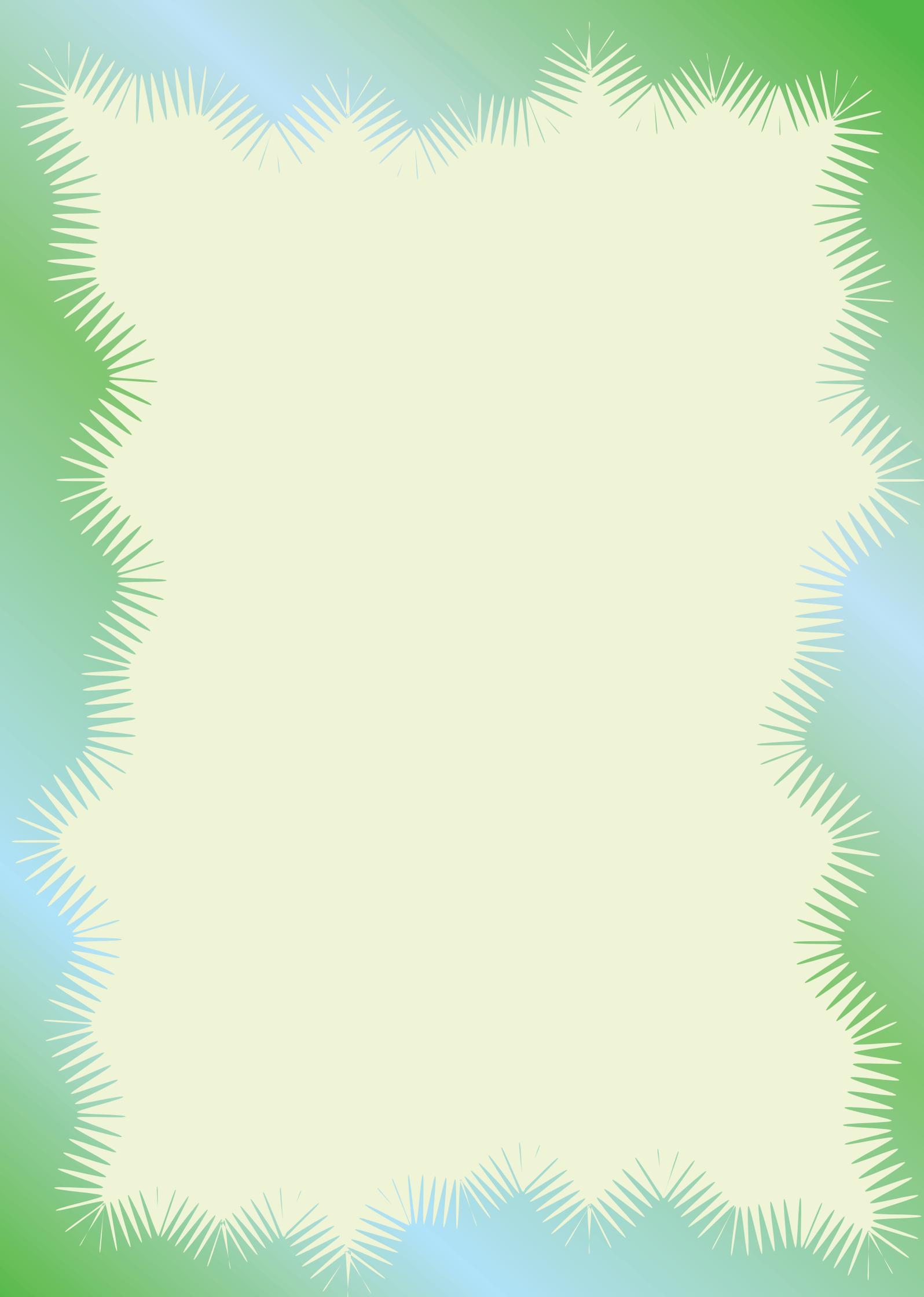


COOPERATIVES AND DEVELOPMENT IN TANZANIA



A Simplified Guide to the Cooperative Development Policy and the Cooperative Societies Act of Tanzania Mainland

Prepared by the Tanzanian Federation of Cooperatives (TFC) in
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PREFACE

Cooperatives have been an important part of the development of Tanzania for 75 years. While they have seen many successes and failures during this period no other institution has brought so many people together for a common cause.

Following the Arusha Declaration, cooperatives became the main tool for building a spirit of self-reliance during the Ujamaa period. However, following the introduction of free markets, cooperatives have struggled to compete with the private sector and many have not been able to provide their members with services they need. The Government has responded to this problem by introducing a new Cooperative Development Policy (2002) to help cooperatives to regain their importance in the economic lives of the people.

A policy tells us how the government plans to facilitate the development of a particular area of the economy such as agriculture, education or cooperatives. While policies tell us what the government's plans are, laws are needed to help put these plans into action. Laws require organisations such as cooperatives to behave in a democratic and business like way. Laws:

- Specify the rights and obligations of institutions and individuals.
- Describe the system of enforcement of order.
- Help the regulators and/or the courts to impose penalties where necessary.

Therefore laws provide stakeholders with rights and responsibilities. Policies simply give guidance on how stakeholders can be involved.

This booklet describes the main points of the Cooperative Development Policy¹ and the laws² and rules³ that have been written to put that policy into practice. It is designed to help communities make decisions about the development of their own cooperatives. Also, it will enable communities to talk to their elected representatives about how the government should adjust future laws and policies for cooperatives.

Who are stakeholders?

All those who have a part in a policy, including those who:

- Are affected by the policy
- Carry out the policy
- Give money to support the policy

¹Cooperative Development Policy 2002

<http://www.tzonline.org/pdf/cooperativedevelopmentpolicy.pdf>

²Cooperative Societies Act 2003

<http://www.parliament.go.tz/Polis/PAMS/Docs/20-2003.pdf>

³Cooperative Society Rules 2004

THE COOPERATIVE DEVELOPMENT POLICY

What is a cooperative?

A co-operative is a group of people who work together voluntarily to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality and solidarity. Co-operative members believe in honesty, openness, social responsibility and caring for others.

Why do we need a new policy for cooperatives?

The government and stakeholders needed new policy and laws for the development of cooperatives because:

- Many cooperatives have not prospered in the free market economy. As a result they have been less able to provide inputs, credit and crop marketing services to members.
- The government sees cooperatives as an important means to the achievement of development goals. People working together can solve problems that cannot be solved by individuals.
- Earlier laws and policies did not properly address some issues that are important to cooperatives working in the free market economy; such as the role of women, caring for the environment and the roles that different stakeholders should play in the development of cooperatives.

Private traders have not filled the gaps left by the decline of the cooperatives.

Therefore people should come together to provide services for their communities



What type of cooperatives does the Government want to promote?

The government wants cooperatives in Tanzania to operate according to a set of ideals applied in many countries of the world. These are called the **International Cooperative Principles**:

Principle	Meaning
Cooperative membership is voluntary and open to all	Co-operatives are open to all persons willing to accept the responsibilities of membership without any type of discrimination.
Cooperatives are democratic	All members have equal voting rights (one member, one vote.)
Members benefit according to their business with the cooperative	Members contribute equitably to, and democratically control, the capital of their co-operative. Members may allocate surpluses for any or all of the following purposes: investing in their co-operative or benefiting members in proportion to their transactions with the co-operative.
Cooperatives are independent	If cooperatives make agreements with other organisations, including governments, or raise money outside the cooperative, they do so only if all members have decided democratically that this is what they want. Also any agreements must make sure that the cooperative stays independent.
Cooperatives provide education, training and information	Cooperatives provide education and training for their members and employees so they can help the development of their co-operatives. They inform the general public about the benefits of co-operation.
Cooperatives work together	Cooperatives strengthen each other by working together through local, national, regional and international networks.

The rules and bylaws of all cooperative societies must reflect these principles

Cooperatives work for their communities

Cooperatives work for the economic, social and cultural development of their members and the wider community. They also have an interest in caring for the environment and future generations.

Cooperatives and Development

For a few years the Government of Tanzania has been implementing the Poverty Reduction Strategy. This process recognises the importance of organisations that bring poor people together, like cooperatives. As part of the programme to reduce poverty, the government wants to encourage people to form cooperatives in order to improve their economic prospects. The government would like to see the expansion of cooperatives into sectors other than agriculture, such as finance, housing, industry, minerals, livestock, fishing, bee keeping and transport.

In order that as many people as possible can become involved in the cooperative movement the government will:

- Ensure that women are encouraged to become full members of cooperatives.
- Help small business groups involving youths, women, unemployed graduates and the disabled to become registered cooperatives.

To encourage people to form different types of cooperative Government can advise people about how each type of cooperative can benefit them.

Cooperative Organisation

In the past there have been many levels of cooperatives including primary societies, unions, apexes and the Federation. In certain cases some secondary societies lost touch with their primary societies and started businesses that had nothing to do with what the primary societies wanted. In future, the plan is to make the primary society the main cooperative level and to make sure they are all independent and viable. Higher-level cooperatives should facilitate networking for member societies, provide market information, conduct lobbying and advocacy and act as the main link of co-operators to partner organisations in cooperative development.

Government will now:⁴

- Encourage citizens to form various types of cooperatives in accordance with their needs.

⁴Through the Cooperative Reform and Modernisation Programme (CRMP), a 10-year programme, which commenced in January 2005.

- Recognise and support the formation of pre-cooperative groups.
- Help small business groups to become registered cooperatives.
- Encourage the formation of financial cooperatives.
- Encourage cooperative societies to build up their capital base.
- Help cooperative societies to get loans from banks and/or guarantee certain loans from banks to societies.
- Encourage joint business ventures among cooperative societies in order to increase efficiency and incomes.

Cooperatives should ask their District Cooperative Officer about how to get a loan from a bank.

The new vision for cooperatives in Tanzania entails the evolution of societies which are business oriented and can compete effectively in a free market economy.

Leadership and Governance in Cooperative Societies

In the past, many cooperative societies were badly managed because:

- Some leaders were allowed to stay in their positions for too long.
- There were no clear rules to force leaders to perform well and to act in the members' interest.
- Politicians have interfered too often in the affairs of cooperative societies.
- Proper records and performance reports were not kept and audited accounts were not presented regularly at AGMs.
- Leaders of some cooperative societies made decisions without involving members at AGMs.

Government recognises that too much political influence in the running of cooperatives in the past often resulted in poorly run cooperatives.

To improve this situation the government wants to make sure that cooperative society leaders are:

- Elected democratically by the members
- Qualified to do the job
- Loyal to members of a society

- Accountable to the members through the presentation at board and annual general meetings of audit reports, budgets, business plans and performance reports
- Not driven by interests that will harm the cooperative society.

The policy sets out means and ways through which the situation will be improved:

- Limit the time in office for elected leaders.
- Introduce a code of conduct to make leaders answerable to members and their committees.
- Set up strong supervisory committees in cooperative societies.
- Limit the involvement of politicians in cooperative affairs.

The Government intends to ensure that staff who are hired to work in cooperatives are competent, skilled and trustworthy. For this reason the government will encourage cooperatives to hire qualified staff to manage their businesses.



Cooperative Education and Training

The Government realises it is important to educate people in cooperative values. When the free market was introduced, co-operators had insufficient knowledge about how to operate under the new conditions. As a result cooperatives have not been able to compete effectively in the new system.

The policy emphasises the importance and promotion of cooperative education, which will aim to:

- Develop enlightened and responsible cooperative leaders who can maintain cooperative values and operate efficient business enterprises.
- Improve the management, business and entrepreneurial skills of cooperative employees and committee members.
- Ensure that cooperative members are informed and aware of the nature of cooperative economic activities, their duties and responsibilities and the benefits cooperative membership brings.
- Inform the general public about the nature of cooperatives.
- Introduce cooperative training into school, colleges and university courses.
- Ensure that all levels of administrative leadership are introduced to the subject of cooperative ethics and values.

Cooperative Financial Institutions

Government regards cooperative financial institutions as an important alternative to the commercial banking system. The reasons for this are that cooperatives can encourage saving and thrift. Also, loans from cooperatives are not tied to collateral requirements as is the case with commercial bank loans.



Importantly, most cooperative societies are themselves considered uncreditworthy by the commercial banks, so the establishment of cooperative financial institutions is essential to their long-term development and that of the cooperative movement.

The old system of Government involvement in all aspects of cooperative life was too expensive for the country.

So, the Government wants to encourage the formation of cooperative financial institutions such as:

Savings and Credit Cooperative Societies (SACCOs)

Government recognises that the pace of growth of SACCOs has been slow, especially in rural areas. Most have been established in urban areas and workplaces. As a result, members of rural primary societies have been unable to access adequate credit.

To improve this situation Government plans to encourage the development of SACCOs in all rural areas. Advice will be made available at District level regarding setting up SACCOs and technical assistance will also be provided to all existing SACCOs to strengthen their capital base and development.

Cooperative Banks

The establishment of new cooperative banks and the strengthening of those already existing will be an important part of the creation of a system of strong cooperative financial institutions. However, the cooperative system does not at present have the expertise to set up full-scale banks.

Therefore, Government promises in the policy document to encourage and assist the movement in the establishment of cooperative banks. In the medium to long-term the Government may consider the development of a National Cooperative Bank in order to encourage cooperatives to establish a stable financial base.

At District level the District Cooperative Officer will represent the Registrar

The Role of Government

In the past, the Government took a very active role in the cooperative movement. It was heavily involved in the provision of inputs, finance and training. It also provided the main market for most forms of produce.

However, following the introduction of open market economics, the Government sees itself as responsible only for the creation of an environment where the cooperative movement can prosper. The main engines of growth will be the members and managers of the cooperatives themselves. The aim is to produce cooperatives that are independent, democratic, member-based and economically viable.

THE COOPERATIVE SOCIETIES ACT No.20 of 2003 AND THE COOPERATIVE SOCIETIES RULES of 2004

The Cooperative Societies Act provides direction on how cooperatives should be set up and run. By and large this is in accordance with the International Cooperative Principles mentioned at the beginning of this booklet. The Cooperative Societies Rules are a simplified guide to the step by step operation of the Act.

The Government and the Minister responsible for Cooperatives have a duty to make laws that encourage the development of cooperatives throughout the country. The Government appoints an officer, the Registrar of Cooperative Societies, to oversee the implementation and enforcement of these laws and rules.

Now the Government's Policy is to encourage the independent growth of cooperatives by providing people with information and advice that is easy to follow and easily available.

The duties of the Registrar include:

- Registering, promoting, inspecting and advising cooperative societies.
- Advising the Minister when cooperative societies need help.
- Encouraging the establishment of cooperative societies in all areas of the economy.

As the cooperative movement grows and members exert their rights it is expected that there will be less need for the Registrar to be involved in the activities of societies. Instead, he/she will delegate duties such as education to societies themselves and will be responsible for registration and enforcement of the law alone.

What types of societies can be registered?

Because the government wants to encourage their establishment in all sectors of the economy, the Registrar may register cooperatives in areas such as:

- Agriculture, livestock, fishing or bee keeping
- Mining

- Savings and credit, i.e. SACCOs
- Consumer sectors which deal with wholesale or retail business amongst members
- Industry
- Housing societies designed to deal with building, construction and housing programmes for members
- Specialised skills, etc.



Basic requirements to form a primary cooperative society

A primary society can be formed by:

- 50 people or more if it is an agricultural society
- 20 people or more if it is a savings and credit cooperative society
- 10 people or more if it involves people with specialised skills
- 10 people or more for other types of cooperative society.

Who qualifies be a member?

A person who:

- Is in an occupation relevant to the primary society
- Has a common need with other members of the society
- Is capable of paying fees and buying shares
- Is at least fifteen years of age, or eighteen for Board members.

Pre-Cooperative Societies - Or how to start a Cooperative Society if you don't have enough members yet.

The Government wants to make it easier for groups of people to form cooperative societies. Therefore, it will allow pre-cooperative societies to be formed, which may become full cooperatives when they have enough members and have fulfilled the other conditions mentioned below.

In order to start a pre-cooperative there must be at least enough people to form a Society Board in a full cooperative. This means that not less than five people are needed. In order to be recognised as a pre-cooperative the group should first write a letter to the District Cooperative Officer (DCO) indicating their intention to do so. The DCO is the local representative of the Registrar.



The members of the pre-cooperative should then arrange to meet under the Chairmanship of the DCO in order to elect a Formation Board with a Chairman and a Secretary. The Formation Board will then have to complete the following tasks:

- Decide what type of society will be formed
- Prepare by-laws for the society. This is explained in more detail on the next page
- Assess founder members' level of business

A pre-cooperative is an organization of an economic or social nature set up voluntarily by individuals having common interests and working together as a society.

Ask the District Cooperative Officer for assistance when completing these tasks

- Forecast how many members the society will have in the future and levels of business that the society will do
- Produce a document called a feasibility study
- Make a list of founder members and record their share capital and contributions
- Make a list of prospective members and record their probable share capital and contributions.
- Begin to keep accounts to allow periodic assessment of the groups activities
- Appoint a delegate in charge of representing the group in all civil matters

A feasibility study will include information about the number of potential members the society is likely to have and their levels of business. It will also indicate the ability of the management of the society to make sure the society is profitable and run in the best interests of all the members.

What are By-Laws?

Every pre-cooperative society and cooperative society has to have rules to ensure that they are managed in a way that benefits all members fairly. These are known as by-laws. Different types of societies may need to make different types of by-laws. For example, a savings and credit cooperative society will have some different by-laws than an agricultural cooperative society.

It may be necessary to get assistance from the District Cooperative Officer or another qualified person when making these by-laws. There are a number of by-laws that should be made by all types of society. These by-laws will define:

- **What the name of the society will be and in what area the society will operate**
- **The objective of the society**
- **The purposes to which funds of the society may be applied and how the funds may be held, disposed of or invested.**
- **Membership rules including terms of admission, shares and entrance fees**
- **Rules regarding what is paid, if anything, if a member is expelled or leaves**
- **To whom shares are transferred if a member dies**
- **The extent of a member's liabilities within the group and how they will be decided**
- **How general meetings will be run and what will be decided at these meetings**
- **Rules on the duties of Board members, how they are to be elected, how long they can stay in office and how they can be removed if necessary**
- **Authorising an officer to sign documents on behalf of the society**

Different types of society will have other different rules. For example a credit and savings cooperative society will need extra rules on interest rates, loan terms, loan security and default rules. A trading cooperative society will need a pricing policy in addition to the normal set of rules.

Fines: It is important to note that societies may make by-laws that can impose fines on a member if he or she has broken society rules. These fines are seen as legal fines according to the Cooperatives Act and can be recovered in court if necessary.

Once the members of a group who want to become a pre-cooperative society have completed these tasks they must make an application to the Registrar's representative in their area. Such officers include the District Cooperative Officer at District level and the Assistant Registrar at Regional level.

What is needed for the application to the Registrar?

- A certified copy of a resolution passed at the first meeting of the group with the DCO.
- Four copies of the proposed by-laws of the society.
- Four copies of the feasibility statement.
- Any other documents asked for by the Registrar.

The Registrar or the DCO might also ask for letters from people who intend to join, more information on available capital or more information on the ability of the group to manage its business well.

If the application is satisfactory the Registrar will issue a **letter of recognition**. This letter allows the group to operate for three years as a pre-cooperative society until it can fulfil the conditions required to become a full cooperative society. If the group has not fulfilled the conditions after three years, say enough members cannot be found, the letter of recognition will be cancelled.

If the Registrar refuses to register a society, the members are entitled to appeal the decision to the Minister responsible for Cooperatives within 60 days. The Minister's decision on the matter will be final.



Rights and Obligations of Membership

All members of cooperative societies are entitled to the following rights once they have paid for their shares, entry fees and other dues:

Members of cooperative societies should make sure that their rights are respected at all times.

- To have their name and signature entered in the Register of Members
- To vote and be voted for at meetings – every member has one vote regardless of the number of shares they own
- To be issued share certificates once they have paid for their shares
- To be considered for leadership positions
- To call meetings in accordance with by-laws
- To nominate a successor
- To be informed on all affairs of the society and be able to inspect society documents
- To gain income from the society's business operations
- To participate in making society by-laws
- To withdraw their membership
- To institute an inquiry into the affairs of the society

In order to ensure that no one member gets too much control in a society it is illegal for one member to own more than one-fifth of the shares of the society. For similar reasons it is illegal for a registered company to be a member of a society unless the Registrar writes a letter saying that the company will be of benefit to the society. It is also illegal for a person to be a member of two societies involved in the same type of business in the same area as this could cause a conflict of interest.

Members have the following duties:

- To abide by the by-laws and procedures of the society
- To pay for their shares, dues and any debts owed to the society
- To participate in the economic activity of the society
- To attend meetings of the society and abide by decisions taken
- To nominate their successors
- To protect and defend the society's property
- To reserve and protect the society's image and reputation

A person may stop being a member of a society if the member:

- Stops holding shares or making contributions provided for in the by-laws
- Moves away from the area of the society



- Is expelled after committing a crime, bribing anyone employed by the society or breaking society rules
- Does not participate in the activities of the society

Liabilities of members

Members can be liable for the debts of the society in one of two ways:

Liability by share – This is the normal level of liability and means that a member is liable in proportion to his or her share of the society.

Liability by guarantee – If the by-laws of the society allow it, a member can agree to be liable for an amount greater than his or her share. This is known as liability by guarantee.

Management of Cooperative Societies

General Meetings

Overall control of cooperatives is exercised by the members at general meetings. General meetings must be held at least once a year. All affairs of the society may be discussed, including, for example:

- The election, suspension or removal of the Board
- Appoint an auditor
- Consideration and adoption of audited accounts
- To decide on the distribution of available funds
- To decide the amount of meeting expenses due to Board members and unsalaried officers
- To consider budgets and business plans
- To consider amendments to the by-laws
- To decide on the purchase or sale of society property

In order to make decisions at a meeting at least half the members of the society, or 100 members, whichever is the fewer, must be present. All members should receive three weeks notice of the date, place and time of the meeting.

Changing Board members regularly makes sure that no person or group can have too much power in the society

The Board

- Every cooperative society must elect a Board of not less than five and not more than nine members.
- In order to ensure that no member or group of members tries to hold too much power in the running of the society, no Board member may serve for any more than nine years at a time.
- In the first years of a society, one third of the Board should be replaced every three years in order to conform to the law.
- No member can be elected to the Board if he owns, controls or influences businesses like that of the society.
- Every year, each Board member must fill in a form declaring the properties and businesses they own and control and must submit this form to the Registrar.

The Board is responsible for the proper administration of the society in accordance with its by-laws. In order to assist in this task the Board may hire suitable people to take care of the day to day running of the society. According to the law, no person shall be hired by the cooperative unless they are competent to do the job.

In addition, the Registrar or his representative, the DCO, must first assess all executive staff members hired in this way. How will the Registrar or DCO know all the applicants?

For instance, it is illegal to hire a staff member on the basis of their relationship with a Board member, their colour, their tribe or their wealth. It is also illegal for a person to make a payment in order to influence a hiring decision.

Also, every staff member of a primary society must be guaranteed by a third party. The guarantor will be liable if the staff member is responsible for any loss or default.

Special General Meetings

If one-third or more of the members of a society want to discuss a particular issue, they can convene a special general meeting. To do this, the concerned members must write a letter expressing their wish and must send a copy of this letter to the Registrar. Seven days notice is required.

The Registrar or his/her representative has the power to call a special general meeting of the society if he or she feels it is necessary. This might happen following an inspection of the affairs of the society. At this meeting the Registrar, or his/her representative, has the power to remove the existing Board and replace it with a new one if it is deemed to be necessary. He/ she may also order the society to be dissolved.

The Registrar may also appoint special members to the Board of a society if the society is in receipt of financial assistance from the government or if the Registrar considers such appointments to be in the public interest. Special members have the right to participate in decision-making on all matters of the society and/or may hold such decisions until the Registrar has approved them.



Duties of Registered Societies

Records

All cooperative societies must keep records that can be inspected by members of the society and by the Registrar or his or her representative. These must include:

- A register of members and their shares
- A publicly displayed balance sheet
- Accounts approved by an auditor appointed by a general meeting and approved by the Registrar
- A copy of the Cooperative Act 2003, the Cooperative Societies Rules 2004 and the by-laws of the society itself

Changes in By-laws

Changes in by-laws that have been approved by a general meeting must then be sent to the Registrar for approval. This is done so that the Registrar can make sure that the changes are in accordance with the law.

Accounts

Every cooperative society must keep proper accounts. A registered auditor must audit these accounts at least once a year. The accounts must then be approved by the members of the society in a general meeting and then sent to the Registrar for scrutiny. If a society fails to prepare accounts within three months of the end of its financial year, the Board members of the society may be removed by the Registrar and replaced. Board members removed in this way cannot be elected to the Board again for six years. Society officers are liable to fines for their part in any offence.

If the Registrar deems it necessary, he or she can inspect the bank accounts of societies and can make an order directing the society to take actions to remedy any defects in the financial affairs of the society.

The Tanzania Federation of Cooperatives

What is TFC?

The Tanzania Federation of Cooperatives (TFC) Limited is a national cooperative umbrella organisation that promotes, serves and coordinates the development and prosperity of all cooperative societies in mainland Tanzania. TFC is an independent non-governmental and non-partisan organisation that is member-owned and managed in the spirit of the internationally recognised cooperative principles and values. It is a member of the International Cooperative Alliance (ICA) and collaborates with several other like-minded national and international organisations.

Who are the members of TFC?

TFC was registered on 8th December 1994 (registration no: 5503). Its current members consist of: two national cooperative apex organisations for cotton and tobacco; two specialised cooperative organisations – TICU and SCCULT⁵; and 4 cooperative unions. The combined membership of TFC is some 5,700 primary societies who in turn have over 700,000 individual members. The TFC structure is currently being reviewed to rationalise its membership and the conduct of its activities.

TFC's Mission

Its mission is to endeavour to be a vibrant national cooperative umbrella organisation through which all types of cooperatives will be united in absorbing and transferring the values of entrepreneurship and good governance. The purpose of which is to enhance the sustainability of cooperatives so that members directly benefit from their struggle against poverty through economic participation in the economy.

TFC's Objectives

Its objectives are to build a firm foundation for cooperatives by:

- Facilitating and coordinating the establishment, development and growth of sustainable and democratic cooperatives;
- Carryout research and providing consultancy services for member cooperatives in the areas of marketing, business, finance and new products and services;

⁵TICU – Tanzania Industrial Cooperative Union Ltd; and SCCULT – Savings and Credit Cooperative Union League of Tanzania.

- Collecting data and information about the status of cooperatives, markets and prices and disseminating these to members;
- Initiating participatory cooperative education and training programs amongst its members; and
- Through providing publicity on all forms of cooperative activities in the country.

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