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'Hybridization of cooperatives': Challenges and Prospects of Managing Corporate Bodies owned by Co-operatives in Tanzania

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Abstract

Hybrid cooperatives (HBCs) refer to cooperative business organizations formed out of combining cooperative and company characteristics or elements in their establishment. They differ from ordinary or traditional cooperatives in that, while traditional cooperatives give more emphasis on member participation through patronage and less on share acquisition and management, HBCs give emphasis on both patronage and shareholding. The main objective of this paper is to create an understanding of the concept of hybrid cooperatives, their ownership and management challenges when run in the context of traditional cooperative approach, and prospects of the solutions found in adopting new cooperative models. The paper highlights the challenges faced by members of Tanzanian hybrid cooperatives which are based on a traditional model. It also considers prospects of using new models, namely proportional investment cooperatives (PICs) and new generation cooperatives (NGCs) as a solution to the challenges. The argument advanced is that Tanzanian hybrid cooperatives should adopt new models in order to address their current ownership and management problems. Using a study of selected hybrid cooperative companies from Tanzania the paper observes that their economic performance deteriorated because of, inter-alia, decline in member patronization due to non-involvement of members in ownership and management. The paper reckons that in a quest to exploit recent government industrialization plans, it is likely that more HBCs will be established in the country, if their ownership and management challenges are resolved. It therefore recommends that Tanzania cooperative policy and legislation should adopt Proportional Investment Cooperatives (PIC) and New Generation Cooperatives (NGC) models as one of the solutions to the challenges faced by the HBCs.

Key words: Hybrid cooperatives, traditional cooperatives, proportional investment cooperatives and new generation cooperatives.

1.0 Introduction

Increasing changes in inter-organizational business relations continue to influence the socio-economic dynamic development of cooperative societies, thereby compelling them to establish new business structures so as to withstand competition and survive within the global markets against other forms of business organizations.[1]Some cooperatives in that endeavour tend to adopt investor-oriented cooperative business structures while abandoning some of the user-oriented ones. This leads to the establishment of new cooperative structures with business traits that depict both cooperative and company characteristics suiting the relevant cooperative business.[2] The cooperative hybrid form is one of such structures.[3] Hybrid cooperatives (HBCs) refer to cooperative business organizations established out of combining cooperative and company characteristics or elements by members/shareholders who enter into firm commitments or agreements to conduct their business transactions through use of services provided by the hybrid.[4]Cooperative members as patrons play active roles in their business operations, both as members and as shareholders. As members their roles may include active participation in the services offered by the cooperative.[5]Yet as shareholders members contribute to equity capital, which is required to finance other operations, including meeting business management expenses.[6] However, operations of HBCs totally depend on the services provided by members in their respective cooperatives.

HBCs differ from ordinary or traditional cooperatives in that while traditional cooperatives give more emphasis on member participation through patronage and less on share acquisition,[7] HBCs give emphasis on both patronage and shareholding, thereby enabling HBC businesses to be more responsive to market demands and capable of withstanding competition.[8] Consequently, in their establishment and operation HBCs in some instances are compelled to overlook some of the classical cooperative principles and values as well as some elements of a company form, in order to respond adequately to the demands of the markets.[9]This also explains why some HBCs take a modified company form in which cooperative members contribute equity capital as well as their patronage. In some hybrids, cooperatives may team-up with non-member investors to establish a

[1] See Jasper Grashuis (2018) 'An Exploratory Study of Cooperative Survival: Strategic Adaptation to External Developments, *Sustainability*, 10, 652; doi:10.3390/su10030652 www.mdpi.com/journal/sustainability, available at Downloads/sustainability-10-00652-v2.pdf accessed on 24th April 2022.

[2] Nilson (2001), *'Farmer cooperatives: organizational models and their business environment'*, in Birchall J., ed., The New Mutualism in Public Policy, Routledge, London.

[3] Chaddad and Cook (2204) 'The Economics of Organization Structure Changes: a US perspective on Demutualization', Annals *of Public and Cooperative Economics* 75:4 2004 pp. 575–594

[4] However, it does not necessarily mean that hybrids are established by combining a cooperative and a company. They may be established by combining a cooperative and another cooperative, provided that the hybrid established combines both cooperative as well as company characteristics or elements. A good authoritative example is found on section 26 of the Tanzanian Cooperative Societies Act, 20013. It provides that in a situation where "it is necessary or desirable for the efficient operation of a business to be operated by two or more societies", such societies may establish a cooperative joint enterprise or in cases where cooperative join with privet companies, a cooperative joint venture. Such cooperative joint enterprises or cooperative joint ventures may be referred to as cooperative hybrids if their establishing documents portray both cooperative and company elements. See also ICA Guidance Notes to the Cooperative Principles, (2015) which defines at pg. 100 a Hybrid cooperative as: *"a cooperative which has issued equity shares to non-member investors."*

[5] For example, in the case of an agriculturally based cooperative hybrid whose main activities may include collecting, processing and marketing of produce, see our discussion infra on establishment of The Farmers of Kilimanjaro Coffee Company Ltd. (FAKICO) see our discussion infra. at pp. 18 – 19.

[6] For example, the Tanzania Banking and Financial Institutions Act, 2006 provides for certain capital thresholds for establishment of a bank, this includes establishment of cooperative hybrid bank.

[7] Refer to Principle, No. 3 of ICA, it does not give emphasis on members entitlement to dividends. It provides that dividends '*if any'* are to be distributed as the last part of the surplus, meaning that in traditional cooperative models, share ownership is not supposed to generate profit to the shareholder.

[8] See Menard C (2007), Cooperatives: Hierarchies or Hybrids? available at https://www.researchgate.net/publication/225231064_Cooperatives_Hierarchies_or_Hybrids, accessed last on 10th March 2022 at 12.40. See also Menard C (2004) 2004. "The Economics of Hybrid Organizations." *Journal of Institutional and Theoretical Economics*160(3):345-376 available at https://www.researchgate.net/publication/5174293_The_Economics_of_Hybrid_Organization accessed on 10th March 2022.

[9] This is because as opposed to cooperatives, company legislation limit powers of registrars of companies to interfere into the affairs of private companies, which if allowed, would have a negative effect to the business of the companies.

hybrid cooperative company.[10] Because a company form is considered to be more efficient in competitive business decision making than traditional cooperative forms, hybrid cooperatives normally prefer the company form. But what makes them to be identified as hybrid cooperatives is that their operations highly depend on services or products contributed by cooperative members (patronage) as inputs to the business operations of the hybrid.[11] In some developing countries cooperative companies may also be established to avoid unnecessary interreference by the registrars of cooperatives or other government officials.[12]Some HBCs are established as companies in order to meet the requirements of being listed under stock exchange authorities of their respective countries, so that they can rise a part of their financial capital from non-cooperative members.[13]

In developed countries such as United States of America[14] and Western European countries[15] HBCs became prominent in 1980s through a process termed as 'demutualization' of cooperatives. Demutualization means the process of converting user owned and controlled organizations (cooperative societies) into stock associations or cooperative companies. In these countries demutualization resulted in reassigning residual claim and control rights to shareholders leading to cooperatives acquiring company behaviours. Whereas for cooperatives that acquired hybrid cooperative characters demutualization resulted in adopting new cooperative models such as proportional investment cooperative (PIC) and new generation cooperative (NGC) in order to assure members/shareholders enjoyment of both residual claim rights and patronage refunds.[16]

In Tanzania establishment of hybrid cooperatives took a reverse trend by involving cooperative ownership in some organizations previously registered as companies. After Tanganyika had attained independence in 1961 a number of coffee processing factories which were established by colonial companies were taken over by companies which were later owned by cooperative unions in the form of hybrid cooperatives.[17]Shares in those hybrids were primarily acquired/allotted in proportion to volumes of produce (mainly coffee) that was contributed by the respective member cooperatives. However, guarantee of rights of contributors of those produce to these hybrids has remained a challenge.

Using an example of selected hybrid cooperative companies from Tanzania this paper discusses challenges of operating HBCs based on traditional cooperative models. The research finds out that economic performance of the selected HBCs declined because of, *inter alia,* deteriorating patronization of their members/shareholders. Thus, necessitating the need for looking for cooperative models that would address ownership and management issues currently faced by these cooperatives.

The main objective of this study is to create an understanding of the concept of hybrid cooperatives and their ownership and management challenges, if based on traditional cooperative models and prospects of solutions found in adopting new cooperative models. Specifically, the paper highlights on challenges faced by members of Tanzanian hybrid cooperatives which are based on traditional

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[10] See for example, hybrid cooperatives in the form of companies discussed infra under part 5 *infra*.
[11] In traditional cooperatives decision may require calling members' general meetings which may take relatively longer time to organize, ending up in losing the business opportunity.
[12] Especially in countries such as Tanzania where cooperatives may be regarded as public or quasi-governmental organizations. See Rutabanzibwa , A (2020) Cooperative Legal Framework Analysis, National Report, ICA-Africa at https://coops4dev.coop/sites/default/files/2020-05/TANZANIA%20LEGAL%20FRAMEWORK%20ANALYSIS.pdf accessed on 10th March 2022
[13] For example, the Kenya Cooperative Bank, See The Co-operative Bank of Kenya Limited Ownership Structure as at 31.07.2021, available at https://www.co-opbank.co.ke/wp-content/uploads/2021/12/Share_Holder_Profile_AS_AT_31_07_2021_c03ff692ee-1.pdf, accessed on 6th May 2022

[14] See Chaddad and Cook (2204) op cit in fn. 3
[15] See Nilson (2001) op cit. at fn. 2
[16] See Chaddad, F.R. and Cook, M.L. (2004). Understanding New Cooperative Models: An Ownership-control Rights Typology. *Review of Agricultural Economics*, Vol.26, No. 3, pp. 248-360.PIC and NGC models are discussed in section 4.0 of this study.
[17] For example, Tanganyika Coffee Curing Company (TCCCo Ltd.) and Mbinga Coffee Curing Company (MCCCo Ltd.)

cooperative models.[18] It also considers prospects of using new models, namely proportional investment cooperatives (PICs) and new generation cooperatives (NGCs)[19] as potential solutions to problems faced by the Tanzanian hybrid cooperatives.

The study employs a qualitative content analysis approach. The information used was obtained through purposeful interviews[20], and library as well as on-line literature reviews. The next part of the paper proceeds with an analysis of the concept of hybridization of cooperatives and its general effects to their governance. The third part discusses challenges of using traditional cooperative models in the ownership and governing of hybrid cooperatives. It demonstrates how HBC management may diminish the involvement of member-patrons, which may jeopardize the sustainability of the 'hybridized cooperatives. The fourth part demonstrates how new cooperative models, namely the PIC and NGC may be used to address challenges caused by use of traditional cooperative models. The fifth part gives a case study of selected hybrid cooperatives from Tanzania. Lastly, the paper recommends mechanisms which may address the shortcomings of the Tanzanian hybrid cooperatives.

2.0 The Concept of Hybridization of Co-operatives

Generally, the term 'hybrid' in business organizations may mean a myriad of business arrangements.[21]Some institutional economists agree that hybrids are organizations which exist between markets and hierarchies or between competition and cooperation.[22]However, sometimes hybridization in cooperatives may be taken to mean a tendency where one or more co-operatives utilize liberalized economic structures for purposes of establishing a business organization either as a way of owning subsidiaries or as a way of combining activities with other societies, where share ownership in such a subsidiary is controlled by those co-operative societies through both cooperative and company governance principles and procedures. Hybridization may also mean establishment of holding company structures for cooperative joint venturing and merging activities where such holding structures employ share-based types of ownership.[23]

Thus, the term "hybrid" may portray an amorphous picture when used in relation to cooperative structures. Some authors construe cooperative hybridization to denote establishment of cooperative structures whose membership is multi-stakeholder, differentiating it from traditional co-operatives which have homogeneous membership.[24] For example, workers cooperatives may form hybrid cooperatives with other types of cooperatives, such as credit and savings cooperative societies. A hybrid cooperative established out of such a hybridization takes a form which accommodates workers providing patronage in kind (labour) and their savings providing the required working capital. The need to accommodate heterogeneity of membership may compel establishment of a cooperative structure which derogates the classical cooperative structures[25] and renders the established cooperative to become a hybrid cooperative. Some authors have referred the process of establishing cooperative structures which adopt company methods of capitalizing

[18] Defined *infra* on pp.6- 7

[19] Discussed infra on pp. 9 and 12

[20] The author wishes to thank Dr. Jones T. Kaleshu and Professor L. Donge and other members of the team from Moshi Cooperative University who studied TCCCO Ltd and accepted to share their data. The author also thanks Professor Deogratias Rutatora and MS Rodness Milton for the information they provided on TANICA Co Ltd. when he visited the company. Thanks also are extended to Mr. G. Ulomi, Awaliali Nanyaro, G Lyatuu and Frank Materu board members of FAKICO Ltd. for their valuable information and inputs to this study.

[21] The term may be taken to mean symbiotic arrangements, networks, clusters or supply chain systems, etc. See Menard C. (2007) Cooperatives: Hierarchies or Hybrids? available at https://www.researchgate.net/publication/225231064 accessed on 3rd March 2022.

[22] Section 26 of the Tanzania Cooperative Societies, 2013 recognizes these type of hybrid cooperatives as joint venture cooperatives. See also Menard ibid, See also Ménard C. Hybrids: where are we? *Journal of Institutional Economics*(2021), 1–16

[23]See Chaddad, F.R. and Cook, M.L. (2004). Understanding New Cooperative Models: An Ownership-control Rights Typology. *Review of Agricultural Economics*, Vol.26, No. 3, pp. 248-360.

[24] See Chaddad and Cook ibid.

[25] Such as providing difference in voting rights, depending on the level of member's patronage.

their operations such as issuance of different classes of shares to members as hybridization.[26] Under such circumstances a cooperative society is partially converted into a company model for purposes of accessing finance from members as well as from non-members.[27]A company on the other hand, may also be regarded as a hybrid cooperative, if it adopts some of the basic cooperative principles.[28]

Essentially hybrid cooperatives may take a company or cooperative form, provided that a hybrid structure which is established guarantees members 'commitment to contribute to the assets of the said hybrid through patronage and share acquisition. In a cooperative hybrid which adopts a company form, the hybrid which is registered as a company meets minimum requirements for it to be registered as a company, while at the same time retaining some of cooperative elements or characteristics such as democratic member control, member economic participation and autonomy and independence, thereby ignoring some company principles as to decision making, and share transfer.[29]On the other hand, some cooperative principles may as well be disregarded, including open and voluntary membership[30] and to some extent, care for community.[31]

Chaddad and Cook in 2003[32] conducted a study on several demutualized cooperatives (savings, loan and insurance cooperative associations) in United States after noting an increasing number of demutualized cooperatives since 1980s. They observed that the hybrid cooperatives which were established due to demutualization:

- had changes in their organizational structures which enhanced their efficiency;
- their perceived financial constraints were ameliorated;
- their members/shareholders got access to unlocated equity and reserves;
- the weak governance trend which had previously become rampant was reversed by aligning interests of managers with those of the members and that resulted in reducing agency costs;

Generally, demutualization in developed countries resulted in the establishment of hybrid cooperatives, the process which addressed challenges of cooperative ownership and management. The latter challenges were due to adhering to traditional cooperatives models of ownership and governance.

3.0 Challenges of HBCS using Traditional Co-operative Models

Traditional or first-generation cooperatives refer to cooperatives that are established based on International Cooperative Alliance (ICA)principles as pronounced in the Statement on Cooperative Identity in 1995. According to the Rochdale traditions cooperatives must provide for a limited return on capital and mostly the accruing profits or surplus should be distributed to the members in proportion to their use of the cooperative services (patronage), after deducting a bigger portion

[26] See Bekkum, O.F. van, and J. Bijman (2006) "Innovations in Cooperative Ownership: Converted and Hybrid Listed Cooperatives", Business paper presented at the 7th International Conference on Management in Agri-Food Chains and Networks, Ede, The Netherlands, 31 May – 2 June, 2006 available at https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.128.4735&rep=rep1&type=pdf accessed on18th May 2022

[27] For example, when the cooperative is transformed into a stock company for purposes of being listed under stock exchange, see Bekkum ibid.

[28]See Paranque B. and Willmott H. (2014) "Cooperatives - Survivors or gravediggers of capitalism? The ambivalent case of the John Lewis Partnership", available at https://www.academia.edu/7501186/Cooperatives_saviours_or_gravediggers_of_capitalism_The_ambivalent_case_of_the_John_Lewis_Partnership?auto=downloaaccessed on 21/1/2022

[29] Chaddad and Cook *supra* at fn. 16

[30] Referring to the 1st ICA principle, the HBC would allow only the members who will be ready to contribute their patronage as well as acquisition of the required shares that meet the needs of the required capital.

[31] Referring to the 7th ICA principle as the established HBC may not be required to observe the requirement for establishing mandatory cooperative social responsibility so as to guarantee future membership because in a HBC membership is not open to any person. Instead, it may need to create an institutional framework that would guarantee shareholders who invested in the HBC to enjoy residual rights claims. See Chaddad and Cook *supra* fn. 16

[32] Chaddad and Cook supra fn. 3

of the net surplus which should be allocated to an indivisible reserve.[33] This tradition, a remnant of the Owenite perception of ownership of cooperative institutional capital[34] was maintained through cooperative principles since the establishment of the ICA.[35] Today the formulation is reflected in the third ICA principle which stresses on member economic participation as the main criterion for having a stake in the proceeds of the cooperative society.[36] Thus, in traditional cooperatives member use, or patronage is the only factor which links members with the control of the cooperative enterprise. Such cooperatives disregard balancing patronage with the degree of monetary investment a member owns in the cooperative. In this sense the traditional cooperative models do not accord due consideration to the investment rights of members who, apart from being patrons of the said societies, are supposed to be the residual rights claimants of the cooperative assets.

However, the traditional cooperative formulation worked well in traditional agricultural cooperatives, where members were the main or the only users of the services offered by the cooperatives as well as the direct beneficiaries of those services. Challenges start to ensue when one or more cooperatives decide to invest in a subsidiary structure, normally in a company form based on share ownership for purposes of benefiting from a variety of interests in the market through a process which we have termed as 'hybridization of cooperatives.'[37]

According to Chaddad and Cook[38]in traditional or classical cooperatives (TCs) ownership rights are restricted to members who are the patrons but their stakes in the cooperatives are non-transferable and non-appreciable. They are only redeemable when a member leaves the cooperative or dies. Moreover, the said rights are vaguely defined, thus making it difficult for a member to refer to them when identifying himself or herself with the cooperative society. The rights of members of primary cooperatives become more unascertainable in the hybrid organizations owned by cooperative affiliates.[39] This leaves wide open the question of what stakes an individual member of a primary cooperative society should own in hybrids established by such affiliates. [40]

Thus, problems associated with hybridization of cooperatives through traditional cooperative models are multifarious, but all revolve around diminishing control of the residual rights owners as the distance between the rights owners in primary cooperatives and the established hybrids increases.[41]In a hybrid cooperative where the shareholders are cooperative affiliates, residual rights ownership sometimes get diffused. This tendency may result in 'patronage decay' on the side of primary cooperative members as they lose incentives to continue transacting through 'parent' cooperatives. On the other hand, since residual rights ownership is diffused, accountability of the board of directors of the hybrid to the would-be residual rights holders becomes virtually non-existent and this may lead to the collapse of the hybrid cooperatives. Our discussion on part five covers a case study of Tanganyika Coffee Curing Company Limited (TCCCo) and the Tanganyika

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33 According to ICA Guidance Notice to the Cooperative Principles, on pg. 29

34 Refer Quotation by Robert Owen on perception of 'institutional capital' provided in ICA ibid.

35 See ICA Guidance Notice to Cooperative Principles pg. 29

36 Ibid at pp. 29 – 30.

37 Enzo Pezzini (2004) '*The European co-operative society: a new step in European company law*', in Carlo Borzaga and Roger Spear (eds) **Trends and challenges for co-operatives and social enterprises in developed and transition countries,** Da Legoprint S.p.A. – Lavis (TN), available at www.edizioni31.it accessed on 21/11/2021 pg. 97 -135 at pg. 112

38 Supra fn. 16. at pg. 350

39 For example, secondary or tertiary cooperative societies.

40 This becomes complex when such secondary or tertiary level cooperative societies establish a hybrid cooperative society which is supposed to process produce of a member of a primary cooperative society, which is a member of such a secondary or tertiary cooperative society, as the case may be.

41 Hypothetically therefore, diminishing control problems of residual rights holders (patrons) may be less experienced in hybrid cooperatives which are established by primary cooperatives than it is the case in cooperatives which are established by secondary or tertiary cooperatives.

Instant Coffee Company Limited (TANICA) which are hybrid cooperatives owned by secondary cooperative societies in Kilimanjaro and Kagera regions of Tanzania, respectively indicates that the economic performance of these hybrids deteriorated because of the following challenges which were due to using the traditional cooperative models of ownership and management:

(i) Decreasing member patronage

Although both TCCCo and TANICA were planned to depend on members' coffee for processing, the anticipated quantities were not met by the members because in the case of TCCCo, some shareholders established their own coffee processing facilities[42] and some decided to process their coffee using private coffee processors. In the case of TANICA the main shareholders (KCU and KDCU) were not willing to 'sell' their better-quality coffee to the TANICA for processing. Instead, they preferred allowing the company to source its raw materials from private dealers.[43]Moreover, the whole exercise was engulfed with conflict of interests among the members of the board.[44]

A number of literatures, has indicated that one of the reasons that contribute to the decrease of patronage in hybrid cooperatives established based on traditional cooperative models is vague definition of property rights owned by shareholders in the cooperatives. Particularly, lack of a legal and institutional framework which protects the rights of residual rights claimants.[45]They argue that uncertainty on the ownership of residual rights by contributors of raw materials (patrons) dissuades them from patronizing with the hybrid cooperative. Although this study is deficient of empirical evidence to this effect, it is highly suspicious that lack of clarity on benefits the patrons of the hybrids (suppliers of raw materials) expected or were getting, might have contributed significantly to the decreasing patronage in the studied hybrid cooperatives.

(ii) Governance: Challenges of member control

Hybrid cooperatives which are owned by consortia of secondary cooperative societies are faced with the challenge of governance, if operated using traditional cooperative model. In these hybrids, membership to their respective boards of directors is either composed of the chairpersons and deputies of the unions' boards of directors[46] or are chairpersons and managers of the unions.[47]Same members of boards of the hybrids, plus other members of boards of directors of the respective unions attend general meetings of the hybrids, representing their respective shareholder unions. In essence therefore, the AGMs of the hybrids are organized in order to endorse or rubber-stamp the decisions made by hybrids' boards of directors, however unpopular or damaging to the hybrids they might be.[48]

On the other hand, there may be a horizon problem among the members of boards of directors of the hybrids. Most of them are not versed with business management professionalism and their articles of associations do not indicate competence in business management as a criterion for being appointed as directors. Indeed, their appointments to the respective unions' boards of directors sometimes are based not on qualifications, but on their popularity or influence. Therefore, there may be a great possibility that decisions in hybrid boards of directors or in their respective AGMs are deficient of technical and professional inputs or advices.[49]In most times the decisions also do

[42] TCCCo (2021) Corporate Strategic Plan, 2020/2021 – 2024/2025 at pp. 15 -16
[43] *Infra* at pp. 14 - 16
[44] Ibid.
[45] See Menard C. (2007) infra fn .21 and Chaddad and Cook (2004) infra fn. 23
[46] In case of TCCCo Ltd.
[47] In case of TANICA
[48] An example of decision made by TCCCo Board of Directors to sell some of its houses in 2014 was endorsed by the AGM, though later turned out to be a scam. Another example are decisions made by TANICA board of directors to involve the company in the water and gas projects in 2014/2015 ended up in occasioning losses to the company were endorsed by the AGM without thorough shareholder scrutiny, see infra pp. 14 - 16.
[49] The fact that some members of these boards like that of TANICA represent the Government (Treasurer Registrar) and TFC who were supposed to appoint more competent representatives notwithstanding.

not undergo conventional procedures of scrutiny, either by patrons[50] or regulators.[51] Thus, there may be a need of revisiting hybrid cooperative constitutions to increase the number of professionals in their respective Boards of Directors.

4.0 Co-operative Hybrids using the Second-Generation Co-operative Models

4.1 An overview

The literature which suggests solutions to problems associated with decision making in hybrid cooperatives established according to traditional cooperative models, propose several cooperative structural options which may be used to ensure patrons of such hybrids are guaranteed of legal protection on their residual ownership rights.[52] The proposed cooperative structures are hybrids that may exist between two opposite business organization forms. On one hand there is a traditional cooperative model and on the other, there is the investor-owned firm (IOF) or a company form. The traditional hybrid cooperative model, whether in the company form or otherwise, which when established with an intention of avoiding classical cooperative values and principles, may end up being established in a structure which resembles an IOF, adhering to classical company principles and that structure may not have associative elements.[53]Different cooperative institutional writers posit that there is a variety of cooperative structures existing between the two polar structures[54] which cooperators may adopt as a solution to the problems of participation of the residual rights holders in hybrid cooperatives, depending on the purpose of such hybrids.[55]The latter cooperatives have a heterogenous membership and are aimed at serving a wider range of interests, apart from those of the members, depending on the demand of their services (the markets).

4.2 Types of Hybrid Co-operatives under the Second-Generation Cooperative Models

Chaddad and Cook identify three non-traditional cooperative models, which manifest organizational variations in the ownership rights of members of cooperative societies, as possible solutions or answers to the question of property rights ownership in cooperatives. They include: (a) member-investor cooperatives (MICs),[56] (b) proportional investment cooperatives (PICs), and (c) new generation cooperatives (NGCs). This study will however, deal with the latter two models.

(a)The Proportional Investment Co-operatives (PICs model)

In the PICs, members are expected to invest in the cooperative in proportional to their patronage. In other words, their patronage in a cooperative determines the level of share ownership they should have in the cooperative and when their patronage decreases, their share ownership

[50] For example, financial reports of the hybrids may not be reported at the respective AGMs of shareholder unions.

[51] Neither are they scrutinized by external auditors of the respective shareholder unions and because they are registered as companies the Registrar of Cooperatives is not legally mandated to supervise them.

[52] See for example, CHADDAD RF and COOK L. M, Understanding New Cooperative Models: An Ownership- Control Rights Typology, *Review of Agricultural Economics*, Volume 26, Number 3, pp. 340 – 360; Chaddad R. F and Cook I. M the economics of organization structure changes: a us perspective on demutualization, Annals *of Public and Cooperative Economics* 75:4 2004 pp. 575– file:///E:/RESEARCH%20WORK/HYBRISATION/CHADDAD%20%20DEMUTUALIZASATION.pdf 594; available at accessed on 30/11/2021; See also NICOLS A., 1967, 'Stock versus mutual savings and loan associations: some evidence of differences in behavior', American Economic Review, 57, 337–346.

[53] For example, giving a majority shareholder in the hybrid to make decisions in the hybrid board of directors or in the AGM in disregard of other minority shareholders using 'one share one vote' principle.

[54] That is, the traditional cooperatives and the IOFs

[55]For purpose of simplicity, this study clusters these hybrid cooperatives as "second generation cooperatives".

[56]The MICs model, sometimes known as 'investor-share cooperative model' refers to a cooperative in which members/investors receive ownership rights in the cooperative in addition to the traditional cooperative ownership rights held by member-patrons. The model thus combines both investment which is contributed by members in terms of share acquisition and at the same time the members remain patrons of the cooperative.

decreases accordingly. Further, in the PICs model, ownership rights are restricted to the current members only. The said rights are non-transferable, they do not appreciate, but may be redeemed or transferred to existing members in circumstances where the member fails to meet his or her patronage requirements, withdraws the membership or dies.[57]

PICs have a number of advantages when compared to TCs, namely: (i) PICs may encourage an increase in cooperative membership as the prospective or potential members get assured of future residual rights ownership in the cooperative; (ii)They incentivize members who wish to own more stakes in the cooperative to increase their level of trading through a cooperative (patronage levels) and thereby increase the business of the cooperative;(iii) PICs also reduce/eliminate 'free-rider members'[58] because only residual rights holders are acceptable to trade through the cooperative; (iv) PICs may also assist in sorting out loyal and disloyal members. For example, members who side-sell their produce through channels other than the cooperative eventually lose their share control in the PICs.

Proportional Investment Cooperatives thus, differ from TCs by the fact that member investments in those cooperatives are proportional to their patronage and may therefore be used to accommodate hybrid cooperatives whether in the company or cooperative form. This is because, the member who is expected to use the services of the hybrid will equally be obliged to proportionally invest in the capital of the hybrid and his membership as a shareholder will continue to be legally recognized only as long as he continues to be an active patron of the hybrid.

Some literature emphasizes on the importance of capital management policies in PICs for legitimization of the proportionality of members' contributions (patronage) and provision of the efficient PIC management.[59]Such policies include preparation and implementation of base capital plans. A Base Capital Plan (BCP) is a document prepared by a cooperative, which intends to transform itself into a second-generation cooperative form, or which is established by more than two cooperatives as a hybrid cooperative for purposes of conducting certain joint activities such as joint processing and marketing.[60]The BCP document prescribes internal procedures of capital acquisition from members in proportion to their levels of business transactions with the cooperative. The first step in preparing the BCP is determining the minimum capital requirements, based on the cooperative future market opportunities and also the willingness of the members/patrons to supply the required capital. The second step is determination of levels of members' use of the cooperative services (patronage), which is subsequently used to calculate the proportion of share contribution by each member. The plan then sets a criterion of increasing share ownership to members whose patronage levels were underrated or of redeeming shares from members whose patronage levels were overrated and this would subsequently continue, depending on levels of member participation in the activities of the cooperative society. The plan also may allow more frequent participating members to buy the redeemed shares from less participating members.

When the proportional investment cooperative is established at a secondary or tertiary level, as is the case of TCCCo and TANICA the primary cooperatives or secondary cooperatives, as the case may be, become centres of aligning members share ownership in proportion to their participation in the PIC activities (patronage). Their contributions to the cooperatives are aggregated upward in the cooperative hierarchy by their primary, secondary and tertiary cooperative societies, but share

[57] Chaddad and Cook *supra* fn. 23.
[58] Free-riders in cooperatives mean less committed members because of the low or negligible ownership stakes in cooperatives who utilize common services of the cooperatives such as inputs, storage and marketing facilities, but would decline contributing to their acquisition or maintenance. These may include members who acquire the necessary minimum shares in the cooperative or sometimes do not have any shares, but expect to benefit from the services offered by the cooperative. Some free-rider members decline or by-pass cooperative facilities and sell to outside vendors, despite the fact that they used cooperative facilities and inputs in production. Also, these may include non-members who, because of government directive or otherwise market their crops through cooperatives.
[59] Refer for example, Chaddad and Cook *supra* fn. 23.
[60] Ibid.

ownership in the PIC is supposed to belong to an individual member of the primary cooperative society whose produce is processed by the PIC. For example, if it is an agricultural cooperative, the individual member share ownership level in the PIC will increase or decrease depending on how much produce (in terms of quantity) the primary, secondary or tertiary cooperative will deliver to the PIC on the member's behalf. Similarly, if it is a diary marketing cooperative society which invests in the diary processing PIC, ownership of individual members of the primary cooperative in the diary processing PIC will depend on daily milk quantities the primary, secondary or tertiary cooperative collects and delivers to PIC on producer-member behalf. The cooperative society therefore becomes the producer-member's milk collection centre.[61] This will give members an incentive to improve their participation in the activities of the respective cooperative society so that they can increase their share ownership in the PIC.

The PIC model fits in the above description of a hybrid cooperative and may be utilized by cooperatives which wish to establish cooperative joint enterprises or cooperative joint ventures for purposes of adding value to the members' produce, aimed at enhancing their business competitiveness in the market.[62]

(b) New Generation Co-operative Model (NGC Models)

The new generation cooperative model is the opposite of the PIC model in the sense that it uses future market demands of the cooperative processed products or goods to determine the level of share ownership of its members in the cooperative. In other words, it links cooperative ownership with member deliveries of the produce to be processed and marketed by the cooperative. According to this model the relevant cooperative enters into advance marketing agreements with the buyers of the processed goods. Later, based on the quantity of supplies required by the market, the cooperative makes offer to member-patrons to acquire shares in the cooperative with attached delivery rights of the quantities and qualities required by the market, as per the marketing agreements. Thus, the more the number of shares the member buys the more delivery rights in terms of the required quantities the member gets. Further, the shares and delivery rights purchased by the member-patrons are tradable on the secondary markets and this helps to determine the market value of the produce at the time of delivery. The cooperative on the other hand, gets internal capital, which it uses to finance storage and processing operations.

The share and its attached delivery rights create a right to the purchaser (the shareholder) to deliver to the cooperative an amount of the produce represented on the share document. Yet on the side of the cooperative the delivery right creates an obligation to the cooperative to purchase the tonnage of the produce represented on the document. Thus, through sale of shares the cooperative generates internal capital from members. Also, through delivery of the required produce members become patrons and at the same time the shareholders of the cooperative.

The price of a share and the delivery rights each share should carry, is determined by the cooperative, after securing commodity supply agreements, which assist the cooperative to determine the required processing costs and the required quantities to be processed. The cooperative therefore has to have the required expertise to determine the initial offer (IO) of share/delivery rights purchase to its members.

The advantage the NGC model has over TC model is that as opposed to the latter the NGC is assured of member patronage. Also, production is done according to market requirements with quantity

[61] Thus, the PIC model could be used to solve the problems of ownership and management currently faced by the Tanga Fresh Company Limited (TFL) which is a cooperative hybrid diary company owned by Tanga Diary Cooperative Union (TDCU) and other investors who contributed financial capital to the company, but the company operations and services totally dependent on the milk supplied by members of dairy primary cooperative societies who are members of TDCU. Currently the said members do not participate in the ownership and management of TFL, despite of the fact that the survival of the company depends to totally on their milk.

[62] In which case they may decide to register such hybrid cooperative as a cooperative joint enterprise or venture pursuant to section 26 of the Tanzanian Cooperative Societies Act, 2013 or as a company pursuant to the Companies Act, (Cap.212) of the Tanzanian Laws.

and quality being pre-determined. The NGC model also solves the problem of free-ridership as all the producers have to have delivery rights to trade and subsequently benefit from the cooperative. Moreover, allowing the delivery rights to be traded at secondary markets enables the member-patrons to control a larger segment of the value chain of their products. NGC models may be used by hybrid cooperatives in case where some members of traditional cooperatives wish to establish cooperatives with members who are committed with meeting market demands. Like in the case of PICs they may be established in the cooperative or company form.

5.0 Case Study of Hybrid Co-operatives of Tanzania

(i) The Tanganyika Coffee Curing Company Limited (TCCCo Ltd.)

The Tanganyika Coffee Curing Company Limited (TCCCo Ltd.) which was established in 1920 was taken over by co-operative unions in 1989 with share ownership allotted in proportional to the value of coffee marketed by the member cooperative unions. The share ownership in the company by those unions is currently as indicated in Table 1.

Table 1: Share Ownership in Tanganyika Coffee Curing Company

Shareholder	Region	Ordinary Shares	Preference Shares	Percentage
KNCU Ltd	Kilimanjaro	4,590,000	216,000	54
ACU Ltd	Arusha	850,000	40,000	10
TCGA	ACPR*	2,635,000	124,000	31
VCU Ltd	Kilimanjaro	170,000	8,000	02
TARECU Ltd	Tanga	127,000	6,000	1.5
BUHA Ltd	Kigoma	42,000	2,000	0.5
RIVACU Ltd	Manyara	42,500	2,000	0.5
MORECU Ltd	Morogoro	42,500	2,000	0.5
Total		**8,499,000**	**400,000**	**100**

Source: TCCCo. Strategic Plan, 2020/2021 – 2024/2015 at pg. 2
Key: * All coffee-producing regions

TCCCo is the largest coffee curing company in the country owned by cooperatives. It has the capacity of curing 50,000 tons of coffee per year. The factory was anticipated would foster coffee production through value addition and consequently, contribute to employment creation and revenue generation at the grassroots level. However, due to numerous shortcomings, most of which are related with inadequate shareholders patronage participation and poor governance,[63]for the past ten years TCCCo has been faced with a deteriorating economic performance trend, to the extent of being outcompeted by private curing companies established in Kilimanjaro, after liberalization of coffee trade in 1990s.

Records show that the patronization of members by shareholder unions has been weakening and delivery of parchment coffee to TCCCo Ltd has been regressively decreasing. [64]Some shareholders such as BUHA Ltd (Kigoma) and MORECU Ltd (Morogoro) ceased to patronize TCCCo Ltd due to the establishment of coffee curing plants in their areas of operation. Records also show that other union shareholders such as KNCU Ltd which is a majority shareholder, VCU Ltd and Usambara Cooperative Union Ltd did not deliver any parchment coffee to TCCCo Ltd from the years 2017/2018 to 2018/2019. [65]Most members of KNCU (primary cooperatives) preferred curing their coffee in private curing companies, rather than patronizing with their company through their unions as a way of avoiding abnormal curing losses and other governance issues. The implication of Low patronization by shareholders is that these shareholders have lost the right to ownership of the company.[66]Because of inadequate patronization by shareholders and governance problems,

[63] TCCCo Strategic Plan at pg. 5
[64] Ibid at pp. 13-14
[65] Ibid
[66] Ibid

economic performance of TCCCo was in the negative growth for almost the past ten years (2008/09 – 2018/19) as demonstrated in Table 2 in the appendix.

(ii) The Tanganyika Instant Coffee Company Limited (TANICA)

The second example is the Tanganyika Instant Coffee Company Limited (TANICA), which was established in 1963 being owned by Tanganyika Development Finance Corporation (TDFL), which had 90 percent share ownership and the Bukoba Native Cooperative Union (BNCU) which had 10 percent share ownership. TANICA was taken over in 1976 by Tanzania Coffee Authority (TCA) and later by Tanzania Coffee Marketing Board (TCMB) in 1984 when the Authority was disbanded. In 2000, TANICA underwent privatization under the Parastatal Sector Reform Commission (PSRC). According to the privatization package the consortium of cooperative unions, namely Kagera Cooperative Union Limited (KCU Ltd.), Karagwe District Cooperative Union Limited (KDCU Ltd.) and Tanzania Federation of Cooperatives Limited (TFC Ltd.) acquired shares worth Tanzania shillings 200,000,000/=. Whereby, KCU was allotted 52% of the shares, KDCU 31% and TFC 2%. In addition, Tanzania Coffee Board on behalf of Treasurer Registrar (TCB/TR) remained with 10% of the shares and the rest of the shares, that is, 5% were allotted to TANICA employees as deferred shares.

The structure of share ownership changed in 2008 when the company required additional working capital, which was eventually provided by KCU Ltd. and KDCU Ltd., resulting in increasing the share ownership of KCU to 53.3% and KDCU to 31.83%, TR 7.67%, TFC 6.22% and the employees 0.9%respectively, as indicated in Table 3 in the Appendix. The economic performance of TANICA for the season starting from 2015/2016 to 2016/2017 witnessed serious losses which were mainly due to bad governance and inappropriate management decisions. In 2015 the company commissioned two projects, namely production of mineral water and supply of domestic gas, without conducting a proper feasibility study.

Both projects ended up making losses. In addition, the company adopted a new policy of sourcing raw material (coffee) from private agents, instead of sourcing it from shareholder unions (patrons). [67]Also, there was gross business mis-management, which was coupled with abuses in employment procedures, which included over payments of extra-working hours allowances to employees. All these resulted in reducing the working capital of the company by Tanzania Shilling 1,774,284,938 as indicated in Table 4 in the Appendix. Generally, the business performance report of TANICA for years preceding the 2015/2016 season indicate that the recovery trend of the company, which had started in 2011/2012 was thwarted from 2015/2016 when the company started operating at a loss, as demonstrated in Table 5 in the Appendix. According to TANICA management other factors which contributed to the downward economic performance trend included the following:

- Increasing competition from two private coffee roasting companies which were licensed to start coffee roasting business in Kagera region[68];
- Inefficient and almost dilapidated factory machines which require frequent repairs, resulting in higher production costs compared to sales proceeds;
- Outdated technology as the factory machines could not produce granulated coffee, a brand currently preferred by the market;
- Poor quality of coffee that TANICA receives for processing as a result of implementing the outdated TANICA policy that the company should process the last grade coffee (triage), which cannot fetch market at the auction.

[67] It was later discovered that this move was an act of sabotage between the General manager of TANICA and the General Managers of KCU and KDCU who were owners of the said private coffee trading companies.
[68] Amir Hamza Company Ltd. and HAKIKA Co. Ltd.

(iii) The Farmers Kilimanjaro Coffee Limited (FAKICO Ltd.)

The third example involves the Farmers Kilimanjaro Coffee Limited (FAKICO Ltd.), which is a private company whose 80% of its shares is owned by 26 agricultural marketing primary cooperative societies within Kilimanjaro region and 20% of the shares was earmarked to be allocated to other investors, including individual shareholders. FAKICO was established in November 2021 after the Registrar of Cooperatives had decided to deregister G32Kilimanjaro New Cooperative Initiatives – Joint Venture Enterprise Ltd. (G32 KNCI – JVE Ltd.) which had been established by 32 Kilimanjaro primary cooperatives societies in2008. It was deregistered because the registrar claimed that it was conducting business similar to that conducted by the Kilimanjaro Native Cooperative Union (KNCU Ltd.).

The primary cooperatives which were members of G 32 KNCI – JVE Ltd. are also members of KNCU Ltd. The establishment of G 32 KNCI – JVE Ltd. in 2008 was compliant to the provisions of the then Cooperative Societies Act of 2003.[69] Similar provisions were retained by the current Act.[70]The provisions allow cooperatives who are members of a cooperative union to establish cooperative joint enterprises for purposes of enhancing efficiency in their businesses, provided such an establishment would not amount to establishing a new union. In other words, the provisions allow primary cooperatives to establish joint business enterprises for purposes of transacting their businesses to meet competitive market demands, but remained committed members of the union (KNCU).[71]

FAKICO was established to fulfil a main function of facilitating exportation of coffee of member cooperatives, just as it was the case of the defunct G 32 KNCI – JVE Ltd. In addition, according to its Memorandum and Articles of Association FAKICO may also be engaged in buying and exporting coffee of non-members. In future FAKICO intends to carry on the business of coffee roasting, blending and packing. The contribution of the coffee from member cooperatives who are also the shareholders of the company, is considered critical for the smooth conduct of the company's main business. Further, the contribution of share capital by the same primary cooperatives are necessary to facilitate other mandated activities of the company.

So far FAKICO has not yet experienced any challenges of running the company as its members still meet their commitments of contributing the green coffee beans it requires to meet coffee orders from coffee roasting and blending companies abroad. This study, serves as a lesson to FAKICO and other future potential cooperative hybrids when planning on how to involve members in their ownership and operation.

6. 0 Prospects of Managing Hybrid Co-operatives based on New Co-operative Models

6.1 An overview

The Tanzania National Five-Year Economic Development Plan (2021/22 -2025/26)[72] indicates that in year 2019/20 there were 113 agriculturally based industries owned by cooperatives. Some of these industries are hybrid cooperatives. The plan foresees that industries owned by cooperatives will increase to 183 by 2025/2026.[73] Indeed, they may be more than the projected ones if the data would include industries owned by cooperatives in other sectors such as mining and manufacturing[74] and if the deteriorating trend in the economic performance of existing hybrid

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[69] Section .. of the Cooperative Societies Act, 2003 now repealed and replaced by Act No. 6 of 2013.

[70] No. 6 of 2013. Under section 26 the Act gives power to the Registrar of Cooperatives to allow two or more cooperatives to establish a cooperative business joint enterprise for purposes of enhancing efficiency in their business.

[71] The deregistration of G 32 was therefore not legally justifiable because the activities it was conducting were same as the ones which the same Registrar of Cooperatives had registered it to perform. Indeed, records show primary cooperatives who were members of G 32 KNIC – JVE Ltd. are the ones patronizing with TCCCo Ltd. more than other primary cooperative societies members of KNCU Ltd.

[72] NFYDP

[73] Ibid at pg.89

[74] Recent data (2021) on industries owned by cooperatives

cooperatives would be reversed. The experience of the above studied hybrid cooperatives indicates that the economic performance of both TCCCo Ltd. and TANICA Ltd. is deteriorating and that non-participation of produce suppliers in their ownership and management may be one of its main reasons. Unfortunately, the current Tanzania cooperative development policy and legislation do not embrace the above discussed new cooperative models as possible solutions to the current disappointing performance of the hybrid cooperatives. This study therefore recommends the following interventions in the Tanzanian cooperative development policy and legislation.

6.2 Need for matching patronage with shareholding

Considering the current economic development policy of Tanzania and targets for industrialization through cooperatives,[75] the ministry responsible for cooperatives is promoting value addition on agricultural produce, partially through cooperatives. In addition, in recent years the ministry has been embarking on a program of rehabilitating cooperative society factories in the cotton industry. It is expected that the establishment of future hybrid cooperatives, will as much as possible avoid the shortfalls experienced by the existing hybrid cooperatives, which were based on traditional models of hybrid cooperatives. Of much relevancy is the fact that hybrid cooperatives whether in a company form or otherwise will highly depend on raw material produced by members of primary cooperative societies in their respective areas. Secondly, given the current policy of trade liberalization, the farmers are not likely to agree to contribute their produce to the hybrids if their commitment to contribute will not be reciprocated with an assurance of ownership rights in those hybrid cooperatives. This calls for having a cooperative institutional framework that will match farmer(member) patronage with ownership of residual rights in the future hybrid cooperatives. In addition, there may be a need for revisiting their constitutions or Memoranda and Articles of Associations to ensure management bodies involve professionals who are knowledgeable of preparing and implementing CBPs, in case they opt to adopt a PIC or NGC model. To this effect policy directives which will later be implemented through a reviewed cooperative societies legislation will be required.

6.3 Need for adoption of new co-operative models

In an endeavour to look for an institutional framework that would facilitate establishment of hybrid cooperatives and which assures availability of raw materials to the hybrids and at the same time ownership rights to the producers, Tanzanian cooperators need to consider establishing or transforming themselves into either proportional investment or new generation cooperative models. The existing legal framework, particularly section 26 of Cooperative Societies Act[76] which allows cooperatives to establish cooperative joint enterprises or cooperative joint ventures may, as a starting point, accommodate these structures, if proper technical guidelines and policy directives to such effect are issued. The said guidelines can be issued under the provisions of Regulation 71 (3) of Cooperative Societies Regulations[77], which gives power to the Cooperative Commission to issue guidelines on the modalities for the formation, registration and management of cooperative joint enterprises.

For the cooperatives which wish to establish new generation cooperatives, it is advisable that relevant crops better be traded under the commodity exchange facility also currently existing in Tanzania. This mechanism would eventually eliminate middlemen traders who utilize the warehouse receipt facility to exploit producers. It will also encourage the culture of investment by the producers. However, both models need to be understood first and preparation of appropriate strategies undertaken before their introduction.

[75] See The Tanzania National Five-Year Economic Development Plan (2021/22 -2025/26) infra fn. 54

[76] This is because the section and Regulation 70 of the Cooperative Societies Regulations provides for modalities for establishing such bodies, except in the instances where members may wish to establish their hybrid as a company, in which case they will have to comply with the provisions of the Companies Act (Cap. 212)

[77] G.N No. 272 of 2015.

7.0 Conclusion

The main objective of this paper was to create an understanding of the concept of hybridization of cooperatives and how it could be utilized by Tanzanian cooperatives to grapple with challenges occasioned by trade liberalization policies, which were introduced in the country in the past two decades. The study has found that hybridization could be utilized by cooperatives as a way of avoiding some of the traditional cooperative principles which potentially might have delayed efficiency in cooperative business undertakings, while maintaining those which continue to differentiate them from IOFs. Of much significance is recognition of the fact that cooperative members who supply raw materials to hybrid cooperatives as part of their patronization, need to be assured of their residual claimant rights for the sustainability of future cooperative hybrids. The latter understanding was ignored by hybrid cooperatives which applied traditional cooperative models. These traditional cooperative hybrids could operate properly during the pre-trade liberalization era when cooperatives had a monopoly of being sole traders in the local markets. Under a liberalized environment absence of property rights ownership in the assets of the hybrids may dissuade the patrons from contributing the required raw materials to the hybrids. On the other hand, in the absence of member-patron control the uncontrolled management of those hybrids may endanger their competitiveness and hence their sustainability.

Using examples of hybrid cooperatives established in Tanzania before the era of trade liberalization, particularly TCCCO Ltd. and TANICA Ltd. this study has tried to demonstrate challenges which such hybrid cooperatives faced after the trade liberalization era, when they continued to operate along traditional cooperative models. The study has investigated into what it has called 'second generation cooperative models', namely, proportional investment cooperatives and new generation cooperatives. These are models which associate member contributions of raw materials in the form of patronage with rights obtained through share acquisitions and through that they recognize residual rights claims of the members. While the PIC model is closed only to the members, the NGC model allows raw material delivery rights to be traded at secondary commodity markets. Thus, if the latter models are introduced in Tanzania, they may assist to eliminate middle men who enjoy the benefits of warehouse receipt and commodity exchange systems, which result in reducing the income of cooperative members.

It is expected that before considering to introduce the second-generation models, more empirically based studies will be conducted to justify their appropriateness in Tanzania. What this study has attempted to demonstrate is the inappropriateness of operating hybrid cooperatives using traditional cooperative models under the liberalized trade environment. This may assist hybrid cooperatives which are being established today such as FAKICO and many future ones to draw an early lesson. Possibilities of utilizing the provisions of section 26 of the current Cooperative Societies Act, 2013 should also be investigated as a starting point for promotion of more industrial-based hybrid cooperatives. Due to the current economic development policies and plans, the latter are likely to feature in the future Tanzania. The paper therefore recommends incorporation in the national cooperative policies, legal frameworks and institutional structures that would provide solutions to the challenges encountered by the current HBCs.

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Appendix

Table 2: TCCCo Costs vs. Revenues from 2008/09 to 2018/19

Narration	Total - TZS Million	Average	% of Revenue
Cost of Sales	2874.3	261.3	62
Administration expenses	2747.0	249.7	59
Sub-total	**5621.3**	**511.0**	**122**
Net income before depreciation	-1002.6	-91.1	-22
Depreciation	4985.0	453.2	108
Net Profit	-5987.5	-544.3	-130
Profit on asset disposal	976.1	88.7	21
Net Profit after disposal	-5011.4	-455.6	-109

Source: TCCCo Ltd. Strategic Plan, 2021 at pg. 8

Table 3: Current TANICA Share Ownership Structure

Name of the Shareholder	No. of shares (allotted)	Book value in TZS.	Percentage
Kagera Cooperative Union (KCU) 1990 Ltd	9,656,391	772,511,280	53.00
Karagwe District Cooperative Union (KDCU) Ltd	5,758,740	460,699,200	32.00
Treasury Registrar on Behalf of the Government	1,388,000	111,040,000	8.00
Tanzania Federation of Cooperatives (TFC)	1,125,000	90,000,000	6.00
TANICA Workers	166,437	13,314,960	1.00
Total	**18,094,568**	**1,447,565,440**	**100.00**

Source: TANICA, 2017

Table 4: Reduction in TANICA's Working Capital

VOTE/PROJECT	2016/2017	2015/2016	AMOUNT	TOTAL
	TZS	TZS	TZS	TZS
Gas Project - Season 2013/14			98,123,843	98,123,843
Mineral water Project – 2014/15			414,019,095	414,019,095
Project for joining DSE 2015/16			13,000,000	13,000,000
Purchase of raw mater(coffee) from private agencies	674,711,000	179,988,000	0	854,699,000
Salary +PPF/NSSF & allowances	227,891,000	166,552,000	0	394,443,000
Total				**1,774,284,938**

Source: TANICA, 2017

Table 5: TANICA Profit/ (Loss) per Season from 2011/2012 to 2016/2017: in TZS'000'

Season	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
Income: Sales	8,120,486	6,968,008	6,569,502	6,180,131	5,583,853	4,946,167
PC	6,467,917	4,848,683	5,081,076	4,145,099	3,765,741	3,144,745
Net profit	1,652,569	1,886,932	1,720,819	2,035,032	1,818,112	1,801,422
AC	1,648,955	1,364,360	1,127,453	1,159,577	1,036,675	1,005,956
Marketing & supply	370,343	407,895	477,715	774,820	743,825	624,987
Audit fee	5,000	6,000	5,850	9,900	6,000	6,000
Total administration cost	2,024,298	1,778,255	1,611,018	1,944,297	1,785,500	1,636,943
Net profit (loss)	(371,729)	108,677	109,801	90,735	32,612	164,479
Other incomes	7,329	49,403	27,304	31,292	11,425	74,132
Profit (loss) before tax	(364,399)	158,080	137,105	122,027	44,037	238,611
Tax	0	(53,385)	(53,137)	(67,564)	(43,282)	(71,583)
Profit (loss) after Tax	(364,399)	104,695	83,968	54,464	756	167,028

Source: TANICA, 2017

Key: PC=Production Cost
AC=Administrative Cost