researcher and research assistants with good experience in the cooperative sector. A field notebook was used to write the respondents' answers. Notes from the interview were transcribed within 24 hours after the interview to maintain the originality of the discussion. The collected primary data were used together with the secondary data from the coffee collection records, co-operative officers' inspection reports, annual reports, minutes of board meetings and minutes of the Annual General Meetings. The gathered information was analyzed using thematic qualitative techniques in which six stages must be followed (Finlay, 2021). Such stages include: acquainted with the data was done by rereading the data from the transcript; generating the initial codes as per the theory; searching themes whereby tabulation was used to come up with the initial emerging themes; The developed themes were refined to filter their commonalities and differences while redefining and renaming of the themes (Wickens et al., 2024) and finally, producing a report.

KEY FINDINGS

According to in-depth interviews, unions have formal operations/regulations that hold them accountable to the primary co-operatives. These regulations establish accountability procedures for the primary co-operatives (members), and it is the member's responsibility to ensure that the union is managed democratically by taking part in decisions about the services that the union should provide. These procedures give the primary co-operatives the ability to hold the union accountable and demonstrate the union's efficacy in carrying out its duties while assuring compliance and transparency. Meetings and dissemination of information, collecting and marketing services, input distribution, and extension services were the categories used to classify these practices.

Meetings and Dissemination of Information: The result indicated that regular meetings and provision of information to the members (primary co-operatives) is one of the accountability practices of the co-operative union. Thus, the Annual General Meeting (AGM) is the main

forum for information sharing and decision-making regarding the operation of the co-operative entity. AGM, therefore, enables primary co-operatives (members/owners) to exercise the power to the co-operative as per the Co-operative Societies Regulations of 2015 (URT, 2015). A similar notion is supported by Sumarwan et al. (2021), that the AGM is one of the organizations' formal meetings in which audited financial statements are submitted for deliberation. Interviewees stated that the timely presentation of audited financial reports to the AGM strengthens the trust of the primary co-operatives in the union. Section 52 of the Co-operative Societies Regulations of 2015 reveals that financial reports of co-operative societies must be audited at least once a year (URT, 2015). However, the study findings show that delays in presenting these reports by the union discouraged the members of the primary co-operative societies leading to mistrust, delays in decision-making and dissatisfaction. In one of the FGD, it was stated that:

> *the management and union board members must ensure that audited reports are presented with clear explanations so that these reports can be used for decision-making (FGD from primary cooperative society AG in Bukoba).*

The findings also revealed less transparency on the investments made by coffee co-operative unions in real estate, farmland, motor vehicles, farm and office equipment, furniture, storage facilities, and office buildings. Investment compliance reports and ways co-operative unions abide by policies, laws, regulations, and guidelines are less clear to the primary co-operatives. These mismatches are purely related to accountability barriers see Regulation (59) (URT, 2015). Since the investments are owned by the primary co-operative societies and its management is entrusted to the co-operative union there should be a transparent AGM for effective monitoring mechanism. This suggests that the union must ensure prompt reporting to guarantee that investment reports have the relevant transparency and compliance for making decisions and evidencing accountability. For example, one respondent said:

> *I think timely reporting adds value…. This is because the union-management will not be disqualified from the office. They only need to do a good job and ensure the Primary co-operatives are satisfied (FGD from primary cooperative society BB in Hai).*

The findings further showed that most board members of the primary co-operatives were not aware that primary co-operatives were the owners of the union. Their understanding is that the union establishes primary co-operatives and that they are not permitted to inquire anything about union investment. Consequently, they were uninformed of the primary co-operatives' interest in the Union's investments. As a result, the union's reporting to the AGM was more symbolic, leading to primary co-operatives mistrust and low commitment. This is consistent with the (Dary & Grashuis, 2021) observation that poor resource management can lead to a breakdown in trust, conflicts, members' exit and the collapse of a co-operative. The following were some of the views on the issue:

> *The problem of representatives from primary co-operatives is*

lack of education and most of them have only primary education. If they had a high level of education, they could challenge the reports presented in the AGM (FGD from primary cooperative society AG in Bukoba).

In the AGM, we receive an allowance. However, I cannot ask questions regarding the union's investments because I have no idea how they were acquired (FGD from primary cooperative society BA in Siha).

We normally approve investment decisions availed to us during the AGM but later we find ourselves in difficult conditions. Worse enough once the decision is made in the AGM, it turns into a resolution, and you cannot change anything without approval from the AGM (FGD from primary cooperative society AD in Kyerwa).

It should be noted that, unlike publicly traded companies, there is no external financial assessment of the Co-operative's performance (and therefore of its management). This is because the co-operative union information is not disclosed to the public and shares are not transferrable or traded in the capital market. Therefore, a co-operative union with a strong board will prevent managers from pursuing their goals and thus be accountable towards the agricultural primary co-operative interests. This implies that the board members and AGM are responsible for co-operative performance evaluation (Bijman et al., 2014).

Collection of coffee and marketing services: According to the findings, the unions were responsible for collecting coffee from farmers through primary co-operative societies and looking for coffee markets both within and outside the country. Among others, they collect, market, sell, and manage coffee storage. This process enables the union to compete with other coffee buyers while benefiting primary co-operative societies economically. In this regard, unions demonstrated their accountability by ensuring that primary co-operatives receive the expected benefits. Previously, primary co-operatives were built with the union because of its dependability, competence, and ability to fulfil its commitments. Contrary to the expectations, the study findings established that unions are less effective at collecting and marketing coffee. It was found that instead of collecting, marketing, and selling coffee on behalf of primary co-operatives, unions were buying coffee from primary co-operative societies for resale. This implies that the union and primary cooperative have a producer-buyer relationship instead of the original principal-agent relationship. It was further established that due to the dissatisfaction with the union's prices and services other primary co-operative societies were selling their coffee to private buyers without the union's involvement. One of the respondents revealed that most primary co-operatives are collecting coffee from their members, managing its curing and grading and participating in auctions market organized by the Tanzania Coffee Board (TCB). This confirms that the union's accountability to primary co-operatives is no longer working properly. As a result, the primary co-operatives as shareholders are no longer

partnering with the union because of their dissatisfaction.

A member of FGD said:

> *'Approximately seven years have gone without selling coffee to unions. This is because of the delay in paying us, low transparency in cost incurred along the supply chain, and total realised revenue. Thus, we decided at one of the AGMs that our society would process the coffee and sell it at auction. (FGD from primary cooperative society AD in Karagwe).*

Distribution of inputs and extension services: Findings show that unions have the duty of supplying inputs to primary co-operatives. Primary society would therefore distribute the same to their members. Such inputs include coffee seedlings, coffee-crushing machines, insecticides, fertilizers, and pesticides. Further evidence showed that these inputs were provided in tandem with extension services by the coffee extension officers. As part of accountability practices, the union created a special fund by withholding a specific amount of money from each kilogram of coffee sold. The fund was then used to buy inputs in bulk and supply them to primary co-operatives. However, it was discovered that the unions were no longer providing farmers with inputs. In one of the focus group discussions challenges related to the embezzlement of funds and inputs were identified as the key reasons for the unions' inability to supply inputs. As it was explained in the FDG:

> *May I speak on my behalf; I've been farming coffee for 42 years. I used to receive all the necessary inputs from the society. The extension services offered were beneficial to us. Now, we are no longer receiving both inputs and extension services because they misused our funds for their benefit. I am stranded on how to maintain my farm given the high cost of the inputs. I don't believe we need the union for now (FGD from primary cooperative society BB in Hai).*

The primary co-operatives felt that unions were not doing well in meeting the needs of the primary co-operatives. Thus, some primary co-operatives stopped working with the union.

CONCLUSIONS AND IMPLICATIONS

This paper explored factors hindering the accountability practices of co-operative unions to primary co-operatives. In-depth interviews and FGD from members of 15 coffee primary co-operatives in three unions were used. The primary co-operatives and unions were selected purposively during the coffee harvesting season. The collected data was analysed using thematic content analysis. This study documents barriers hindering the accountability mechanisms of co-operative unions in primary Agricultural Marketing Co-operative Societies. The study finding shows that the absence of regular meetings and information dissemination are key barriers to the effective operation and enforcement of formal accountability practices of the co-operative union to the primary society. Furthermore, the inability of the co-operative unions to provide basic inputs and extension services to the primary society led most of the primary society to lose confidence albeit stopped working with the

co-operative unions. The study findings recommend that the co-operative entity adopt a flexible and transparent framework such Cooperative Joint Enterprises (CJE) to enhance the marketing and sales of agricultural Co-operative societies' produce as an inclusive strategy for ensuring the sustained growth of co-operative entity in Tanzania.

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