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Coop^{AFRICA} Working Paper No.10

Surviving liberalization: the cooperative movement in Kenya

Fredrick O. Wanyama





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List of acronyms

ACDI	Agricultural Cooperative Development International
ASCU	Agricultural Sector Coordinating Unit
ATC	Agri and Cooperative Training and Consultancy Services
CCA	Canadian Cooperative Association
CDP	Cooperative Development Program
CEEDCO	Community Empowerment and Enterprise Development through Cooperatives
CIAT	International Centre for Tropical Agriculture
CIC	Cooperative Insurance Company
DANIDA	Danish International Development Agency
DED	German Development Services
DFID	Department for International Development
EEP	Enabling Environment Project
FAO	Food and Agriculture Organization
FOSA	Front Office Services Activity
GTZ	German Technical Cooperation
HSS	Hanns-Seidel-Stiftung
ICA	International Cooperative Alliance
ICMIF	International Cooperative and Mutual Insurance Federation
ICMIS	Intensive Cooperative Management Improvement Scheme
ICRAF	International Centre for Research in Agro-forestry
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
KACE	Kenya Agricultural Commodity Exchange
KCC	Kenya Creameries Cooperative
KEPSA	Kenya Private Sector Alliance
KERUSSU	Kenya Rural Savings and Credit Cooperative Societies Union
KES	Kenyan Shilling
KPCU	Kenya Planters Cooperative Union
KNFC	Kenya National Federation of Cooperatives
KUSCCO	Kenya Union of Savings and Credit Cooperatives
MFI	Microfinance Institution
MUCCoBS	Moshi University College of Cooperative and Business Studies
NACHU	National Cooperative Housing Union
NACO	National Cooperative Organization
NHIF	National Hospital Insurance Fund
SACCO	Savings and Credit Cooperative
SCC	Swedish Cooperative Centre
Sida	Swedish International Development Agency
TSBF	Tropical Soil Biology and Fertility Institute
USAID	United States Agency for International Development
USD	United States Dollar
VOCA	Volunteers in Overseas Cooperative Assistance
WOCCU	World Council of Credit Unions

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Abstract

It is over a decade since the liberalization of the cooperative movement in Kenya, which sought to create commercially autonomous member-based cooperatives that would be democratically and professionally managed; self-controlled; and self-reliant business ventures. However, since then very little is documented and communicated about the unfolding status of the movement. The purpose of this paper is to highlight the current trends, structural organization and performance of cooperatives in Kenya. A quick appraisal of the situation reveals that cooperatives have largely survived the market forces and continued to grow in number, membership and income. The market forces have triggered a structural transformation that has seen the fading away of the inefficient cooperatives, including the National Federation and some cooperative unions, as primary cooperatives seek better service provision. Similarly, cooperatives are increasingly diversifying their activities and introducing innovative ventures in order to respond to their members' needs. The well-adapted cooperatives are subsequently recording better performance than they did in the previous era.

1. Introduction

Cooperative development in Kenya, like in most African countries, has generally traversed two main eras, namely, the era of state control and that of liberalization. The first era, which saw the origin and substantial growth of cooperatives under state direction, conditioned these organizations to emerge as dependent agents and/or clients of the state and other semi-public agencies. By serving as instruments for implementing government socio-economic policies, cooperatives were engulfed into state politics to the extent that the failures of state policies found expression in the cooperative movement. This partly explains why literature on cooperatives in this era is awash with more stories of cooperative failure than stories of cooperative success. Such failures contributed to calls for the liberalization of the cooperative movement in the early 1990s (Hussi *et al*, 1993; Porvali, 1993; Lindberg, 1993).

With the argument that state control was stifling the performance of cooperatives and that their potential contribution to development could only be realized if they operated according to market principles, cooperative development was pushed into the second era that was characterized by economic liberalization. Consistent with the new economic environment that was sweeping across Africa in the 1990s, Kenya introduced new policy and legislation in 1997 in order to liberalize cooperatives. The resultant framework sought to facilitate the development of commercially autonomous, member-based cooperative organizations, which would be democratically and professionally managed, self-controlled and self-reliant business enterprises.

Whereas cooperative development in Kenya during the first era is well documented in the existing literature, the second era of cooperative development is yet to be adequately researched and understood. It is over a decade since the introduction of liberalization measures in Kenya, yet since then very little is known about the unfolding status of the cooperative movement. The few studies available tend to focus on disparate economic sectors of the cooperative movement, rather than providing comprehensive accounts that inform of the current status and functioning of cooperatives. To illustrate, studies have focused on savings and credit (Evans, 2002); agriculture (ICA, 2002); and dairy production (Staal *et al*, 1997; Owango *et al*, 1998). Given the circumstances, a number of pertinent questions have not been investigated since the late 1990s. For instance, have cooperatives survived the stiff competition of the liberalized market or have they withered away? What has been the organizational response of cooperatives to the new economic environment into which they were suddenly plunged? Are cooperatives faring comparatively better or worse than they did in the first era of cooperative development?

The purpose of this paper is to respond to these questions by providing evidence-based indications of the state of the cooperative movement in Kenya at the macro (policy and legislation), meso (the vertical and horizontal organization of cooperatives as well as their support organizations), and micro levels (number of cooperatives and their membership), as of the year 2008. This should give insight into the effect that liberalization has had on the performance of the cooperative movement in Kenya.

1.1 *Methodology*

The datum that informs this discussion were obtained from qualitative interviews in October 2008, which were undertaken in Nairobi with selected leaders of cooperative organizations. These key informants also facilitated access to some documents that contained statistical and other secondary data. The organizations visited in Nairobi included:

1. Kenya National Federation of Cooperatives (KNFC);
2. Cooperative Bank of Kenya;
3. Cooperative Insurance Company (CIC);
4. Cooperative College of Kenya;
5. Kenya Union of Savings and Credit Cooperatives (KUSCCO); and
6. The Office of the Commissioner of Cooperatives in the Ministry of Cooperative Development and Marketing.

In addition, purposive sampling was used to inform selection of field research sites. The Uriri Farmers Cooperative Society in Rongo District of Nyanza Province was selected for a site visit. In-depth interviews with the management committee provided insight into the development of innovative cooperative ventures in Kenya.

Whereas most of the statistical datum for the study were obtained from the Ministry of Cooperative Development and Marketing, which collects the most reliable cooperative data in Kenya, it is important to heed caution as the Ministry seems not to have up-to-date disaggregated data on the movement. This data is also missing key variables. For instance, the register of cooperatives contains a cumulative number of registered cooperatives and cooperative membership since 1966. The figures do not tell how many of the cooperatives are active or dormant. In regard to membership, it is not possible to tell which cooperative members are active or dormant. It is not possible to know if the cooperative is dormant, active or has ceased to exist. There is also some chance that some cooperators belong to more than one cooperative. Indeed, one official at the office of the Commissioner for Cooperative Development admitted that the statistical data on the number of cooperatives and their membership may not be very accurate. It was for this reason that the Ministry had commissioned a private firm to carry out a census for cooperatives, to determine the actual number of active and functional cooperatives, as well as the dormant ones. A similar exercise is required to investigate the membership of these organizations, so as to determine an accurate penetration rate of the cooperative movement in Kenya. Until this is done, the statistical data that is available may just provide a broad perspective of the status of the cooperative movement.

1.2 *Guide to the paper*

This section has provided an introduction and description of the methodological approach adopted in this study. Section two provides discussion on cooperative development, with focus given to the significance of cooperatives in Kenya's economy

and the policy and legal environment of cooperatives in Kenya. This is followed by discussion in section three on the structure and representative organizations of the Kenyan cooperative movement. Section four focuses on current trends, outlining the number and membership of cooperatives, the vibrancy and innovativeness of cooperatives and the role of donors in cooperative development. Section five analyzes the significance of cooperatives in social development, considering how they are creating employment, generating income, reducing poverty, providing social protection and representing their members. Section six provides conclusions.

2. Cooperative development policy and legislation

2.1 The significance of cooperatives in Kenya's economy

Kenya has a long history of cooperative development that has been characterized by strong growth, thus making a significant contribution to the overall economy. Cooperatives are recognized by the government to be a major contributor to national development, as cooperatives are found in almost all sectors of the economy. With the total population of Kenya at approximately 37.2 million (Republic of Kenya, 2008a: 13), it is estimated that 63 per cent of Kenya's population participate directly or indirectly in cooperative-based enterprises (Ministry of Cooperative Development & Marketing, 2008: 4). Indeed, the Ministry of Cooperative Development and Marketing estimates that 80 per cent of Kenya's population derives their income either directly or indirectly through cooperative activities.

Empirical evidence shows that cooperatives play an important role in Kenya's economy. In the agricultural sector, cooperatives previously handled over 72 per cent of coffee sales, 95 per cent of cotton sales, 76 per cent of dairy produce sales, and 90 per cent of pyrethrum sales. However, with the exception of coffee and dairy cooperatives (whose share in the total market has remained stable), other agricultural marketing cooperatives have seen their market share fall below 40 per cent, with cotton cooperatives recording a paltry two per cent of the marketed bales of lint in 2008. Nevertheless, the greatest contribution of cooperatives to Kenya's social and economic development is in the financial sector where financial cooperatives (savings and credit cooperatives [SACCOs], KUSCCO, Cooperative Bank and CIC) hold substantial savings portfolios. On the one hand, the Cooperative Bank, the fourth largest bank in Kenya, has a capital base of over KES 13.5 billion (USD \$180 million).¹ On the other hand, the combined assets of all SACCOs are worth approximately KES 200 billion (USD \$2.7 billion), out of which approximately KES 150 billion (USD \$2 billion) are members' deposits, which consist of both shares and savings. Of a total turnover of KES 24.3 billion (USD \$323.4 million) for the entire cooperative movement in 2007, SACCOs posted a combined turnover of KES 14.4 billion (USD \$192 million). Agricultural cooperatives' total turnover was KES 8.4 billion (USD \$112 million) (Ministry of Cooperative Development & Marketing, 2008: 20).²

¹ This conversion is based on an average annual currency exchange rate of KES 75 to 1 USD. This is the rate applied throughout this paper.

² Gross Domestic Product for 2007 was equivalent to KES 1,338,039 million (USD \$17,840 million). Available from <http://www.cbs.go.ke/>

With the cooperative movement playing such a significant role in economic development, the Government has over the years maintained an institutional framework to develop the movement. The Ministry of Cooperative Development and Marketing is the current Government's official agency for coordinating cooperative development in Kenya. As per the current policy, the main duties of the Ministry include:

- registration and liquidation of all cooperatives register under the Act;
- enforcement of the Cooperative Societies Act;
- formulation of cooperative policy;
- supporting development of a conducive environment for cooperative growth;
- registration of cooperative audits;
- carrying out of inquiries, investigations and inspections.

In the Ministry, the office of the Commissioner for Cooperative Development serves as the hub for registration and regulation of cooperatives in Kenya. The Ministry has 775 technical staff (cooperative officers and auditors) and 343 support staff. These are the staff that are expected to regulate a total of 11,968 cooperatives as of 2008 (Kenya National Bureau of Statistics, 2009: 165). With regard to the technical staff, this translates to a ratio of one staff to every 15 cooperatives that are dispersed in a wide and varied geographical area. The staffing at the Ministry is clearly inadequate for the task, which partly explains why the Ministry experiences difficulties in maintaining up-to-date statistical data on the cooperative movement.

2.2 *Cooperative development policy in Kenya*

Sessional Paper No. 6 of 1997 on “Cooperatives in a Liberalized Economic Environment” (Republic of Kenya, 1997a) provides the current policy framework for cooperative development in Kenya. The policy was formulated after the liberalization of the economy, which necessitated the withdrawal of state control over the cooperative movement. The aim of the policy was to make cooperatives autonomous, self-reliant, self-controlled and commercially viable institutions. The role of the government was redefined from one that sought to control cooperative development, to one that now seeks to regulate and facilitate their autonomy. The monopoly of cooperatives in the agricultural sector, which had made them the sole marketers of cash crops in Kenya, was removed. The consequences of this meant that cooperatives now had to compete with other private enterprises in the marketing of agricultural produce. The coming of this policy framework also saw the International Cooperative Alliance's (ICA) cooperative principles of voluntary and open membership; democratic member control; member-economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community became formally incorporated in the cooperative policy.

Nevertheless, the Ministry of Cooperative Development and Marketing has since realized some inconsistencies and inadequacies of the 1997 policy. For instance, it has been noted that this policy was largely silent on the government's catalytic and supportive role in the development of cooperatives. It has also been observed that the policy largely remained out of step with the Cooperative Societies (Amendment) Act of 2004, particularly in provision of guidance for cooperatives that seek to venture into emerging high growth sectors of the economy; improve capitalization; and engage in mergers to take advantage of economies of scale. Most importantly, the policy does not provide for the separation of the responsibilities of elected management committees from managerial staff responsibilities. Consequently, management decisions are still made by elected leaders that may not be qualified managers.

In response to the inadequacies of the 1997 policy, the Ministry has formulated a revised policy framework titled "Kenya Cooperative Development Policy 2008". The main theme of the new policy is 'expanding the economic space for sustainable cooperative growth in Kenya'. Its main focus is on restructuring, strengthening and transforming cooperatives into vibrant economic entities that can confront the challenges of wealth creation, employment creation and poverty reduction as private business ventures.

2.3 The Kenyan cooperative legislation

The Cooperative Societies (Amendment) Act of 2004 (Republic of Kenya, 2004a) is the current basic legislation that guides the formation and management of cooperatives in Kenya. It has its origins in the Cooperative Societies Act, Cap. 490 of 1966, which was revised in 1997 into the Cooperative Societies Act Chapter 12 of 1997 (Republic of Kenya, 1997b). The reforms contained in the revised Act sought to reduce the strict state supervision of cooperatives, in order to support the liberalization of cooperative enterprise.

The 1997 Act empowered the members to be responsible for the running of their own cooperatives, through elected management committees. Nevertheless, cooperatives had not been prepared for this freedom. For the first time ever, the cooperatives were left without a regulatory mechanism to play the role that the government had previously played. Consequently, the immediate impact of liberalization on cooperatives was principally negative. To the detriment of many primary cooperatives, the newly acquired freedom was dangerously abused by elected leaders. This saw many cooperatives report cases of corruption and mismanagement, such as:

- gross mismanagement by officials;
- theft of cooperative resources;
- split of viable cooperatives into smaller ineffectual units;
- failure of employers to surrender members' deposits to cooperatives (particularly SACCOs);

- failure to hold elections;
- nepotism in hiring and dismissal of staff;
- refusal of management committee members to vacate after members voted for this dismissal;
- conflict of interest among cooperative officials;
- endless litigations;
- unauthorized cooperative investments;
- illegal payments to the management committees (Manyara, 2003).

In response to these circumstances, the 1997 Act was amended in 2004. The main content of the Cooperative Societies (Amendment) Act of 2004 re-enforces state regulation of the cooperative movement through the office of the Commissioner for Cooperative Development. The legislation stipulates that the roles to be undertaken by government include:

1. creating the policy and legal framework for development of cooperatives;
2. improving the growth and development of cooperatives by providing the requisite services for their organization, registration, operation, advancement and dissolution;
3. developing partnerships with cooperatives through consultative processes that are focused on policy, legislation and regulation.

It is noted that the Act widens the Commissioners' powers and scope of regulation over the cooperative movement to include promotion, inspection, enquires, auditing, surcharge, debt collection, liquidation and provision of technical extension services. Nevertheless, registration of cooperatives continues to be the main role of the Commissioner for Cooperative Development. The requirements and procedure for registering cooperatives have been spelt out in the revised Cooperative Societies Rules of 2004 (Republic of Kenya, 2004b), which also outlines the operational procedures of all primary cooperatives in Kenya.

In addition to this legislation, there is the SACCO Societies Act of 2008 (Republic of Kenya, 2008b) that provides for the licensing, regulation, supervision and promotion of savings and credit cooperatives by the SACCO Societies Regulatory Authority. Thus, this Act provides for the establishment of the SACCO Societies Regulatory Authority whose functions will include licensing SACCOs to carry out deposit-taking business as well as regulating and supervising SACCOs. With regard to licensing, SACCOs will first of all have to be registered as cooperative under the Cooperative Societies Act, 1997. Thereafter, they will have to obtain a license from the Authority to carry out deposit-taking business (popularly known as Front Office Services Activity [FOSA]) after meeting a raft of requirements, which include meeting the minimum capital requirement as prescribed by the Authority. Upon being licensed, the SACCO will be required to engage only in the business prescribed by the Authority. While carrying out that business, the SACCO shall be governed in accordance with the provisions of this Act and will be supervised, inspected, advised and generally regulated by the Authority. The Authority will

also have power to intervene in the management of a SACCO that is deemed to be mismanaged. The Act also provides for the establishment of the Deposit Guarantee Fund, which secures each SACCO members' deposits (not including shares) up to an amount of KES 100,000 (USD \$1,333). Once this Act becomes operational, this law will provide a framework for the sound management of SACCOs as financial institutions and make them effective competitors in the financial sector. Nevertheless, some provisions in the Act, such as the minimum capital requirement, are so stringent that some SACCOs may not be able to operate the FOSA activity.

3. The cooperative organizational network in Kenya

3.1 The structure of the cooperative movement

The cooperative movement in Kenya is vertically organized into a four-tier pyramidal structure that links up primary cooperatives at the local (lower) level to the national (higher) level. The structure consists of primary cooperatives at the bottom, District/commodity cooperative unions, national cooperative organizations (NACOs)³ and one confederation. Currently, the confederation is the Kenya National Federation of Cooperatives, whose membership includes national cooperative organizations as well as some cooperative unions and primary cooperatives that are not affiliated to any union. It is through KNFC that the Kenyan cooperative movement is expected to be linked to the world's cooperative movements. However, this structure is generally weak because the second, third and fourth tiers tend to draw some of their members from the first tier; which triggers competition among the tiers to recruit members. There is need to strengthen each tier to function as a chain link to reduce the said competition.

Most of the primary cooperatives in Kenya have their origin in state-controlled promotion of cooperative development, which saw most of the people join cooperatives not on the basis of their common bonds and mutual trust, but due to the directive from the state that compelled those engaged in similar economic activities to join specific types of cooperatives. For instance, in the agricultural sector it became mandatory for cash crop farmers to join cooperatives in order to market coffee, cotton, pyrethrum, and milk. Under these circumstances most members knew little about the ICA cooperative principles, though the current legal framework under which cooperatives are now registered and regulated has led all cooperatives to function in accordance with most of these principles (excluding concern for the community).

Cooperatives in Kenya are organized horizontally by economic sectors. This form of organization has given way to the classification of cooperatives into agricultural and non-agricultural cooperatives. Agricultural cooperatives engage in the marketing of

³ National Cooperative Organizations in Kenya are more-or-less federations in the sense that they have primary and secondary cooperatives as their members or shareholders. However, the term "federation" is used in Kenya, not in reference to NACOs, but in reference to the apex cooperative organization that is referred to as a "confederation" in other countries. Thus, federation is used in place of confederation in Kenya.

members' produce as their main activity, though some cooperatives, such as coffee and dairy cooperatives, have ventured into manufacturing in a bid to add value to produce in order to earn a higher return before it is marketed. These cooperatives are further classified by the produce that they handle, with the key ones in cash crops such as coffee, cotton, pyrethrum, sugarcane and dairy. Other cooperatives found in the agricultural sector include fishery, farm purchase and multi-produce cooperatives, which market agricultural produce and mobilize savings to purchase land for members (Wanyama, 2008: 92-3). However, it should be pointed out that land purchase cooperatives, which were very active in the 1960s and 1970s in Central Kenya and the Rift Valley, which ostensibly sought to buy land in the former "White Highlands", are no longer as active.

Non-agricultural cooperatives are involved in finance, housing, consumer, crafts, insurance, transport and the informal economy. In the financial sector, the Cooperative Bank and SACCOs provide savings and credit services, while housing cooperatives assist with the provision of affordable shelter as their main activity. Consumer and craft cooperatives market their respective commodities, while cooperatives in the transport and informal economy engage in savings and credit activities (Wanyama, 2008: 92-3). The Cooperative Insurance Company (CIC) is the flagship of the cooperative movement in the provision of insurance services.

Given that Kenya has an activity-based cooperative system, the national cooperative organizations (NACOs) are based on specific types of activities, including banking, insurance, dairy, savings and credit, housing and coffee, among others. Currently, NACOs include the Kenya Union of Savings and Credit Cooperatives (KUSCCO), CIC, Kenya Planters Cooperative Union (KPCU), the Cooperative Bank of Kenya, National Cooperative Housing Union (NACHU), and Kenya Rural Savings and Credit Societies Union (KERUSSU). Members of these organizations are mainly cooperative unions and some primary cooperatives. Though it is essentially a government institution, the Cooperative College of Kenya⁴ is considered in the cooperative movement as one of the NACOs. It was started in 1969 as a department in the Ministry of Cooperative Development, before its transformation into a semi-autonomous government parastatal through an Act of Parliament in 1995.

The New Kenya Creameries Cooperative (New KCC) is widely considered to be another NACO due to its origin in the cooperative movement. It was founded by white settler dairy farmers as Kenya Creameries Cooperative (KCC) during the colonial period. Primary cooperatives in the dairy sub-sector became affiliated to it, thereby transforming it into a dairy cooperatives federation. However, it is currently operating as a state corporation under the Ministry of Cooperative Development and Marketing, following its acquisition by the government in 2005 from private

⁴ Co-operative college is a Semi Autonomous Government Agency (SAGA), It does not have member affiliates but offers services to the cooperative movement and other interested parties on commercial basis. It qualifies more as a National Co-operative Institution.

individuals that had bought the previous KCC in 2000. The government intends to sell it back to the cooperative movement upon stabilization of its operations.

Primary cooperatives are also affiliated to cooperative unions by economic activity or agricultural produce marketed. For instance, in the agricultural sector there are produce-oriented cooperative unions that collect produce such as coffee, pyrethrum, cotton and milk from primary cooperatives for primary processing and marketing. In addition to these produce-based unions, there are also District Cooperative Unions. These are area-based cooperative unions that bring together primary cooperatives dealing with different types of activities within a geographical area and provide services to their members that would have otherwise been provided by activity-based unions.

In order to understand the current status of the cooperative movement, it is important to analyze the functioning of the main organizations in Kenya's cooperative structure. An analysis of the federation and the national cooperative organizations facilitates this objective.

3.2 *The Kenya National Federation of Cooperatives*

The Kenya National Federation of Cooperatives is the national apex (representative) organization of the cooperative movement in Kenya. It was formed in 1964 by NACOs in collaboration with the Government to promote cooperative development by uniting all cooperatives in the country and serving as the focal point for all matters associated with cooperative policy and law. To play this role, KNFC became the mouth piece of the cooperative movement in Kenya and was responsible for advocacy, lobbying, networking and collaboration. It was to provide leadership and create a platform for conflict resolution within the cooperative movement in Kenya. KNFC was also mandated to represent the movement in key national, regional and international bodies, such as the ICA, in order to articulate the interest and concerns of the Kenyan cooperative movement.

However, poor management over the years saw KNFC deviate from its core business into other activities, such as auditing, education and training as well as research and consultancy. Such activities were already being performed by some of its members, and subsequently KNFC ended up competing with some of its members that were offering the same services to the cooperative movement. In the circumstances some cooperatives found no reason for being members of a federation that they saw as a competitor. The liberalization of cooperatives worsened matters, as corruption and nepotism became the main driving forces in the election of the board of directors and appointment of chief executives at KNFC. Many cooperatives realized that KNFC's poor management was impacting on its service provision and staff retention, and subsequently many withdrew membership. This left KNFC with a paltry membership when compared to its former scope. Many cooperatives regarded KNFC as a liability and, therefore, a burden to the cooperative movement.

The deterioration in the performance and near-collapse of KNFC forced the Minister for Cooperative Development and Marketing intervene in the management of the federation in May 2005. He dissolved KNFC's Board of Directors and replaced it with an interim board (Kenya National Federation of Cooperatives, 2008a). This followed an inquiry that had implicated the executive director in corruption and gross mismanagement of KNFC. By that time, KNFC's membership had shrunk from over 8,000 to just over 600. The institution was bankrupt and could not pay its workers. Property and printing equipment worth millions of Kenyan Shillings had been vandalized and assets had been stolen. The organization had even failed to pay its ICA membership fees.

KNFC is currently a very weak organization. It does not have a stable source of income. It is dependent on rental income from the first floor of its small two-storey building, which was just described as "very little". Donations from NACOs, such as KUSCCO, CIC and the Cooperative Bank, are keeping it going. For instance, the Cooperative Bank has seconded a member of its staff to serve as the KNFC's Chief Executive Officer and be in charge of overseeing the revitalization of KNFC. KNFC has seven other members of staff: a programme manager, an accountant, two auditors and three support staff. With such a lean staff and without adequate resources, KNFC is struggling to function. Only 650 cooperatives are members of the organization and loyalty of such members has decreased to the lowest ebb ever.

However, the Interim Board of Directors that was appointed by the Minister in May 2005 immediately embarked upon developing strategies for reform and restructuring to revitalize the organization (Kenya National Federation of Cooperatives, 2007). With the support of the NACOs, the Board started developing the strategy in 2007 by holding provincial consultative meetings that focused on how to revive the organization. This culminated in the National Cooperative Leaders Conference in November in 2007, which endorsed a new governance structure, revised By-Laws (2008) and a new funding strategy.

The revised By-Laws (Kenya National Federation of Cooperatives, 2008b) propose a governance structure consisting of a secretariat composed of the Executive Director and four heads of sections; a technical committee comprising of the Chief Executive Officers of NACOs; the General Assembly as the supreme authority consisting of 75 elected delegates; and the National Governing Council as the executive authority comprising of eight Chairmen of NACOs, seven elected regional representatives, the Commissioner for Cooperative Development and the Executive Director.

The By-Laws also address the need for strengthening of the financial capacity of KNFC, as they propose a graduated scale of annual contribution by members based on the type of cooperative organization and annual turnover. The scale of annual contribution is classified into two categories of cooperatives: NACOs, on the one hand, and district cooperative unions and primary cooperatives, on the other hand. The rate of annual contribution for NACOs range from KES 50,000 (USD \$666) for those with an annual turnover of less than KES 50 million (USD \$666,667) to

KES 500,000 (USD \$6,667) for those with an annual turnover that is over KES 250 million (USD \$3.3 million). District cooperative unions and primary cooperatives with an annual turnover of less than KES five million (USD \$66,667) will contribute KES 5,000 (USD \$67), while those with an annual turnover of over KES 350 million (USD \$4.7 million) will pay KES 100,000 (USD \$1,333).

In addition to these contributions, cooperatives will also pay an annual membership fee of KES 3,000 (USD \$40 USD) and buy shares with a nominal value of KES 2,000 (USD \$26). This structure is likely to enhance members' democratic control and ownership of the KNFC, while also strengthening its financial capacity to carry out its activities.

The election of seven regional representatives to the National Governing Council in accordance with the new governance structure (November 2008) is reportedly rekindling the interest of many cooperatives in KNFC. The movement is increasingly taking ownership of the organization by committing to fund its operations based on the above funding strategy. The Government, the Kenyan cooperative movement and donors share the view that KNFC is important in the development of the cooperative movement and are subsequently supporting its revival.

The revitalization programme has already charted a new direction for the organization, as it restricts its activities to the core objective for which it was formed. That is, to be the mouth piece of the cooperative movement in Kenya by engaging in advocacy, lobbying, collaboration and networking activities. At the end of the revitalization process, the investment in institutional capacity building of KNFC should enable it to address wealth creation and poverty alleviation of the cooperative movement through:

- promoting and developing cooperatives, with special emphasis on youth participation in cooperative enterprises;
- facilitating e-service and Information and Communication Technology (ICT) systems;
- identifying possible development partners for members;
- promoting value addition initiatives;
- supporting cooperative investment initiatives;
- providing leadership and representation for Kenya's cooperative movement in key national, regional and international bodies.

Achieving such outcomes is dependent on the successful revitalization of the organization. At the moment, KNFC is struggling to lobby and advocate for an enabling policy and legal environment for cooperatives, as exemplified by its support and lobbying of Parliamentarians to pass the SACCOs Bill when it was debated in Parliament in October 2008. With the support of ICA and the Canadian Cooperative Association (CCA), KNFC has facilitated the simplification of the cooperative policy of 1997 and the Cooperative Societies Act of 2004 to enhance cooperators' understanding of the Kenyan policy and legal environment. KNFC has also been advocating for increased donor support to the cooperative movement and occasionally linking some cooperatives

to donors interested in their activities. It is now a member of the Kenya Private Sector Alliance (KEPSA), as well as the East Africa Farmers' Federation. The organization has also initiated contacts with some donors to the cooperative movement, particularly the Swedish Cooperative Centre (SCC). It recently established a website (<http://www.knfc.co.ke>) to enhance its visibility and networking.

Beyond this, KNFC has largely been ineffective in representing the cooperative movement during policy and legal processes. For example, it failed to effectively participate and influence changes to the 1997 Cooperative Societies Act that produced the Cooperative Societies (Amendment) Act, 2004. It was after the amended Act had been enacted that it started mobilizing donor support to hold consultations on the implications of the Act – too late to achieve any impact. Perhaps this also explains the absence of cooperatives in national development debates. KNFC lacks the clout to influence policy and legislative debates in Kenya, making it difficult to improve the visibility of the cooperative movement.

3.3 *The National Cooperative Organizations*

As it has been pointed out, the organization of National Cooperative Organizations (NACOs) is based on specific types of activities or agricultural commodities, such as dairy, coffee, banking, savings and credit, insurance and housing, among others. Most of the NACOs are largely stable organizations. NACOs generally provide essential services for the development of the cooperatives in their respective economic sectors. In addition to these, some of the NACOs are quite effective in networking and enhancing the visibility of the cooperative movement in Kenya. They generally provide essential services for the development of the cooperatives in their respective economic sectors. The activities of each NACO are outlined in detail in the sections below.

3.3.1 *The Cooperative Bank of Kenya*

In the banking sector, there is the Cooperative Bank of Kenya that is owned by the cooperative movement. It was registered as a cooperative in 1965 and was licensed as a commercial bank in 1968. Its main objective was to mobilize savings and provide credit facilities to the cooperative movement, particularly the cooperative unions in the agricultural sector that were experiencing difficulties in obtaining credit to facilitate marketing of members' produce. Though the bank had been licensed to do banking business under the banking Act, it retained its tradition of a cooperative. To ensure cooperative ownership of the bank, 70 per cent of the bank's shares have, for a long time, been held by cooperatives while individual cooperators have held 30 per cent of the shares. However, this structure of ownership is likely to change following the conclusion of a successful Initial Public Offer (IPO) of 700 million shares in November 2008, which saw the bank open up shareholding to the general public. With the conclusion of the said IPO, the Cooperative Bank boasts of a capital base of KES 13.5 billion (USD \$180 million), which makes it one of the strongest banks in Kenya. It made a before-tax profit of KES 3.4 billion (USD \$45.3 million) at the end of 2008.

Employing over 1,300 staff, the bank is set to further expand its branch network across Kenya, roll out mortgage products and strengthen its ICT in order to connect with SACCOs. The Bank has not only been instrumental in providing banking services to cooperatives, but has also been the source of affordable credit for the cooperative movement. For instance, it lends approximately KES 3.5 billion (USD \$46.7 million) annually to SACCOs, in order to increase their liquidity levels so they can meet member demands for loans associated with school fees. Moreover, the Cooperative Bank serves as a mechanism through which most donors to the agricultural sector, particularly those that produce coffee, can channel their support. This has allowed the Cooperative Bank to network with many donors, such as FAO, the SCC, Sida and the European Union, among others. As a commercial bank licensed under the Banking Act, the Cooperative Bank is quite visible and complies with all regulatory requirements.

3.3.2 The Cooperative Insurance Company

The Cooperative Insurance Company (CIC) is the only cooperative organization doing business in the insurance sub-sector. It is owned by 1,495 cooperatives that have invested more than KES 200 million (USD \$2.7 million) as share capital. Many primary cooperatives have found it easy to invest in the company because they need to purchase a minimum of 1,000 shares with a nominal value of only KES 20 (USD \$0.27). Besides underwriting risk insurance for cooperatives, the company also provides awareness in risk protection and management to cooperatives. CIC is the ninth largest insurance company in Kenya, employing over 800 full-time staff, with a branch network that covers all the cities and major towns of Kenya. CIC also networks at the international level. Aside from being a member of ICA, it is also an affiliate of the International Cooperative and Mutual Insurance Federation (ICMIF).

3.3.3 The Kenya Union of Savings and Credit Cooperatives

The Kenya Union of Savings and Credit Cooperatives (KUSCCO) brings together 3,520 active SACCOs, with a membership of over four million individual cooperators. KUSCCO is the most active cooperative union in Kenya. It has 125 employees stationed in 14 offices, distributed in all provinces of Kenya. KUSCCO provides a range of services to members, which have seen it increase its membership base. Though its core mandate is to represent the interests of SACCOs in the policy-making and legislative processes, KUSCCO also provides common shared services, including:

- education and training;
- business development, consultancy and research;
- risk management;
- credit for SACCOs through the Central Finance Programme;
- a mortgage facility for SACCOs through the KUSCCO Housing Fund.

KUSCCO is quite vibrant in advocating for the interests of SACCOs, especially in policy formulation and legislation. Its activities are quite visible, as evidenced by its role in the formulation and enactment of the SACCO Societies Act, 2008.

3.3.4 *The Kenya Rural Savings and Credit Cooperative Societies Union*

The Kenya Rural Savings and Credit Cooperative Societies Union (KERUSSU) is the umbrella national cooperative organization for rural SACCOs and other forms of savings and credit associations in Kenya. It was registered in 1998 as a cooperative union. KERUSSU has a membership of 48 rural SACCOs, out of which 40 are active with a membership of over 335,056. The membership of KERUSSU consists of SACCOs and other forms of savings and credit associations, which have common characteristics including:

- operations primarily based in the rural areas;
- members' major source of income is in rural based activities, such as agriculture;
- most members live in the rural areas.

The main objective of KERUSSU is to be a mouthpiece of its members and thereby safeguard their interests through lobbying and advocacy. This has required that KERUSSU act as a link for rural savings and credit cooperatives and associations locally and internationally. The other objectives include harmonizing and coordinating savings and credit activities of members in order to:

- foster unity of purpose;
- develop and maintain management mechanisms for safeguarding members' funds;
- foster cooperative education, training and information dissemination among its members, employees, as well as the general public.

To realize these objectives, KERUSSU has been involved in a number of activities and programmes. The first of these is education and training. In this regard, it has facilitated:

- regional workshops for management committees of rural SACCOs;
- cooperative microfinance workshops to sensitize members on access to finance in rural areas;
- cooperative managers' workshops;
- accountants'/auditors' courses and seminars.

Secondly, KERUSSU has been involved in lobbying for the creation of an enabling legislative environment for the cooperative movement as was evidenced by its participation in the revision of the Cooperative Societies Act No.12 of 1997 and enactment of the SACCO Act of 2008. Thirdly, the Union also provides management advisory services to members, which include accounting, systems development and

business processes re-engineering. Finally, KERUSSU is in the process of setting up a radio station known as *Ushirika* FM to serve as the voice of the cooperative movement.

Though KERUSSU seems to have sound objectives, its activities have not been so visible in the cooperative movement. This has been partly attributed to the weak governance and management system. For instance, it has not developed an adequate structure for networking. It operates with a very small staff, consisting of the general manager, an accountant and an office assistant. It has largely relied on hiring part-time consultants to carry out its activities. It is currently in the process of revamping its management structure and developing a human resource policy that may help it to attract and retain staff.

3.3.5 *The National Housing Cooperative Union*

The National Housing Cooperative Union (NACHU) was established in 1979 as a limited national cooperative union under the Cooperative Societies Act. It is a membership organization whose affiliates are primary housing cooperatives. The federation has over 214 housing cooperatives as its members. Its main focus is to contribute to improved shelter for low-income communities through provision of access to technical assistance and financial services. Accordingly, NACHU provides services such as promotion, sponsorship, planning and implementation of housing cooperative projects. It also lobbies and advocates for the interests of housing cooperatives in housing policy legislative processes. Though relatively small when compared to the other NACOs, NACHU is networking with other civil society organizations to represent the interests of its members in housing policy formulation and legislation. NACHU also networks at the international level by joining other advocacy organizations in order to get support for better housing for the poor. For instance, it is a member of Shelter Forum, a civil society advocacy group for better shelter for all.

3.3.6 *The Kenya Planters' Cooperative Union*

The Kenya Planters' Cooperative Union (KPCU) is the largest coffee farmers' cooperative union whose membership is made up of coffee primary cooperatives and large scale coffee growers. The on-going leadership disputes and management crisis within the union have made it difficult to obtain statistical data on membership of the organization. These leadership disputes, corruption and mismanagement have adversely affected its financial and organizational stability, as well as its financial performance for a long time. These issues have frequently caused major disagreements between the Board of Directors and the management staff. Indeed one of the disputes saw all management staff resign in September 2008. The same problems have seen KPCU unable to pay farmers promptly for their produce. It is this delayed payment that is triggering some cooperatives affiliated to the union to market their coffee through private agents, thereby adversely impacting on KPCU's income and vibrancy. Other coffee cooperatives are reacting to this situation by revitalizing their secondary cooperative unions, so that the unions can provide the

services that KPCU used to render. To illustrate, Mugama Farmers Cooperative Union has already acquired a license to directly mill and market coffee to the international market without going through KPCU. The construction of its coffee milling plant at Maragua is almost complete. Meru Central Coffee Farmers Union has leased KPCU facilities to enable it to mill its coffee. The two unions have acquired trading licences to enable them market their coffee directly.

3.4 *The Cooperative College of Kenya*

The Cooperative College of Kenya is a state corporation and the leading training institution for the cooperative movement. It is usually treated as a NACO due to its long history of association with training the cooperative movement. This study also treats the Cooperative College of Kenya as such, as a comprehensive discussion of the cooperative movement in Kenya would not be complete information about this college.

The Cooperative College of Kenya was established by the government in 1968 to train leaders and members of the cooperative movement. Over the years it has played this role effectively. Indeed, most - if not all, trained staff working in cooperatives went through this College. It is estimated that up to 12,000 people have been trained in certificate and diploma courses in cooperative management at the college. Unfortunately, the number of trainees from cooperatives attending the college has been reducing since the liberalization. This has been attributed to the tremendous reduction in government sponsorship to the cooperative movement for training purposes. Left on their own, most cooperatives, especially in the agricultural sector, have been unable to raise the required fees for their staff to train at the college.

Despite the reduction in government funding, the college is functioning properly as a training institution. This is evidenced by the fact that it was awarded the International Standards Organization's ISO 9001:2000 Quality Management System standard in October 2008. The College has increased its student enrolment from an average of 250 annually to 750 in 2008, when it opened another campus in Nairobi city centre. It has a total staff of 105, though only 25 of these are full-time lecturing staff, while 40 are part-time lecturers. The College is currently experiencing some financial difficulties, partly due to the said reduction in government sponsorship and also due to the inability of most of the students to pay higher fees that the College may be forced to impose. The other challenges facing the College include:

- lack of adequate lecturers, as highly qualified and experienced lecturers are also highly mobile;
- lack of adequate accommodation facilities for students;
- inadequate physical facilities for teaching at the city campus (the campus is located at a rented premise of Ufundi Cooperative Plaza);
- inadequate library facilities;
- inadequate computers for teaching ICT.

In the midst of these challenges, the college continues to offer courses that lead to the award of certificates, diplomas and, more recently, a degree in cooperative business. The courses offered include:

- Certificate in Cooperative Administration;
- Certificate in Cooperative Business Administration;
- Diploma in Cooperative Management;
- Diploma in Banking;
- Bachelor of Cooperative Business (in collaboration with Jomo Kenyatta University of Agriculture and Technology).

Whereas the diploma and degree courses are only offered through full-time attendance at the college, certificate courses are offered through distance learning. The College has also occasionally designed members' education programmes as well as tailor-made courses for management committees of cooperatives when specific requests are made.

In addition to these courses, the institution, in collaboration with the German Technical Cooperation (GTZ); German Development Services (DED); Hanns-Seidel-Stiftung (HSS); the Kenya Agricultural Commodity Exchange (KACE); and Agricultural Cooperative Development/International Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), established the Agri and Cooperative Training and Consultancy Services (ATC) in 2004, which serves as the commercial arm of the college. ATC ensures the outreach of the college's academic knowledge off-campus, in order to respond to training activities requested by clients. ATC offers entrepreneurship and agribusiness training on a commercial basis to farmers, primary cooperatives and other stakeholders. Since its establishment, ATC has trained approximately 3,500 members of primary cooperatives.

As it may be apparent up to this point, the Cooperative College of Kenya is quite visible and is a household name in the cooperative movement. It frequently advertises its courses in the newspapers and its diploma programmes have been validated by the Commission for Higher Education in Kenya. It works closely with the Ministry of Cooperative Development and Marketing; KNFC; NACOs; cooperative unions and primary cooperatives, as well as the private sector. Its visibility is further enhanced by a network of collaborating institutions that include: GTZ, DED, HSS, KACE, ACDI/VOCA, SCC, United States Agency for International Development/International Volunteers in Overseas Cooperative Assistance (USAID/VOCA), Insika Rural Development (South Africa), Moshi University College of Cooperative and Business Studies (MUCCoBS), The UK Co-operative College, ILO and ICA - to which the College is a member.

4. Current trends in the Kenya cooperative movement

The onset of liberalization saw some analysts paint a grim picture of the cooperative movement, not just in Kenya, but across the entire African continent. Their fear was that as the state had always shielded cooperatives from competing in the free market, which had essentially placed them in a monopolistic position, the withdrawal of such state protection would entail the withering of cooperatives. The analysis undertaken has shown that these fears were not completely unfounded, for cooperatives have been adversely affected by liberalization in various ways, namely:

- KNFC lost its hold on members' loyalty;
- inefficient unions lost revenue as members marketed their produce through alternative buyers;
- the Cooperative College saw a reduction in government sponsorship of its training activities;
- increased competition partly led to collapse of giant cooperatives, such as KCC.

4.1 *The number and membership of cooperatives*

Despite the challenges of liberalization, the cooperative movement has certainly not withered away. The number of registered cooperatives, as well as their membership has been growing over the years. At the end of 2007, Kenya had 11,635 registered cooperatives, of which 4,414 were agricultural cooperatives; 5,122 were savings and credit cooperatives; 183 were consumer cooperatives; 572 were housing cooperatives; 89 were craftsmen's cooperatives; 49 were transporters' cooperatives; 1,107 were other non-agricultural cooperatives and 99 were cooperative unions. (Republic of Kenya, 2008a: 160; Ministry of Cooperative Development and Marketing, 2008: 19-20). Table 1 illustrates the relative growth in the number of cooperatives in Kenya over the last five years.

Table 1: Number of cooperatives by type, 2003/07

Type of Cooperative	2003	2004	2005	2006	2007	2008
Agricultural	4,166	4,215	4,304	4,353	4,414	4,477
Savings & Credit	4,200	4,474	4,678	4,876	5,122	5,350
Other non-agricultural	1,838	1,857	1,885	1,941	2,000	2,041
Cooperative Unions	93	96	99	99	99	100
TOTAL	10,297	10,642	10,966	11,269	11,635	11,968

Source: Ministry of Cooperative Development and Marketing, 2008: 19; Kenya National Bureau of Statistics, 2009: 165.

An earlier study in 2005 had reported a total of 10,642 registered cooperatives in the country (Wanyama, 2008: 94). One can see that the number of cooperatives has since increased to 11,635. However, it should be pointed out that this number

indicates the cumulative figures in the register at the office of the Commissioner of Cooperative Development, which does not tell how many cooperatives are active, dormant or deregistered. Indeed, it may be true that a significant proportion of these cooperatives are dormant. For instance, in 2006, 31 per cent of the 4,876 SACCOs were estimated to be dormant. In 2007, a study found that 1,602 out of 5,122 SACCOs were reportedly dormant. In the agricultural sector, 30 per cent of the cooperatives had failed to continue operating by 2006, while a further 15 per cent of the operating primary cooperatives were not complying with the requirements of the Cooperative Societies Act (Ministry of Cooperative Development and Marketing, 2008: 19-20). These figures suggest that approximately 35 per cent of the 11,635 cooperatives that were still registered in 2007 could be dormant. The same percentage of dormancy applies to the 11,968 cooperatives in the register in 2008.

It should be noted that the figures in Table 1 exclude what have been referred to as “pre-cooperatives” or unregistered cooperatives that may be operating in Kenya. Since cooperatives in Kenya are only recognized after registration, it may not be possible to establish the number of unregistered cooperatives and their membership. However, there are numerous cooperative-like organizations in Kenya that go by the name ‘community-based organizations’, which include women’s groups, youth groups and savings and credit associations. It has not been possible to qualify the number of these organizations in Kenya as many of them are not formally registered. However, it is thought that at least one of these organizations exists in every village of Kenya. As a crude estimation, the Department of Gender reported that there were 138,753 registered women’s groups with a membership of 5,417,850 in 2007 (Republic of Kenya, 2008a: 64).

However, this figure may be a gross underestimation, as not all women’s groups are registered with the Department of Gender. Nevertheless, going on the above number of registered women’s groups and considering that the total number of youth groups and savings and credit associations combined tends to be slightly less than the total number of women’s groups, it would be safe to say that there are well over 250,000 community-based organizations in Kenya that operate more-or-less like cooperatives (Wanyama, 2006).

With regard to the membership of registered cooperatives, though the available data is not disaggregated by activity level, membership level or multiple memberships, it indicates tremendous growth over the past years. In 2007, the movement reported a membership of 8,507,000. Table 2 below illustrates the growth in membership by type of cooperative over a five-year period between 2003 and 2007.

Table 2: Membership of cooperatives by type, 2003/07

Type of Cooperative	2003	2004	2005	2006	2007
Agricultural	1,153,000	1,024,000	1,140,000	1,238,000	1,318,000
Savings & Credit	3,500,000	3,642,000	4,602,000	5,420,000	6,286,000
Other non-agricultural	265,000	319,000	333,000	370,000	334,000
Cooperative Unions	624	625	639	639	569
TOTAL	5,542,000	5,610,000	6,714,000	7,667,000	8,507,000

Source: Ministry of Cooperative Development and Marketing, 2008: 20

This significant growth in membership, particularly since the liberalization of the movement, has been attributed to the resurgence of people's confidence in cooperative enterprises as mechanisms for generating income to satisfy various socio-economic needs. Relative to the first era of cooperative development, people are increasingly viewing cooperatives as their own organizations, rather than government institutions that did not require their inputs.

4.2 *The vibrancy and innovativeness of cooperatives*

The cooperative movement in Kenya has largely been invisible and silent in national development policy debates, largely due to the leadership and management problems that have surrounded KNFC - the movement's representative body. The ineffectiveness of KNFC has seen NACOs strive to represent their members' interests in the formulation of policies that directly affects their economic activities. For instance, KUSCCO was involvement in the formulation of legislation for the SACCO Societies Act. KUSCCO has also been vocal in opposing the retrenchment of employees in the public service, as that would affect the membership of SACCOs and it has demanded to be involved in poverty reduction and HIV/AIDS awareness programmes. NACHU has also been active in lobbying for favourable housing policy for the poor. However, cooperative unions in the agricultural sector have not been as active. They don't have the same capacity or competencies to persuade, lobby and advocate for their respective sub-sectors. Perhaps this is due to the fact that cooperatives in this sector do not consider voice and representation a priority activity.

While most cooperatives have shied away from advocacy, they have remained committed to the success of their business ventures. This is evidenced by the relative growth in annual income of cooperatives, which has grown from KES 14.9 billion (USD \$198.4 million) in the year 2000 to KES 24.3 billion (USD \$323.4 million) in 2007 (Ministry of Cooperative Development and Marketing, 2008: 19). Table 3 illustrates annual growth of cooperatives by type over a five-year period up to 2007.

Table 3: Annual turnover of cooperatives by type, 2003/07 (KES millions)

Type of Cooperative	2003	2004	2005	2006	2007
Coffee cooperatives	3,892 (54.5)	3,951 (48.7)	4,266 (56.9)	4,819 (64.3)	4,887 (65.2)
Dairy cooperatives	1,290 (17.2)	1,500 (20)	1,933 (25.8)	2,247 (30)	2,395 (31.9)
Other Agricultural	1,334 (17.8)	1,147 (15.3)	1,093 (14.6)	1,132 (15.1)	1,178 (15.7)
Savings & Credit	9,761 (130.1)	10,359 (138.1)	11,609 (154.8)	13,511 (180.2)	14,409 (192.1)
Other non-agricultural	265 (3.5)	251 (3.3)	275 (3.7)	305 (4.1)	238 (3.2)
Cooperative Unions	963 (12.8)	763 (10.2)	746 (9.9)	746 (9.9)	1,145 (15.3)
TOTAL	17,505 (233.4)	17,971 (239.6)	19,922 (265.6)	22,760 (303.5)	24,252 (323.4)

Source: Ministry of Cooperative Development and Marketing, 2008: 20

Note: Equivalent USD millions provided in brackets.

Data in Table 3 clearly shows that the turnover of agricultural cooperatives has only made marginal gains relative to that of non-agricultural cooperatives, particularly that of savings and credit cooperatives. Indeed, the marginal growth in the turnover of agricultural cooperatives seem to have largely been due to coffee and dairy cooperatives, whose turnover increased from KES 3.7 billion (USD \$49.9 million) and KES 1.5 billion (USD \$20.4 million) in 2000, to KES 4.9 billion (USD \$65.2 million) and KES 2.4 billion (USD \$31.9 million) in 2007, respectively (Ministry of Cooperative Development and Marketing, 2008: 20-21).

The total turnover of agricultural cooperatives of KES 8.5 billion (USD \$112.8 million) in 2007 is only slightly more than 50 per cent of that of the SACCOs' combined turnover of KES 14.4 billion (USD \$192.1 million) in the same year. Indeed, SACCOs currently stand out as the most vibrant cooperatives in the country. As data in Table 4 reveals, formation of new cooperatives has been more prevalent in the financial sector than in the agricultural sector.

Table 4: Number of new cooperatives registered by type, 2003/07

Type of Cooperative	2003	2004	2005	2006	2007
Agricultural	248	49	89	49	61
Savings & Credit	180	274	204	198	246
Other non-agricultural	393	23	28	56	59
Unions	4	3	3	0	0
TOTAL	825	349	324	303	366

Source: Calculated on the basis of data from Ministry of Cooperative Development and Marketing, 2008: 19

Such declining performance of agricultural cooperatives has seen the income of crop farmers dwindle over the years. Owing to the historical linkages of cooperatives to the statutory marketing boards, most cooperatives specialized in bulking raw commodities for processors. This scenario still prevails to a certain extent. To date, cooperatives operate at the lower end of the value chains. To break this cycle, some of the cooperatives have developed various innovative cooperative ventures to improve their performance. For example, approximately 20 dairy cooperatives have set up their own milk cooling and/or processing plants, in order to add value to farmers' produce and maximize income. The best dairy cooperative in this regard is Githunguri Dairy Farmers Cooperative Society, which is the fifth largest dairy processor in Kenya, followed by Limuru Milk Processors and Meru Central Dairy Cooperative Union.

Another very unique example is Uriri Farmers' Cooperative Society that was formed in 2003 to promote soy bean farming in Oyani Division of Rongo District, Nyanza Province. Due to disappointment associated with poor returns from sugarcane and tobacco farming in the area, ten farmers joined an informal group that enlisted the support of the Tropical Soil Biology and Fertility Institute (TSBF) of the International Centre for Tropical Agriculture (CIAT) based at the International Centre for Research in Agro-forestry (ICRAF) in Nairobi, in order to start growing soy bean as an alternative crop. The technical advice from TSBF-CIAT helped them to successfully start the venture, which subsequently went on to attract thousands of other farmers in the locality.

The group was registered as a primary cooperative in 2005 and its membership now stands at 750, with approximately 2,000 other unregistered farmers growing the crop and selling it to the primary cooperative. The venture received a donation of a small soy bean processing machine from TSBF-CIAT in January 2008, which has since enabled the cooperative to start small-scale processing of soy bean products, such as milk, yoghurt, nuts, beverage, flour and sausages, among others. It purchased over ten tons of beans in 2007, which earned the farmers approximately KES 650,000 (USD \$8,666.7). The cooperative recorded an annual turnover of KES 1.5 million (USD \$20,000) in 2007. These encouraging results have motivated the cooperative to seek a bigger processing machine that costs approximately KES 2.5 million (USD \$33,333.3) to expand the venture. It is now also mobilizing more farmers to grow soy beans. Thus, the innovation of this cooperative has increased soy bean farming in the area and has allowed for the expansion of a unique cooperative business.

Approximately nine coffee cooperatives have established hulling facilities to mill coffee. Three others have or are in the process of constructing their own independent milling facilities to produce clean coffee. Four cooperative organizations have acquired marketing licences to enable them undertake direct marketing of coffee.

In the financial sector, SACCOs are also increasingly becoming innovative by developing new products to enhance their income. For example, SACCOs have diversified their traditional products of savings and credit by introducing Front

Office Service Activity (FOSA). FOSA offers services that members can use to process their monthly salary, while having access to instant cash advances (based on their salary) and maintaining withdrawable savings deposits. Currently, 230 SACCOs operate with this activity in Kenya. In addition, the SACCO movement is quickly spreading from its traditional urban and wage employment strongholds into the agricultural sector in rural areas and informal economy.

4.3 *The role of donors in cooperative development*

Direct donor support to the cooperative movement in Kenya declined drastically with the onset of liberalization policy. Hitherto the cooperative sector was abuzz with donors, such as the European Union, the Nordic Countries and the World Bank, among others. To date, donors associated with the cooperative movement in Kenya include cooperative agencies from developed countries, international cooperative associations, international development agencies and international organizations.

There are two leading cooperative agencies from the developed countries working in Kenya, namely the Swedish Cooperative Centre and the Canadian Cooperative Association. SCC funds programmes for education and training, capacity building and institutional development of cooperatives (Swedish Cooperative Centre, 2007). Its support is directly channeled to the cooperative movement, rather than through the government. SCC has supported capacity building in cooperatives in the following areas:

- curriculum development at the Co-operative College of Kenya;
- funding KNFC to host cooperative consultations on the implications of the Cooperative Societies (Amendment) Act of 2004;
- supporting initiatives to revive the institutional capacity of KNFC;
- funding the Intensive Cooperative Management Improvement Scheme (ICMIS), with the objective of improving the management of selected primary cooperatives through education and training;
- funding cooperative member education, through a specialized project known as Community Empowerment and Enterprise Development through Cooperatives (CEEDCO).

On the other hand, CCA focuses on capacity building and organizational development of cooperative organizations. Aside from its support to KNFC in regard to consultations on the implications of the Cooperative Societies (Amendment) Act of 2004, it has funded the ICA Regional Office for Africa's Policy and Research Programme to translate the cooperative policy and legal framework of Kenya into an understandable language for all cooperators. CCA is also funding ICA's Enabling Environment Project (EEP) for cooperatives in East, Central and Southern Africa.

With regard to the international cooperative associations, WOCCU and ICA are active in Kenya. WOCCU focuses on supporting sustainable SACCO growth, building local technical capacity of SACCOs and mitigating the impact of HIV/

AIDS through education programmes and financial services that meet the needs of affected communities. To this end, WOCCU runs three main programmes in Kenya, namely:⁵

- a) Providing Access to the Poor - a SACCO growth programme for doubling the membership of participating SACCOs and expand their outreach to very poor members, while helping them to maintain prudential standards;
- b) Serving Communities in Crisis - aims at mitigating the financial impact of HIV/AIDS epidemic on SACCOs and their members. Located in Kisumu, the programme takes an integrative approach to strengthening SACCOs by providing members with prevention education, creating education savings accounts for adolescents and introducing labour-saving farm technologies for vulnerable and affected households;
- c) Building Local Capacity – aims at improving the capacity of the local consulting and technical assistance industry in Kenya to help SACCOs meet registration and licensing standards so that they can comply with the new regulatory requirements. The programme should see SACCOs in Kenya in a good position to provide quality services to members and meet competitive market pressures.

Turning to ICA, the point has already been made that its Regional Office for Africa's Policy and Research Programme has helped to translate the Kenya's cooperative policy and legal framework into an accessible language for all cooperators. The ICA has also been supporting the development of an enabling legal and policy environment for cooperatives in Kenya.

A number of international development agencies also support cooperatives either directly or indirectly. Their support to cooperatives includes capital provision, institutional capacity building, education and training, as well as the development of an enabling environment for the effective operation of cooperatives. Among the international development agencies that provide direct support to the cooperative movement include:

- the German Technical Cooperation (GTZ), USAID-VOCA and the German Development Services (DED) that have supported the Cooperative College to develop training materials;
- the European Investment Bank of the European Union that has given a grant to the Cooperative Bank of Kenya for on-lending to rural SACCOs;
- the International Fund for Agricultural Development (IFAD) that has supported rural SACCOs in information technology training through the Cooperative Bank of Kenya;
- the Food and Agricultural Organization (FAO) that has supported the Ministry and a farmer's association to develop a software for a management information system for dairy cooperatives in Kenya;

⁵ Information available from http://www.woccu.org/memberserv/intlcusystem/icus_countryhy

- USAID's Cooperative Development Program (CDP) that has supported the design and implementation of an intensive three-tiered accreditation programme for SACCO managers and board members. CDP also supports the development of HIV/AIDS member awareness for cooperatives.

Some of these organizations have teamed up with other international organizations to indirectly support agricultural cooperatives by funding multilateral projects in the agricultural sector. For instance, the Agricultural Sector Coordinating Unit (ASCU) that involves the Ministries of Agriculture, Cooperative Development, Livestock Development and Fisheries has been established to support the revival of agricultural activities — and cooperatives are key players in this. Funds have been provided by the European Union, USAID, Swedish International Development Agency (Sida), the Danish International Development Agency (DANIDA), FAO, Department for International Development (DfID) of the United Kingdom, GTZ and IFAD, among others. The World Bank has also been instrumental in giving indirect support to coffee cooperatives, by funding the Ministries of Agriculture and Cooperative Development to improve coffee production in Kenya.

In addition to these, there are a few international institutions offering bilateral support to some cooperatives. For instance, TSBF- CIAT based at ICRAF in Nairobi, has provided technical advice to Uriri Farmers Cooperative Society to start soy bean farming in the larger Southern part of Nyanza Province. TSBF has also donated a small machine for processing soy bean products, such as milk, yoghurt, flour, sausages and bread.

5. The significance of cooperatives in social development

5.1 Creating employment, generating income and reducing poverty

Cooperatives are generally regarded to be significant generators of employment opportunities in Kenya. The Ministry of Cooperative Development and Marketing estimates that the movement directly employs over 300,000 people. These are the people who are charged with the responsibility of managing cooperatives for a wage (Ministry of Cooperative Development and Marketing, 2008: 4). In addition to such direct employment in the movement, cooperatives are also estimated to generate employment for over 1.5 million people indirectly. Such indirect jobs are held at different levels.

First, there are people who owe their employment to manufacturing and marketing goods that are purchased by cooperatives. For instance, office stationery used in cooperatives; packaging paper used by dairy cooperatives; machinery for primary processing of agricultural produce such as coffee and milk; and farm inputs stocked in cooperative stores.

Second, there are people who derive their jobs from marketing products produced by cooperatives. For instance, dairy cooperatives produce various products such as

fresh milk, ghee, butter and yoghurt; while other agricultural cooperatives market coffee, fish, pyrethrum and eggs. These products are then passed on to other entities to market to retailers, wholesalers and consumers.

Besides creating employment, cooperatives are also sources of income generating opportunities for many people, particularly members of cooperatives. In 2007, primary cooperatives in the agricultural sector had a membership of 1,318,000, approximately 50 per cent of whom were estimated to be active. The SACCOs had 6,286,894 members, 98 per cent of whom were active in the lending activities of their cooperatives. The other non-agricultural primary cooperatives had a total membership of 334,000, with approximately 50 per cent active. These estimations indicate that the primary cooperatives had slightly over seven million active members that directly associate income with cooperative activities. The multiplier effect of cooperative membership would see the income generating opportunities spread to more people. It is from this perspective that 63 per cent of Kenya's population (i.e. approximately 23.4 million people) is estimated to be participating directly or indirectly in economic activities that originate from the cooperative movement (Ministry of Cooperative Development and Marketing, 2008: 4).

These figures are clear pointers to the significant contribution of cooperatives to poverty reduction and poverty prevention in Kenya. This is particularly true as most of the income generated from cooperatives is mainly used to address long-term poverty prevention measures. For instance, the main type of back office loan offered by most SACCOs (at interest rates of 1 to 1.5 per cent on reducing balances for a 12-month period) is associated with school fees (Evans, 2002). This has afforded many members of cooperatives an opportunity to educate their children, under the assumption that education can help to prevent poverty in the long term. Development loans offered by most SACCOs have been used to buy land; build houses; invest in businesses and farming; buy household furniture; and meet other family obligations. The contribution of cooperatives to poverty reduction, poverty prevention and social protection should be appreciated in this light.

5.2 *Providing social protection*

Cooperatives mainly operate as business entities and are therefore less focused on communal social welfare. For instance, the management committee of Uriri Farmers Cooperative Society seemed more concerned with the economic empowerment of soy bean farmers than with the ideals of cooperative enterprise. Education, training and information also tend to be restricted to the members, whereas the intent of ICA principles was to include the general public. Even among cooperators, education and training activities over the last three years have not focused directly on ICA principles, but on the core activities of cooperatives, including agribusiness, entrepreneurship, savings and credit advancement regulations, leadership and governance of cooperatives, and the economic benefits of membership in cooperatives, among others. It is apparent that any cooperative that doesn't provide economic gains in Kenya tends to be deserted by the members. This is evidenced by

many cooperatives that are partly dormant. As the following examples attest, social protection associated with cooperatives rides on the shoulders of their economic success. A few activities of such successful cooperative ventures could be viewed as attempts at offering social protection to the members.

First, SACCOs have developed quick disbursing advance schemes found in both their back office and front office activities. With regard to back office activities, SACCOs offer emergency loans to their members for a term of twelve months. This acts as an instrument of social protection for members, as it provides quick response to unanticipated socio-economic problems that may arise at any time. In the front office service activities, SACCOs have introduced cash salary advances that are popularly referred to as “instant loans”, which are advances on salaries. Under varying conditions, SACCOs approve and pay these advances in no longer than one day and often within five minutes, in order to enable members respond to unexpected social costs.

Secondly, most SACCOs have introduced benevolent funds to which members contribute regularly and only draw from them when they are bereaved. The schemes define the relatives in whose death the member would get assistance to meet the burial expenses, as well as the respective amount of money to which he/she would be entitled. In the event of a member’s death, his/her immediate family gets assistance from the fund to meet burial expenses.

Thirdly, the core business of CIC is to give protection against risks associated with operation of cooperative enterprise, as well as cooperators themselves. It is significant that CIC has also developed a micro-finance insurance scheme specifically for covering savings of micro-finance institutions (MFIs) in case a person with a loan passes away before completing repayment. At the individual level, CIC recently launched the Family Insurance Scheme, in partnership with the National Hospital Insurance Fund (NHIF), at an annual premium of KES 3,650 (USD \$48.7), in order to cover medical expenses of insured individuals. Nevertheless, it should be emphasized that such protection is only available to those who are able and willing to pay the requisite premiums. The only exception to this is CIC’s corporate social responsibility programme that sets aside limited funds annually to provide social services to the community. This is done by donating to institutions in order to support a specific service. For instance, CIC donates money to hospitals to assist patients that are genuinely unable to pay for their medical bills. It is noted that such funds are limited and discretionary.

5.3 *Cooperative representation and advocacy*

According to the structure of the cooperative movement in Kenya, KNFC is the mouthpiece of the cooperative movement in Kenya as well as its representative in national and international circles through appropriate networking and linkages. Its key mandate is to lobby and advocate for favourable policy and legal reform amongst cooperatives. However, the leadership and management problems that

have surrounded the organization in the past have seen KNFC ineffective at improving the voice and representation of the cooperative movement in Kenya. Moreover, KNFC ceased to be a representative of the cooperative movement in the international circles when it failed to renew its membership with ICA.

In the circumstances, some NACOs and cooperative unions have become more effective speakers and representatives of the cooperative movement than KNFC. For instance, KUSCCO now stands out as the mouth-piece of SACCOs in Kenya. In the recent past, it was vocal in opposing the retrenchment of employees as that would have affected the membership of SACCOs. More significantly, KUSCCO, along with other organizations such as WOCCU, was behind the formulation of the new SACCO Act, 2008. We have already indicated the various regional and international organizations in which KUSCCO represents the SACCO movement. NACHU has also become an active representative of housing cooperatives in the country. It is apparent that cooperative unions in the agricultural sector are not as active as KUSCCO, NACHU, CIC or KERUSSU; neither do they have the same capacity or competencies to persuade, lobby and advocate for their respective economic sectors. Perhaps this is the time to transform and build capacity of the cooperative unions so that they can effectively represent, lobby and advocate for the members.

6. Conclusion

It is slightly over a decade since the liberalization of the cooperative movement in Kenya, yet very little is known about the unfolding status of the movement since then. In the circumstances, a number of pertinent questions have gone unanswered since the late 1990s. Given the monopolistic status that cooperatives had been accorded by the state prior to liberalization, analysts have worried whether cooperatives have survived the fierce competition of the liberalized market or they have withered away. In response to this dearth in literature, this paper has considered the organizational response of cooperatives to the new economic environment in to which they were suddenly plunged. It has tackled the key question of whether cooperatives are faring better than they did in the previous era of cooperative development, which was characterized by state control.

The analysis clearly shows that economic liberalization has not seen the cooperative movement wither away. Though in the interim many cooperatives succumbed to the fierce competitive market forces, which continue to adversely affect some cooperative organizations, the majority of these organizations have survived the liberalization storm. The available data shows that cooperatives have continued to grow in number and membership, with non-agricultural cooperatives, particularly SACCOs, recording higher growth than those in agriculture.

However, the market forces have triggered a transformation in the structural organization of cooperatives in Kenya. Due to their inability to provide members with competitive services, the national federation and some cooperative unions

have largely faded away. To reclaim the services that were previously provided by the federation and the unions, primary cooperatives and the national cooperative organizations are steadily making alternative arrangements to provide the same services to their members. Thus, the indication is that liberalization has given cooperatives the impetus to re-examine their organizational formations with a view to reorganizing in their best interest, rather than in the interests of the state.

It is in this regard that cooperatives are increasingly diversifying their activities and introducing innovative cooperative ventures in order to respond to the challenges of the market, as they endeavor to satisfy the interests and demands of their members. Those cooperatives that have managed to adapt to the new market system are recording better performance than they did in the past era of state control. Such cooperatives seem to have reinvented the business wheel that they had lost when they were prematurely taken over by the state. Whereas the future of cooperative development in a liberalized economic environment seems to be bright, the challenge is how to cultivate these business virtues in the less-adapted cooperatives, in order to spread the benefits of the “new” mode of cooperation to a wider population in Kenya. It is only then that the movement will be in a position to offer greater social protection to the society.

Whereas cooperatives seem to be reinventing the business wheel that they had lost to the state, they are yet to claim their place in national policy debates. They continue to be silent and largely invisible on matters that do not directly affect their business ventures. To offer social protection adequately, the movement requires a voice at the national and international levels. The disintegration of KNFC under the weight of mismanagement robbed the movement of this voice. To strengthen the voice and representation of the cooperative movement in Kenya, the on-going revitalization of KNFC and cooperative unions need to be supported, not by the state and other donors, but by the cooperative movement itself. Until this is done, the movement is likely to remain weak and lack visibility at the national and international levels.

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Surviving liberalization: the cooperative movement in Kenya

Fredrick O. Wanyama

It is over a decade since the liberalization of the cooperative movement in Kenya, which sought to create commercially autonomous member-based cooperatives that would be democratically and professionally managed; self-controlled; and self-reliant business ventures. However, since then very little is documented and communicated about the unfolding status of the movement. The purpose of this paper is to highlight the current trends, structural organization and performance of cooperatives in Kenya. A quick appraisal of the situation reveals that cooperatives have largely survived the market forces and continued to grow in number, membership and income. The market forces have triggered a structural transformation that has seen the fading away of the inefficient cooperatives, including the National Federation and some cooperative unions, as primary cooperatives seek better service provision. Similarly, cooperatives are increasingly diversifying their activities and introducing innovative ventures in order to respond to their members' needs. The well-adapted cooperatives are subsequently recording better performance than they did in the previous era.

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