

# Fifty Years of Cooperatives and Economic Development in Tanzania (1961-2011)

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## Abstract

This paper has been prepared to document key contribution of co-operatives to socio economic development of Tanzania during fifty years of its independence. The paper is based on library research and the experience of the author on cooperative development and its role in economic development in Tanzania. Tanzania commemorated its fifty years of independence in 2011 and it was necessary to establish and document some of the contribution of cooperatives in economic development during that period of independence so as to create awareness to the government, cooperative stakeholders and scholars and motivate other people to conduct more studies. The historical background of cooperatives goes back to 1925 where small holder coffee farmers in Kilimanjaro started cooperatives and rapidly spread to other areas of Tanganyika. The performance of co-operatives was fairly good during the period of 1960 to 1976. Cooperative in Tanzania were abolished in 1976 and were reestablished in 1982 and its performance after its re establishment was not on the earlier successful footing. Until their abolition in 1976, co-operatives had played a great role in economic development in Tanzania. Ever since their abolition in 1976 and subsequent re establishment in 1982, co-operatives have faced a myriad of challenges including those arising from financial, structural, governance and policy framework. Fifty years of independence have witnessed poor management, corruption, embezzlement, inadequate capital, weak support institutions, inappropriate policies, poor members' education and stiff competition from the liberalized market economy of the 1990's. With the advent of the 21<sup>st</sup> century, co-operatives were given new life. The 2000 Special Presidential Committee on co-operatives was followed by the 2003 Cooperative Societies Act. Later on, a key strategic document- The Cooperative Reform and Modernization Programme (2005- 2015) was produced as a blue print for cooperative revival in Tanzania. To achieve their goals, co-operatives need to be commercially viable enterprises, able to compete in the liberalized market and prosper in the marketplace so as to achieve its purpose of fulfilling the members' economic and social needs.

**Keywords:** co-operatives, economic development, marketing, savings and credit, members' needs

## 1. Introduction

This paper has been prepared to document key contribution of co-operatives to socio economic development of Tanzania during fifty years of its independence. The paper is based on library research and author's experience on cooperative development and its role in economic development in Tanzania. As is typical of many post colonial African countries, co-operatives have formed a major part of the development strategies aimed at the majority of rural communities (Sizya, 20001). It is understood that co-operatives provide a model for pooling resources of people of limited means to achieve commonly identified development needs of the respective people (Ibid). In Tanzania Co-operatives have constituted part of the core variables in the economic development of the country with very important implications on the contribution to economic development. The paper attempts to give a detailed analysis of the cooperative development before and after Tanzania got its independence and its contribution to national economic development, challenges and the way forward for more vibrancy cooperatives.

## 2.0 Literature Review

### 2.1 *Historical development of co-operatives in Tanzania Mainland*

The history of co-operatives in Tanzania dates as far back as 1925 when the Kilimanjaro Native Planters Association was formed. Farmers in Tanzania Mainland started informal co-operatives in 1925 so that they could capture part of the trade profit from their crops. Later on, the first Cooperative legislation was passed in 1932 when the Co-operatives Ordinance (Cap. 211) was enacted. After independence, the Government policy was to make the cooperative movement an engine for economic development. Through a number of legislations, co-operatives were systematically promoted to an important tool for transforming rural community production into a socialist planned economy. While the first Primary Cooperative Society was Kibongoto Rural Primary Cooperative Society which was registered in 1932, the first cooperative union in the country was the Kilimanjaro Native Cooperative Union (KNCU), which was registered with its eleven affiliated primary co-operatives on 1<sup>st</sup> of January 1933. The event took place in Moshi district, which by then comprised of the current Rombo, Hai, Moshi, Siha, and Mwangi districts.

The Ngoni-Matengo Cooperative Marketing Union and its three affiliated primary co-operatives were registered

in 1936 in what is now Ruvuma region. In the 1940s and 1950s other important co-operatives and unions were formed and registered. These were the Bugufi Coffee Cooperative Society in Ngara district and Mwakaleli Coffee Growers Association in the Rungwe district. The latter went on to change its name to Rungwe African Cooperative Union (RACU) in 1949. Others were the Bukoba Native Cooperative Union in Bukoba district, and the Lake Province Growers Association in the Lake Victoria area, which later changed its name to the Victoria Federation of Cooperative Unions Limited (VFCU). The VFCU was a strong cooperative Union and it played a key role in marketing and ginning cotton that was produced by peasants in the lake zone. It facilitated the supply of low priced inputs, such as cotton pesticides and seeds to members, which it purchased in bulk from manufacturers or wholesalers. It also started an industrialization process in the lake zone distinguishing itself in the operation of cotton ginneries. By the 1960s the VFCU was the largest cooperative in Africa, South of Sahara. Co-operatives increased rapidly in the country with firm support from the government. In general, different forms of co-operatives were formed. Examples include productive co-operatives, supply co-operatives, marketing co-operatives; mining, and industrial, consumers, workers and service co-operatives. The landscape of the cooperative movement in Tanzania reveals that agricultural co-operatives are the most predominant, while the second most dominant form of co-operatives are financial co-operatives, such as SACCOS. Agricultural marketing co-operatives were dominant, but different types of co-operatives such as consumers' co-operatives and transport co-operatives were encouraged by the government. After independence, co-operatives continued to increase in terms of number, membership, capital and surplus generation. Primary cooperative societies increased from 573 in 1959 to 1,518 in 1967. According to Sam Maghimbi (2010), many co-operatives which were formed after independence were formed in a hurry and little preparation was undertaken. Many people equated independence with economic development and there was political expediency to form many co-operatives, of which were not feasible. Complaints of mismanagement and corruption were reported and members were not satisfied by the way the co-operatives were managed. In reacting to the complaints of the mismanagement of co-operatives, the president appointed a special Committee of Enquiry in January 1966. The terms of reference for the committee were to review the staffing, and where necessary, the organizational structure of the Cooperative Movement and Marketing Boards in order to recommend what steps should be taken to strengthen them for the maximum benefit of producers and consumers. The presidential committee of enquiry submitted its report to the government in June, 1966, and it listed the five basic problems of the cooperative movement, which included:

- a) Shortage of the appropriate manpower;
- b) Presence of an unformed membership;
- c) Lack of democracy at union level;
- d) Lack of skilled manpower;
- e) Susceptibility of the cooperative movement to political interference.

Among the things the commission recommended was the dissolution of the Victoria Federation of Cooperative Unions (VFCU) and the Tanganyika Cooperative Trading Agency (TACTA). TACTA was a country-wide cooperative tertiary body composed of coffee growers' co-operatives and unions that was formed in 1952. TACTA organized marketing of coffee from co-operatives and individual growers in Tanganyika, Nyasaland (now Malawi) and Northern Rhodesia (now Zambia). It also supplied farm inputs and provided insurance services to co-operatives. It also recommended the dissolution of the Cooperative Supply Association of Tanganyika (COSATA). The Presidential Commission of Enquiry also recommended the formation of a Unified Cooperative Service Commission (UCSC), which would be responsible for the recruitment, discipline, terms of service and dismissal of all employees of registered co-operatives (Mahimbi, 2010). The UCSC was created and organized in much the same way as the Civil Service Commission. The UCSC compromised cooperative members' autonomy and democratic right to hire and fire people of their choice. A further blow to the movement was the dissolution of the National Cooperative Bank and the National Development Credit Agency in 1970. Radical changes in government policy on co-operatives occurred after the introduction of socialism. In implementing policies of socialism, the government abolished all co-operatives on 14<sup>th</sup> May 1976. The crop marketing functions of co-operatives were taken over by village government and each village operated as a cooperative. The functions of cooperative unions were taken over by crop authorities, which had to buy crops directly from villagers. The other services which were provided by the abolished co-operatives, such as wholesale and retail trade, were taken over by state owned companies, such as the Regional Trading Companies and District Development Corporations (Ibid).

The crop authorities failed in buying peasant crops and in providing price incentives. They did badly in the supply of farm inputs and credit. The impact on crop output was quickly felt as the government faced a shortage of foreign exchange due to the decline in crop production. The treasury also lost the potential of local revenue that would have resulted from increased crop production. Due to failure of crop authorities, the government recognized the importance of co-operatives in production and marketing and announced the re-introduction of

cooperative societies in 1982. Co-operatives lost much of their properties and highly trained manpower during the abolition period and it was very difficult for the co-operatives to regain its vibrant status it acquired before the abolition. The morale of members and potential members went down. Cooperative members became dissatisfied with co-operatives and mistrusted the seriousness of the new efforts to revive co-operatives and the style that went with it. The Co-operative movement has been reforming following the enactment of the Co-operative Societies Act no.15 in 1991. This new legislation provides a departure from previous legislation by providing for an autonomy status for co-operatives which had hitherto been government supported and controlled institutions. As a concrete demonstration of its intentions to de-link itself from controlling co-operatives, Government promulgated the Cooperative Development Policy of 2002. Along with this policy statement, Government further passed amendments to the 1991 Cooperative Societies Act to allow even greater freedom and autonomy to co-operatives. The Co-operative Development Policy subscribes to and advocates the upholding of the International Co-operative Values and Principles as adopted by the International Cooperative Alliance. The Cooperative Development Policy of 2002 led to the 2003 Cooperative Societies Act. The Cooperative Rules of 2004, which are part of the Act, provide an elaborate list and definition of the various kinds of co-operatives which can be established. This opened the door for formation of co-operatives in all sectors. Table 1 shows the status of cooperative registered as at June 2011.

Table 1: Status of registered cooperative societies in Tanzania as at June 2011

Type of co-operatives	Number of co-operatives	Membership
Agricultural Marketing Cooperative Societies	2,819	845,700
SACCOS	5,314	1,552,242
Industrial Cooperative Societies	161	3,220
Consumer Cooperative Societies	107	10,700
Livestock Cooperative Societies	211	21,000
Fishery Cooperative Societies	122	6,100
Service Cooperative Societies	213	21,300
Housing Cooperative Societies	29	1,450
Mining Cooperative Societies	72	3,600
Irrigation Cooperative Societies	114	5,700
Others	361	36,100
<b>Total primary Co-operatives</b>	<b>9,523</b>	<b>2,506,412</b>
Cooperative Unions	40	
Apex	1	
Federation	1	
<b>Total co-operatives</b>	<b>9,565</b>	<b>2,506,412</b>

Source: Ministry of Agriculture, Food Security and Co-operatives, 2011, Dodoma

As table one shows, the number of cooperatives increased steadily from the time of its re introduction in 1982 and in the year 2011 a total of 9, 565 cooperatives with membership of 2,506,412 were registered

## 2.2 Cooperative structure in Tanzania

The cooperative movement has adopted various structures at different periods (two tier, three-tier, four-tier). The Cooperative Societies Act, 2003 was passed bearing in mind that more levels or tiers might result in less scope for member control and increased costs for members. The current organizational set up of the cooperative movement in Tanzania mainland is a four-tier structure which is prescribed by the law (The Cooperative Societies Act, 2003). This Act is flexible and only primary co-operatives and the federation are recognized as the basic structures of the movement. Members of co-operatives are free to decide whether or not to form middle level structures (i.e. secondary and tertiary co-operatives) depending on their needs. The implementation of this act gave room to the formation of confederation of SACCOS known as Savings and Credit Union League of Tanzania (SCCULT), Apexes of Coffee marketing co-operatives, Tobacco Co-operatives, Cotton marketing co-operatives, Industrial cooperative Union (TICU) and Tanzania Federation of Co-operatives (TFC). However, out of these confederations only SCCULT, Tobacco Apex and TFC are vibrant; others are dormant. The first cooperative law enacted in 1932 did not provide for a national cooperative Organ. A specific law to set up this structure was passed in 1961 and the Cooperative Union of Tanganyika (CUT) was formed in 1961. Later CUT was replaced by the Union of Cooperative Societies (UCS), Having the Union of Tanganyika and Zanzibar, UCS was transformed to Cooperative Union of Tanzania to cater for both Tanzania Mainland and Zanzibar. After passing of Cooperative Societies Act No. 15 of 1991, Tanzania Federation of Co-operatives (TFC) was formed in 1994. However, there has been organizational continuity for the organization since 1991 and the current TFC is a transformation of the former Cooperative Union of Tanzania with a new registration and name. Tanzania Federation of Co-operatives (TFC) is the top cooperative structure in Tanzania owned and controlled by

members. The members of TFC are composed of all types of co-operatives including primary co-operatives, cooperative Unions and Apexes. This is a federation that represents, promotes, serves and coordinates the development of all co-operatives in Tanzania mainland. TFC was registered on 8<sup>th</sup> December 1994 with registration No. 5503. It is an independent non-political, non-governmental and non-partisan organization that observes international cooperative principles and is a member of the International Cooperative Alliance. Savings and Credit Cooperative Society (SACCOS) are the most prominent and visible cooperative organizations in Tanzania. The SACCOS movement has opted for both two-tier and three-tier structures to support its activities. The (Savings and Credit Cooperative Union League of Tanzania Limited (SCCULT) is the national association for registered SACCOS. SCCULT is a cooperative union and some SACCOS are not its members, but are members of TFC. According to the statistics with the Ministry of Agriculture, Food security and Co-operatives there were 5,314 SACCOS in June 2011 with a total membership of 1,552,242. The statistics revealed the growth of SACCOS in terms of number, membership, shares, savings, deposits and loans issued to the members. This union is organizationally and financially more stable than the other secondary organizations. SCCULT was registered in 1992 under the Cooperative Societies Act of 1991 with certificate of registration number 5480 issued on 19<sup>th</sup> October 1992. Tobacco marketing co-operatives are the only co-operatives that opted to form Apex. The Tanzania Tobacco Cooperative Apex Ltd (TTCA) is a national tobacco farmers' cooperative organization that was established and registered in June 1994 under the Cooperative Societies Act no.15 of 1991 with registration No 5497. The founder members of the TTCA were Songea Namtumbo Cooperative Union Ltd (SONAMCU) of Songea and Namtumbo districts in Ruvuma region and Western Zone Tobacco Growers Cooperative Union (1994) Ltd (WETCU) of Tabora and Kigoma regions. The following cooperative unions have since then joined the apex, bringing the total membership to six:

- i. Kahama Cooperative Union Ltd (KACU 1995) of Kahama and Bukombe districts in Shinyanga Region.
- ii. Central Zone Tobacco Growers Cooperative Union 1995 Ltd (CETCU) of Manyoni district in Singida Region.
- iii. Lake Tanganyika Tobacco and Coffee Cooperative Union 1995 Ltd (LATCU) of Mpanda district in Rukwa Region.
- iv. Chunya Tobacco Growers Cooperative Union 2001 Ltd (CHUTCU) of Chunya district in Mbeya Region.

The goal of tobacco apex is to produce quality tobacco that will contribute to poverty alleviation efforts amongst member farmers and improve their livelihoods and the national economy at large. Broadly, TTCA is responsible for exploring domestic and foreign market trends so as to establish basis for tobacco price negotiations between the producers and buyers, searching and disseminating information on inputs prices and availability to members and representing members in local and international conferences / forum on issues relevant to tobacco industry. The Apex of tobacco co-operatives plays a key role in facilitating farmers to produce good quality tobacco and solicits good market for the products. Table 2 shows the amount of tobacco produced in marketed through cooperatives.

Table 2: Production and marketing of tobacco by cooperatives for two years

Unions	Primary Coops	Tobacco growers	Production			
			2007		2008	
			KGS	Value in USD	KGS	Value in USD
WETCU	129	39,676	24,367,250	23,568,643	23,142,134	27,045,333
KACU	43	8,735	5,217,250	5,740,540	5,017,845	6,062,809
LATCU	48	6,954	4,831,883	4,996,650	5,002,289	6,188,166
CETCU	11	2,500	1,335,177	1,193,247	1,770,799	1,911,574
CHUTCU	6	9,327	5,140,409	4,631,508	6,026,585	6,465,458
SONAMCU	20	6,500	1,380,070	1,034,983	2,739,379	2,420,432
<b>TOTAL</b>	<b>257</b>	<b>73,692</b>	<b>42,272,700</b>	<b>41,165,573</b>	<b>43,699,031</b>	<b>50,093,774</b>

Source: Sam Maghimbi, 2010, Dar es Salaam

Table 2 shows that, production of tobacco increased from 42,272,700 kilograms in 2007 to 43,699,031 kilograms in 2008 and total sales revenue increased from USD 41,165,573 in 2007 to 50,093,774.

### 3.0 Findings and Discussion

Co-operatives developed historically – in Tanzania as elsewhere in the world because they performed a valuable economic role. That role remains as relevant as ever today. Without co-operatives, small producers are left with almost no form of collective organization, at an immense disadvantage when taking their products or crops to the market. Without savings and credit co-operatives, many poor people have no safe home for their savings and nowhere to go for loans. Co-operatives are reliable institutions to provide solutions through collective action in

other areas, too, such as fisheries, forestry, minerals and housing. By 1968 Tanzania had the largest cooperative movement in Africa and the third largest cooperative in the world in terms of percentage of the market share of agricultural exports (Sam Maghimbi, 2010).

Moreover, co-operatives provide the necessary infrastructure and services that the public and private investors fail to provide. In terms of realizing the concept of decent work, as advanced by the ILO recommendation No. 193, co-operatives can:

- a) Promote fundamental principles and rights at work by promoting freedom of association and workplace democracy;
- b) Provide opportunities for members to secure decent employment and income by enabling members to combine resources, skills and talents; enhance social protection through their policy of open membership and through increasing economies of scale.
- c) Co-operatives have a strong potential for improving the living and working condition in areas where they operate, due to the large variety of commercial and non-commercial activities in which they engage.

(Bee, F.K., 2009)

Since Independence, government policy has had a profound effect on the structure and performance of co-operatives. Before the introduction of market liberalization in 1993, co-operatives had a monopoly of the market of traditional crops. After market liberalization, private traders purchased a growing proportion of Tanzania's cash crops. The market share of private traders of coffee increased from less than 10% in 1993/94 (the first year of liberalization, when the co-operative unions were at the peak of their financial problems), to more than 70% in 1998/99 (Maghimbi, 2010). Notwithstanding, co-operatives have maintained some market share of coffee and cotton. The contributions of co-operatives in economic development after independence are discussed in the following headings:

### **3.1 Provision of financial services to the farmers and other entrepreneurs**

The cooperative movement after independence underscored the importance of rural financing in production and marketing as at that time the conditions for accessing financing from commercial banks were difficult to be fulfilled by farmers and co-operatives. In view of this, co-operatives formed their own bank in 1962 known as "The Cooperative Bank of Tanganyika" and later in 1964 after Tanzania Mainland united with Zanzibar it was changed to the "National Cooperative Bank (NCB)". The bank provided loans to co-operatives for purchasing crops and supply of farm inputs. Co-operatives held shares and maintained current and fixed deposit accounts in the bank. The NCB also received overdrafts from the Central Bank of Tanzania. It was a success and a landmark in the history of the cooperative movement in the country.

The establishment of the bank triggered the increase in production of cash crops as farmers had reliable accessibility to farm inputs and were motivated to increase production as they were paid timely. According to Sam Maghimbi (2010) in 1960 co-operatives handled 145,000 tons of produce, in 1965 they handled 496,000 tons, and in 1966 they handled 628,833 tons of produce. In order for National Cooperative Bank to smoothen the process of providing loans to farmers and entrepreneurs it established a subsidiary company known as National Development Credit Agency (NDCA). The NDCA function was to provide the agricultural sector with credit in the form of cultivation and development loans. Legal backing for the cooperative movement was strong. The National Cooperative Bank and the NDCA were established under the National Cooperative and Development Bank Act, 1964. By using the cooperative movement to channel credit to rural areas, the NDCA was able to reach 100,000 small farmers every year. Between 1962 and 1966 the NDCA gave agricultural credit worth TZS 39,153,000 to cooperative members. In the same period it offered agricultural credit worth TZS 20,428,000 to non-co-operatives members (Ibid). One of the factors which contributed to increase in volume of cash crops handled by co-operatives is the establishment of cooperative bank which ensured availability of funds for procurement of crops and supply of inputs. The establishment of National cooperative bank had not only have impact on the production and marketing of agricultural products but also people accessed loans from the bank and invested in other areas of the economy such as processing, wholesale and retail trading, etc and this contributed to the growth of economy of the country.

The National Cooperative Bank and the National Development Credit Agency were dissolved in 1970. From 1970 up to now the cooperative movement has not been able to establish a national cooperative bank. The enactment of Cooperative Societies Act of 1991 paved a way for co-operatives at district or regional levels to establish their own banks and two regional banks were formed these are Kilimanjaro Cooperative Bank in 1996 and Kagera Farmers Cooperative Bank in 1999. Both banks were formed through the combined efforts of local cooperative societies, mainly primary coops and cooperative unions, which were dissatisfied with the services provided by commercial banks. The banks lend to small businesses and individuals (normally personal loans backed by employers) as well as to cooperative societies for procurement of crops under warehouse receipt system. The banks are regulated by the Bank of Tanzania and would like to expand its capital base so that it can extend the services it offers, including if appropriate operating outside region i.e. establish branches in other

regions in Tanzania. Another contribution of co-operatives to the national economy is through provision of financial services by Savings and Credit Union League of Tanzania (SCCULT) an apex organization for SACCOS in Tanzania. SCCULT introduced an inter-lending programme for SACCOS known as Central Finance Programme (CFP) in 1998. By December 2006, 560 SACCOS joined the programme as members and had accumulated a total savings of over TZS 2.7 billion. The amount loaned out to SACCOS up to 31<sup>st</sup> December 2007 amounted to TZS 4.2 billion ((Maghimbi, 2010). This programme benefited SACCOS because the fund is used by SACCOS to offer products and services to its members such as members' education, loans, quick loans, booster loans, festival loans, agricultural inputs loans, front office loans, and loans for purchasing equipment, such as computers and photocopying machines. Again the loan provided have enhanced members to establish income generating activities which have contributed to both individual and national income.

Another key contribution of co-operatives to national economy is through the provision of financial services by Savings and Credit Cooperative Societies (SACCOS). It is true that the remoteness of farmers combined with difficult conditions required by commercial banks in accessing micro credits limit farmers to access products and services provided by commercial banks. SACCOS are the only category of semi formal financial institutions, accessible to large population in rural areas. In this respect SACCOS remain the only effective and friendly methodology for farmers to access financial services. A majority of SACCOS are organized on the basis of employment, type of agricultural commodity produced, or on a more open-bond community basis. All SACCOS require members to participate in a forced savings scheme as the route to obtain a loan. Since the enactment of cooperative societies Act of 1991, many rural SACCOS have been established through government, donors and community initiatives. According to the statistics with the Ministry of Agriculture, Food security and co-operatives there were 5,314 SACCOS as at June 2011 with a total membership of 1,552,242. The statistics reveal the growth of SACCOS in terms of number, membership, shares, savings, deposits and loans issued to the members. Table 3 shows the performance of SACCOS for five years from 2007 to 2011.

Table 3: Performance of SACCOS for the period of 2007 to 2011

Parameter	December 2007	December 2008	December 2009	December 2010	June 2011
Number of SACCOS	4,428	4,445	5,332	5344	5314
Members	764,602	765,931	820,670	911,873	1,552,242
Shares	22,331,918,837	21,766,545,131	33,530,000,000	36.8	81,600,000,000
Savings	73,760,474,837	74,609,319,888	133,146,000,000	160,000,000,000	531,500,000,000
Deposits	26,537,874,906	16,960,121,642	14,998,000,000	14,000,000,000	14,000,000,000
Loans issued	185,587,647,366	186,582,194,810	383,564,000,000	463,400,000,000	741,000,000,000
Outstanding loans	79,852,376,245	80,202,150,450	172,577,000,000	159,000,000,000	426,600,000,000

Source: Ministry of Agriculture, Food Security and Co-operatives 2011(Dodoma)

As it is shown in the table 3, as at June 2011, SACCOS managed to mobilize savings amounting to 627,100,674,000 in terms of shares, savings and deposits. This reflects that SACCOS contributed substantially in the national economy as this savings entered in the stream of national income and invested in various ways. As at June 2011 loans amounting to 741,564,000,000 were issued to 1,552,242 members and most of the loans were invested in income generating activities and this increased the income levels of both individuals and the nation.

### 3.2 Development of social and economic infrastructures

Co-operatives have played a key role in the development of social and economic infrastructures after independence. Co-operatives provide the necessary infrastructure and services that the public and private investors fail to provide (Bee, 2009). In order to add value to the agricultural commodities, co-operatives invested heavily in the construction of processing plants such as coffee curing, central pulperies, and tobacco processing factories. For example KNCU and VUASU are jointly operating Coffee curing in Moshi, Cooperative Unions in Mbeya regions are owning Mlowo Coffee curing while Mbinga cooperative Union constructed Mbinga Coffee Curing. Kagera Cooperative union is operating both coffee curing and instant coffee processing plant. Karagwe Cooperative Union also owns coffee curing. Investing in processing facilities enhanced value addition to the agricultural products and hence fetches high prices in the market and therefore more income is generated to the farmers and the nation earns more foreign currency. In fulfilling cooperative principles of education and training and concern to the community cooperative Unions such as KNCU and Kagera cooperative Unions constructed and operated secondary schools which offered secondary education to the children of farmers in the respective areas. Later, these schools were nationalized by the government and were open to enroll students national wide. Co-operatives also provided scholarship to the children of farmers. Through provision of education, co-operatives contributed in creating skilled personnel who were employed in various sectors of the economy and thus made an impact to the national economy.

One of the cooperative Unions in Tanzania located in Kilimanjaro region known as Kilimanjaro Native Cooperative Union (KNCU) has established health plan to cater health services to its members. An initiative was

taken by the KNCU from 2011 onwards aiming at addressing the problem of reliability when it comes to the health services given the nature of the life and the income level of coffee farmers in Kilimanjaro. In this plan, farmers are availed with health insurance, with which they can access health services in specified hospitals. KNCU health plan was established in partnership with organizations such as as the PharmAccess Foundation (PharmAccess), Micro Ensure, MEMS, EnviroCare, Kilimanjaro Christian Medical Centre (KCMC) and ACCORD. This plan operates closely with the primary cooperatives in particular locality. Since its inception, the plan has reached 15,000 people and expects to provide health care services to about 250,000 people by 2015. Each member pays an annual premium of Tsh. 12,000/=, while a further payment of Tsh. 28,500/= is funded by KNCU and other partners.

### 3.3 Marketing services for small holder farmers

Marketing co-operatives expanded their business tremendously in the early 1960s. One source indicates that in 1966 there were 1,616 registered co-operatives and out of these 1,339 were engaged in the marketing of agricultural products. In 1960 co-operatives handled 145,000 tons of produce, in 1965 they handled 496,000 tons, and in 1966 they handled 628,833 tons of produce, which was worth TZS 605,200,500 (Maghimbi, 2010). On the 14<sup>th</sup> May 1976 all primary co-operatives were abolished by the government. Their crop marketing functions were taken over by communal villages. At the same time cooperative unions were also abolished and their functions were taken over by crop authorities, which had to buy crops directly from villages (ibid). Co-operatives also played a key role in production of cash crop before and after independence by ensuring reliable supply of agricultural inputs such as fertilizers, pesticides, spray pumps, etc. The practice used was to supply the inputs to farmers or members of the co-operatives on credit and the amount is deducted from the sale proceeds. This practice motivated farmers to increase production and improve the quality of the crops produced. The importance of co-operatives in marketing of agricultural products was underscored by the government after the failure of crop authorities which were formed after the abolition of co-operatives to procure crops. Maghimbi(2010), postulates that, crop authorities failed in buying peasant crops and in providing price incentives. They did badly in the supply of farm inputs and credit. The impact on crop output was quickly felt as the government faced a shortage of foreign exchange due to the decline in peasant production. The treasury also lost the local revenue as a result decreased crop production. The government formally announced the re-introduction of primary co-operatives and cooperative unions in 1982. Since Market liberalization, private traders have purchased a growing proportion of Tanzania's crop especially coffee and cotton. Their market share has increased from less than 10% in 1993/94 (the first year of liberalization, when the co-operative unions were at the peak of their financial problems), to more than 70% in 1998/99. Notwithstanding, co-operatives have maintained some market share of coffee and cotton. The market share of tobacco is almost 100% since all private traders are buying through primary cooperative societies. The role of cooperative unions and Tobacco apex is to negotiate for tobacco prices on behalf of the primary co-operatives. In this case tobacco apex participates in the Tobacco Council price negotiations. The market share of co-operatives for coffee and cotton is estimated at 20%. After introduction of warehouse receipt system for procurement of cashew nuts in 2007 in Coast, Mtwara and Lindi regions about 75% of cashew nuts are sold through co-operatives because high prices are offered by co-operatives compared to private buyers. However, before the introduction of warehouse receipt system the market share of cooperative was about 20%. Basing on this fact, the amount of coffee, cotton, tobacco and cashew nuts marketed by co-operatives for the past ten years is shown in table 4.

Table 4: Cash crops marketed through co-operatives for the past ten years ("000 Tons)

Year	coffee		cotton		Tobacco		Cashew Nuts	
	Total Prod.	Marketed Through coops.	Total Prod.	Marketed Through coops.	Total Prod.	Marketed Through coops.	Total Prod.	Marketed Through coops.
2001	47.9	9.58	35	7	31.8	31.8	121.2	24.24
2002	37.5	7.5	49.9	9.98	28	28	67.3	7.46
2003	52.4	10.48	63.4	12.68	28	28	95	19
2004	32.5	6.5	46.9	9.38	34	34	79	15.8
2005	54	10.8	114.6	22.92	47	47	72	14.4
2006	34.3	6.86	125.6	25.12	52	52	77.4	15.48
2007	54.8	10.96	43.8	8.76	50.7	50.7	92.6	18.52
2008	43.3	8.66	67.3	13.46	50.8	50.8	99.1	74.25
2009	68.5	13.70	123.6	24.72	55.4	55.4	79.1	59.25
2010	34.5	6.9	89.5	17.9	60.4	60.4	74.1	55.5
<b>Total</b>	<b>459.7</b>	<b>91.94</b>	<b>759.6</b>	<b>151.92</b>	<b>438.1</b>	<b>438.1</b>	<b>856.8</b>	<b>303.9</b>

Source: Constructed from statistics from BOT, Economic bulletin, 2011 Vol. XLIII No. 1

From table 4, 91,940 tons of coffee, 151,920 tons of cotton, 438,100 tons of tobacco and 302,900 tons of cashew

nuts were marketed through co-operatives between 2001 and 2010. This has contributed immensely to the foreign revenue earnings. Co-operatives use various market channels for marketing agricultural products so as to access reasonable prices for its members. Major market channels used by co-operatives include auction, commercial sales and fair trade market. Participation of co-operatives in the coffee marketing through various market channels can be substantiated by the volume and value of coffee marketed by Kagera Cooperative Union for the period of 1993/1994 to 1998/1999 as shown in tables 5 and 6.

Table 5: The Volume of KCU sales in Tones to different markets

Year	Auction sales	Commercial sales	Fair trade	Total
1993/94	5,028 (80.5%)	654 (10.5%)	564 (9%)	6,246
1994/95	9,218 (85.5)	1,040 (9.5%)	536 (5%)	10,894
1995/96	6,782 (83.2%)	848 (10.4%)	524 (6.4%)	8154
1996/97	7,689 (84.2%)	769 (8.4%)	675 (7.4%)	9,133
1997/98	7,642 (81.2%)	990 (10.5%)	774 (8.2%)	9,406
1998/99	7,304 (77.4%)	1,530 (16.2%)	600 (6.4%)	9,434

Source: Oxford Policy Management & sustainable market group, 2000

Table 6: The value (USD'000) of KCU sales to different markets

Year	Auction sales	Commercial sales	Fair trade	Total
1993/94	6,520 (73.4%)	1,271 (14.3%)	1,093 (12.3%)	8,884
1994/95	25,659 (83.4%)	3,391 (11%)	1,729 (5.6%)	30,779
1995/96	12,506 (76%)	2,433 (14.8%)	1,509 (9.2%)	16,448
1996/97	11,941 (73.8%)	2,276 (14.1%)	1,957 (12.1%)	16,174
1997/98	11,936 (76.8%)	2,021 (13%)	1,580 (10.2%)	15,537
1998/99	9,710 (67.9%)	2,850 (19.9%)	1,741 (12.2%)	14,301

Source: Oxford Policy Management & sustainable market group, 2000

Table 6 shows that the value of coffee marketed through fair trade channel increased from 5.6% in 1994/95 season to 12.2% in 1998/99 season and value of coffee marketed through auction decreased from 83.4% to 67.9% during the same years indicating that cooperatives are aggressive in accessing more profitable markets such as fair trade markets.

### 3.4 Innovations to improve member incomes and benefits

One of the innovations which the co-operatives did is improvement of quality of agricultural produce through organic farming. Most of the cooperative unions and some cooperative societies which market their coffee directly to the market are organic farming certified. Cooperative unions and other cooperative societies have taken efforts to encourage their members to engage in organic farming so as to meet conditions set by fair-trade market and this has enhanced accessing good prices and hence increased income to the farmers and the nation in general. Organic farming by Kilimanjaro Native Cooperative Union is a case whereby it started to encourage farmers to produce organic coffee since 2002/2003. At the farmer level in 2002/2003, KNCU developed incentive package to motivate farmers to produce special grade coffee. KNCU's premium payout structure allocated an additional 100 Tanzanian Shillings (TZS) per kg for special grade coffee. The goal was to create an incentive for farmers to produce higher-quality coffee. In that season, 14% of KNCU coffee was special grade. (Bradley D. Parrish, et al 2005)

### 3.5 Linking cooperative members to more profitable markets through fair trade arrangement

In order to realize more benefits from the agricultural produce to its members cooperative have strived to access fair trade markets. In this paper three case studies of KNCU, Kagera Cooperative Union and Karagwe District Cooperative Union will be cited. Coffee sold under the fair trade market is guaranteed four benefits. (1) A *minimum price* will be received that covers the cost of sustainable production and living, as determined by Fair Trade Labeling Organizations (FLO). The Fair trade minimum price for African Arabica was set at US\$1.21 per



pound (\$2.80 per kg) of green coffee. However, buyers must pay the market price if it is above the set minimum. (2) A *price premium* will also be received, set at US\$0.05 per pound (\$0.11 per kg) above the minimum price. This premium is to be invested in development at the organizational and community level. (3) Buyers must provide *partial advance payments* of up to 60% of the contract value when requested by co-operatives. (4) Buyers must sign *long-term contracts*, which extend beyond one harvest cycle, direct with co-operatives. (Bradley D. Parrish, et al 2005).

Cooperative Unions such as KNCU, Kagera Cooperative Union and Karagwe District Cooperative Union have managed to market 5-20% of its coffee through fair trade markets and farmers have enjoyed increased income through this market arrangement. The *Kagera Co-operative Union* (KCU) was the first co-operative in the country to export through Fair Trade channels when they sold 3 containers to Fair Trade Organization in 1990. Since then KCU has been selling coffee to a whole range of European alternative trading organizations and companies carrying the Fair trade label who buy their coffee through the FT register. Over the last 6 years, FT sales have accounted for between 6 and 11% of KCU's sales. KCU buys robusta coffee from about 40,000 farmers in the Bukoba and Muleba districts. Despite the expansion of private trading since liberalization, KCU is still purchasing around 70% of the coffee from farmers in its area (Oxford Policy Management et al).

KNCU came to the fair trade later and currently, fair trade accounts for one-third of KNCU's total exports. The remaining two-thirds went through conventional market channels. In 2002/03, KNCU auctioned 1,456,000kg of green coffee at an average price of US\$1.09/kg, grossing US\$1, 587,000 at the domestic auction. KNCU repurchased and exported 333780kg of this coffee through Fair trade channels at a minimum price of US\$2.91/kg. Thus, a quarter of KNCU's total sales realized an additional US\$1.82/kg above auction price. Fair trade was therefore able to bring in at least an additional US\$607480 for the season. This represents a value added of 38% directly attributable to Fair trade (ibid). Some fair-trade premium was used to develop physical and human capital. In order to access fair trade markets, export staff and farmers were trained to cope with conditions of fair trade and to improve quality of the coffee. Investments were made to develop community infrastructures such as schools and dispensaries. For example, a society in Rombo distributed their premium to farmers on a volume basis. A society in Moshi Rural used their premium to connect electricity in a government-run dispensary to preserve medical supplies. Another society in Moshi Rural repaired their cooperative's weighing scale and bought equipments for spraying crops (ibid). Table 7 summarizes the income generated by KNCU through fair trade market.

Table 7: Fair Trade Income generated by KNCU for the years 2004 to 2008

Year	2004	2005	2006	2007	2008
Income	175,320,894	100,405,690	46,737,302	66,664,822	105,069,272

**Source:** Bee, 2009

The fluctuation of income from fair trade sales especially in 2006 is due to the low coffee production during that season as a result of drought. The benefit of involvement in the fair trade movement is that the movement focuses on delivering a greater proportion of value within the chain of production to producers. Accessing this market generated revenues that have enabled KNCU to provide services to fulfill social responsibilities to the communities such as providing scholarships to orphans, provision of education and health services. Karagwe District Cooperative Union (KDCU) has been Fair Trade certified since 1995. KDCU is paid at least the Fair Trade Minimum Price of 101 cents/lb for robusta coffee, or the world price if higher. There is an additional Fair trade Premium of 20 cents/lb for farmers to invest in farm and business improvements or in projects that benefit the wider community such as healthcare, education, and infrastructure such as the construction of coffee warehouses, etc. In the 2009/10 season, 552,000kg of coffee were sold to Fair Trade buyers – This amount of sales is about 19% of total sales by volume and 38% of sales by value. The recent projects funded with the Fair Trade Premium in Karagwe district includes:

- i. Construction of classroom and ongoing annual donation to Nyaishozi Secondary School
- ii. Kibimba pine tree project (30 acres of reforestation and sustainable production of timber for building materials)
- iii. Purchase and distribution of coffee seedlings to members
- iv. Construction of three 2,000 litre rainwater collection tanks – indestructible ferro-cement tanks to collect rainwater from Kamahungu Factory roof
- v. Construction, extension and renovation of coffee warehouses in primary co-operatives of Ruhita/Maguge, Kyerwa, Karukwanzi, Nyakahanga, Kigarama, Omukishanda, Kiruruma, Ndama, Igurwa, Rwambaiza, Rutunguru
- vi. Renovation of office and warehouse of Runyaga primary cooperative
- vii. Renovation of warehouse toilets at Ruhita and Maguge
- viii. Donation to Karagwe Teacher Training College
- ix. Construction of modern slaughterhouse at Nyaruka.

(Fair Trade Foundation, January 2011)

### **3.6 Employment creation**

ILO estimates that 100 million jobs are provided by co-operatives – more than 20% more than Multi National Corporations. Jobs are created through self-employment, salaried, indirect and induced employment. The cooperative form of enterprise despite its significant and positive impact on economic and social development continues to be underutilized and poorly understood. At one stage, the cooperative movements of several African nations had become the second largest employer of their countries after the government (Chavez Hertig, 2008). The total number of members of registered primary co-operatives in Tanzania in June 2011 was 2,506,412. Most cooperative members are adult males. The average household size in Tanzania according to the 2002 Population and Housing Census was 4.9 and we can gauge that approximately 12,532,060 people in Tanzania mainland are directly dependent on the cooperative activities. More employment creation may be achieved by sensitizing people to establish and join new types of co-operatives, such as mining, fisheries, cabs, motor cycles hire (bodaboda) and hand craft. Co-operatives support employment for a great proportion of the country's population. Thus, these are important organizations that are supporting improvement of living and working conditions of their members and families. Specifically co-operatives can create employment in the following five scenarios:

#### **3.6.1 Co-operatives as a common workplace**

This is the case when cooperative members work together in a joint production unit. In other words, members have formed the cooperative society primarily as a form of "organized self-employment"(Chavez Hertig, 2008). Typical example in Tanzania is collective production and marketing in the industrial and fishery co-operatives. According to 2011 registration statistics there are 161 industrial co-operatives, 122 fishery co-operatives and 72 mining co-operatives with the average number of members not less than 20 and therefore 7,100 are employed in these categories of co-operatives.

#### **3.6.2 Co-operatives as employer:**

According to Chavez Hertig (2008), cooperative as employer is the case where co-operatives employ salaried staffs who are *not* necessarily cooperative members. Example include consumer co-operatives that employs storekeepers, cashiers and shop attendants or SACCOS that employ accountant, cashiers, security guards, office attendants, and credit officer and AMCOS that employ managers/secretaries and procurement clerks. According to 2011 registration data there are 5314 SACCOS, 2,819 AMCOS, 211 dairy and 107 Consumers co-operatives. Basing on the capacity of each type of cooperative to employ, it implies that 10,628 are employed by SACCOS, 5,638 are employed by AMCOS, 422 people are employed by livestock co-operatives and 321 people are employed by consumers' co-operatives respectively. In total these four types of co-operatives have created about 17,009 jobs. Co-operatives are operating processing plants such as coffee curing where many people are employed. After enactment of Cooperative Societies Act of 1991, two cooperative banks were established; Kilimanjaro Cooperative Bank and Kagera Farmers Cooperative bank. These two banks have created several jobs for managers, supervisors, tellers, accountants, auditors, credit officers, etc. Indirectly people have been employed through the engagement of security companies to guard the banks.

#### **3.6.3 Co-operatives are promoting and enabling self-employment**

This is the case when and where co-operatives strengthen the businesses or households of their members (Ibid). A typical example is an agricultural marketing and supply co-operatives that provide independent cash crop farmers with essential pre- and post production services. Chavez Hertig identified the following areas when and where a cooperative enterprise enhances or consolidates self employment:

- Ensuring members to access loans to undertake business activities
- Ensuring members to access loans to improve production
- Training members on good business and agricultural practices to improve productivity or surplus/profit.
- Ensuring members to access farm inputs for improved productivity

It is estimated that there are about 2,506,412 members of co-operatives in Tanzania and through acquisition of loans, training, and farm inputs it is likely that they will improve their enterprises and hence consolidation in self employment. It is worth noting that as at June 2011, SACCOS provided loans amounting to 741,000,000,000 to 1,552,242 members and it is likely that, these members invested some of the loans to business enterprises and hence enhanced to consolidate self employment of the members and improved their income generating capacity.

#### **3.6.4 Co-operatives inducing wage employment**

Jobs are created because of the very existence of co-operatives. This includes employees for the cooperative development department, cooperative training institutions such as MUCCoBS and cooperative audit companies such as COASCO and other support organizations like DUNDULIZA, cooperative networks, etc. The Cooperative Support Institutions, whose existence is mainly on account of co-operatives, have equally employed many people. The Department of Co-operative is among cooperative support institutions which employ people to support promotion, inspection, training and supervision of co-operatives. Currently about 450 people are employed as cooperative officers at the Headquarters, regional secretariat and district councils. Moshi University

College of Cooperative and Business Studies is another cooperative support institution which employs experts in different fields to help co-operatives to develop manpower, professionals and conduct training, research and provide advisory services. Currently the total academic and administrative staff is estimated at 490. The Co-operative Audit and Supervision Corporation, employs 85 audit staff excluding the non-auditing support staff.

### **3.6.5 Spillover effects:**

Just as any other business, a cooperative creates jobs in those enterprises with which it maintains commercial relations. A housing cooperative, for example, is likely to create jobs in the building material industry. Agricultural Marketing Cooperative Societies have created several jobs to the transport sector through the use of motor vehicles to transport agricultural products and agricultural inputs to and from the warehouses and export outlets like ports.

### **3.7 Challenges facing co-operatives in Tanzania**

Notwithstanding the importance and impressive record by co-operatives to smallholder farmers during the past 50 years of independence co-operatives are faced with governance, financial and structural challenges that undermine its capacity to deliver quality services to its members and make a commendable contribution to the national economy. The cooperative Reform and Modernization Programme, pointed out poor management, inappropriate cooperative structures, corruption and embezzlement, lack of working capital, lack of cooperative democracy and education, weakness of supporting institutions and, in general, an inability to compete in a liberalized market economy as the major challenges of cooperative despite in Tanzania (URT, 2005). A Critical challenge which undermines the proper supervision and control of co-operatives is the flow of authority from the Department of co-operatives to regional secretariat and district councils. Currently district cooperative officers and desk officers are accountable to the District Executive Directors and the regional cooperative officers have very little influence to the district cooperative officers. Sometimes cooperative officers at the district council are assigned other duties which are not related to the cooperative development. In this respect they have little time to undertake their traditional roles on supporting the co-operatives and this culminates to ineffective inspection and audit of the co-operatives, poor promotion and supervision. A number of important initiatives in the past five years have put in place the foundations for a rebirth of Tanzania's cooperative sector. They include the 2000. Special Presidential Committee on reviving co-operatives and new cooperative legislation of 2003. These and other efforts have culminated in the production of a key strategic document, *The Cooperative Reform and Modernizations Program 2005-2015*. This also sets out detailed strategies for overcoming the inherent deficiencies in the cooperative sector in Tanzania. The goals of the Reform and Modernization Program are clearly identified as:

- i. Forming economically strong cooperative societies, capable of facing competitive challenges
- ii. Establish a strong savings and credit co-operatives, providing better services and offering a source of capital for co-operatives
- iii. Empowering membership
- iv. Fostering good governance and accountability in cooperative societies.

Establish network of co-operatives with efficient and cost effective structures, able to respond easily to the needs of their members.

## **4.0 Conclusion and Recommendations**

In order for the co-operatives to unleash their potentials, a comprehensive transformation of co-operatives in Tanzania is inevitable. The task is to focus on the key cooperative principles: that coops are owned and controlled by their own members. The purpose of cooperatives is, above all, to fulfill their members' economic and social needs. To achieve their goals, co-operatives need to be commercially viable enterprises, able to compete in the liberalized market and prosper in the marketplace. To be sustainable, co-operatives have to be run as business enterprises. The problem facing agricultural marketing cooperatives cannot be overemphasized as the requirements by financial institutions are hard to be fulfilled by most of the co-operatives; the financial capacity of SACCOS is yet to address the needed capital for purchase of crops. In view of this there is a need to effectively champion the strategy of forming National Cooperative Bank to be owned and controlled by co-operatives. The National cooperative bank will substantially provide capital needed by co-operatives to finance business operations with manageable conditions. However, this should go hand in hand with strengthening SACCOS especially by emphasizing on building internal capital through mobilization of savings, deposits and the buying of shares. Warehouse receipt system has proved to be effective in marketing of coffee, cashew nuts and paddy and therefore there is a need to promote it in other areas and to other commodities. As it was pointed out in this paper SACCOS are growing very fast but SCCULT as an umbrella organization for SACCOS is weak in terms of governance, financial and operational capacities. As mentioned earlier, only 20% of SACCOS are members of SCCULT. This situation raises many questions as to whether SCCULT is the right umbrella organization for SACCOS. It is therefore important to encourage formation and enhance internal strengthening of SACCOS networks so as to effectively and efficiently serve its members. Agricultural Marketing co-

operatives fail to compete in the market because of lack of members' commitment and solidarity and this is due to poor members' education. Members are selling their crops to private traders and very little crops are delivered to their cooperative. In order to revitalize the cooperative spirit, rigorous members' education for empowerment is of paramount. Notwithstanding the successes registered during the fifty years of independence, agricultural marketing cooperatives both primary and secondary have experienced a lot of challenges in working in a liberalized market and this has very much affected its sustainability. In view of this, there is an urgent need to conduct a comprehensive study to establish factors limiting cooperatives to compete in a liberalized market and propose way forward to make cooperatives more competitive.

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