



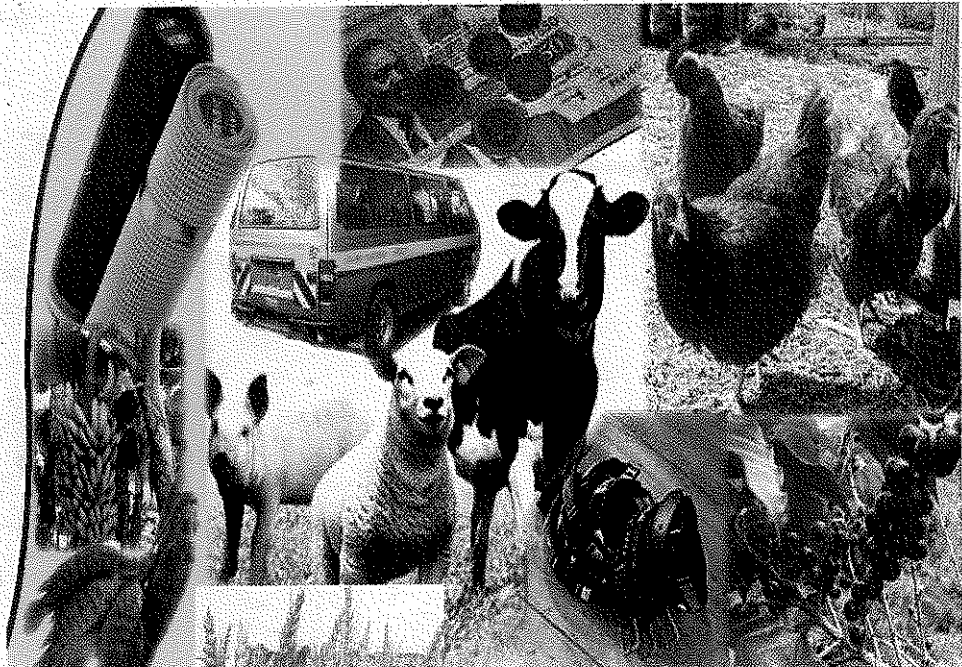
REPUBLIC OF KENYA

MINISTRY OF CO-OPERATIVE DEVELOPMENT AND
MARKETING

Sessional Paper No. 5 of 2011

on

***Expanding the Enabling Environment
for Sustainable Co-operative
Development***



A range of co-operative enterprises at a glance

April 2011

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ACRONYMS AND ABBREVIATIONS

ASAL	Arid and Semi-Arid Lands
BPO	Business Process Outsourcing
CCD	Commissioner for Co-operative Development
CIC	Co-operative Insurance Company
CL&SMB	Cotton Lint and Seed Marketing Board
CMD	Co-operative Marketing Department
COMESA	Common Market for East and South Africa
CPITC	Co-operative Policy Implementation Technical Committee
CPPP's	Co-operative Publicity private partnerships
CSA	Co-operative Societies' Act
DCO	District Co-operative Officer
EAC	East African Community
EPZ	Export Processing Zones
ERS	Economic Recovery Strategy
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency
HOD	Head of Department
HRD	Human Resource Development
ICA	International Co-operative Alliance
ICT	Information and Communication Technology
ILO	International Labour Organization
KCC	Kenya Co-operative Creameries
KERUSSU	Kenya Rural SACCO Societies' Union
KeCIF	Kenya Co-operative Investment Fund
KeCIP	Kenya Co-operative Investment Plan
KNFC	Kenya National Federation of Co-operatives
KPCU	Kenya Planters Co-operative Union

KUSCCO	Kenya Union of Savings and Credit Co-operatives
MDGs	Millennium Development Goals
ML	Ministry of Labour
MOA	Ministry of Agriculture
MOCDM	Ministry of Co-operative Development and Marketing
MTP	Medium-Term Plan
NACHU	National Co-operative Housing Union
NACO	National Co-operative Organization
NCPSC	National Co-operative Policy Steering Committee
NGOs	Non-Governmental Organizations
OTC	Over the counter trading
PCO	Provincial Co-operative Officer
PS	Permanent Secretary
SACCO	Savings and Credit Co-operative
SACCO's	Savings and Credit Co-operative Societies
SAGAs	Semi-Autonomous Government Agencies
SDGF	SACCO Deposits' Guarantee Fund
SRA	Strategy for Revitalization of Agriculture
TNA	Training Needs Assessment

FOREWORD

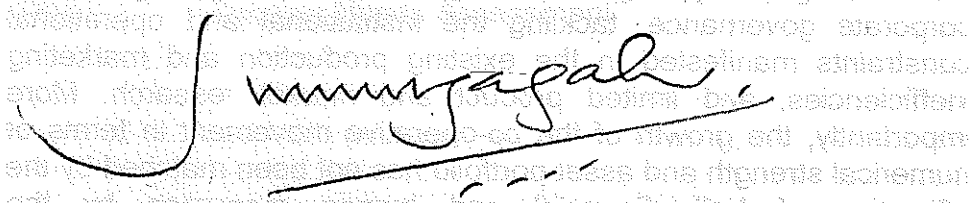
The Government recognizes co-operatives as critical players in the pursuit of Kenya's national, social and economic objectives which are rapid economic growth, equitable and sustainable development. This *Sessional Paper on Expanding the Enabling Environment for Sustainable Co-operative Development in Kenya* presents the policies aimed at transforming co-operatives into vibrant social and commercial entities through co-operative extension services, education and training, co-operative marketing promotion and research, external audit services, co-operative credit and banking services policy and promotion of good co-operative governance. The Sessional Paper identifies contemporary challenges that co-operative enterprises face and defines a policy paradigm shift towards a more proactive engagement between Government, the co-operative movement and other stakeholders in addressing these challenges. It also seeks to rationalize the role of Government in co-operative development in line with the Kenya Vision 2030 which is geared towards making Kenya efficient and globally competitive. In this respect, the Government will continue to uphold the sanctity of the co-operative principles while ensuring that the interests of the general membership are safeguarded.

The main challenges facing co-operative development are creating an enabling policy, legal and regulatory framework; improving corporate governance, tackling the institutional and operational constraints manifested in the existing production and marketing inefficiencies, and limited product and market research. More importantly, the growth of the co-operative movement in terms of numerical strength and asset portfolio has not been matched by the allocation of both financial and human resources by the Government for co-operative development programmes and promotional services.

Implementation of the Policy will place the co-operative movement at the forefront in enhancing productivity in agriculture, fighting poverty and promoting equity. This is crucial for the optimal performance of agriculture and other productive sectors since they provide avenues for mobilization of domestic savings, promote cost-effective procurement and distribution of farm inputs, participate in acquisition of new technologies and upgrading of

production facilities. The Sessional Paper provides a framework for mobilizing financial and technical assistance for co-operative development besides encouraging public/private partnerships between co-operatives, private investors and Government towards increased value-addition and aggressive marketing of co-operative products and services. It addresses the pressing challenges that include inadequate funding, staffing, limited staff capacity in terms of skills and low levels of staff motivation. By implementing this Policy, the Government will promote an innovative, commercially-oriented and modern agriculture through the revival of input supply co-operatives.

In an effort to address the challenges, the Sessional Paper proposes the design of a Co-operative Stimulus Package that will focus on restructuring and revitalizing key co-operatives. The restructuring and strengthening of the management of the institutions will strengthen the government's economic growth and poverty reduction aims. Other critical policy interventions will include ensuring a deeper penetration of co-operative financial services through new savings and credit products and developing new co-operatives in underserved areas. On-going governance reforms in the co-operative movement will be deepened and geared to entrenching accountability and social responsibility on the part of the co-operative movement's leadership.



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Minister for Co-operative Development and Marketing

EXECUTIVE SUMMARY

This Sessional Paper on **Expanding the Enabling Environment for Sustainable Co-operative Development** presents a policy framework for accelerating Kenya's co-operative growth in a dynamic and competitive global environment. It replaces Sessional Paper No. 6 of 1997, on **Co-operatives in a Liberalized Economic Environment** that re-defined a new relationship between the Government and the co-operative movement emphasizing autonomy and independence of co-operatives and focused on creating an enabling policy and legal environment for co-operatives to actively engage in tackling the prevailing high levels of un-employment and poverty. Liberalization exposed co-operatives to competition for which they were ill-prepared rendering dormant some of them which hitherto had performed upstream marketing functions. Co-operatives had to grapple with operations at un-economical scales caused by sub-divisions as witnessed among coffee societies. Unfortunately, as a result of sudden Government withdrawal from its supervisory role, some co-operative societies' leadership seized the opportunity to confer upon themselves extraordinary powers to appropriate resources: they made poor investment decisions that led to non-performing assets and ventured into non-core areas which contributed to low returns to members and pervasive indebtedness. Despite its shortcomings, liberalization created new opportunities for co-operative growth at national and regional levels.

Following misconceptions of the true intentions of liberalization and a reduction of donor support for co-operative development programmes in the mid 1990's, resources for capacity building, training and education and material development dwindled resulting in heightened unawareness about co-operative values among management, leaders and members; poor governance and reduced appreciation of the co-operative benefits. Coupled with increased costs of production, shortage of investment capital and leadership problems, agro-commodity co-operatives' market share declined. Commodity marketing co-operatives suffered due to lack of capacity to undertake value-addition and engage in aggressive marketing, besides failure to brand and package their products. Consequently, some co-operatives ventured into non-core areas, which did not yield optimal net returns. At the national level, cases

of mismanagement led to collapse of the KFA, KCC, KNFC and the near demise of KPCU which resulted in massive losses, triggering withdrawal of members, increased sub-divisions and consequent litigations. Thus what began as well intended liberalization measures gradually translated into irreversible weakening of commodity marketing co-operatives leading to the co-operative movement suffering a crisis of confidence.

The Paper identifies contemporary challenges to co-operatives and defines a policy paradigm shift towards a more proactive engagement between Government, the co-operative movement and other stakeholders in addressing them. The challenges include creating an enabling policy, legal and regulatory framework; improving corporate governance and tackling the production and marketing constraints facing marketing co-operatives; improving utilization of outdated technologies, inadequate capitalization, limited product and market research; tackling institutional and structural constraints that limit operational efficiency, eliminating high portfolio of non-performing assets, improving limited technical and enforcement capacity in the Ministry; and instituting self-regulation within the co-operative movement.

This Sessional Paper on *Expanding the Enabling Environment for Sustainable Co-operative Development* presents the policy framework for accelerating Kenya's co-operative growth in a dynamic and competitive global environment and focuses on creating an enabling environment for co-operatives to actively engage in addressing the national challenges of employment creation, wealth creation, and poverty reduction in Kenya.

Due to on-going governance reforms introduced by the Government since 2004, the country witnessed a resurgence of co-operative growth. The number of registered co-operative societies in Kenya has grown from 9,443 in 2000, to 13,256 by 2010. The total membership of the co-operative movement rose from 5.34 million in 2,000, to 10.17 million members by 2010.

Despite these gains, the overriding challenge to co-operative development is improving the commercial viability, profitability and sustainability of individual co-operatives, increasing their contribution to GDP as well as enhancing their adaptability and

responsiveness to emerging and contemporary economic challenges locally and internationally. An equally important challenge is to disabuse the apparent misconceptions about the government's role in co-operative development in a liberalized market economy. Growth of the co-operative movement needs to be matched by the requisite allocation of both financial and human resources by the Government for co-operative development programmes and promotional services to embrace a symbiotic relationship in which Government will play an indirect governance role through the development of an enabling policy, legal and institutional framework.

This Policy blueprint reiterates the facilitative role of Government in co-operative development in line with the Vision 2030 aims of making Kenya efficient and globally competitive by reinforcing and safeguarding the uniqueness and comparative advantage of co-operatives in dealing with economic and social challenges facing Kenya, namely widespread unemployment, poverty and inequality. It outlines policies and reforms in the co-operative sector aimed at contributing to the Vision 2030 aims within agriculture, financial services, industrialization and trade sectors while keeping with Kenya's obligations to the international co-operative fraternity regarding enhancing the visibility and central role of the co-operative movement in the development of nations. By acknowledging the critical role of co-operatives in the national economy and the need for tackling the specific problems they face, the Government commits itself to supporting sustainable development of co-operatives and reaffirms Kenya's leadership in the African continent in this key sector.

The Policy aims to develop an enlightened and responsible leadership capable of transforming Kenya's co-operatives into globally competitive entities through conducting co-operative training programmes designed for every level of the educational system. In terms of marketing, the Paper focuses on two dimensions: enhancing the marketing promotion function involving identification of competitive market outlets for co-operative products and services; building/branding new products, and enhancing individual co-operatives' capacity in marketing with focus on supporting marketing intelligence, training of co-operative managers and leaders on value-addition, product development,

packaging and branding, promotion of exports and acquisition of capital for investment in product development and value-addition.

It embraces measures designed to contribute to the implementation of Kenya Vision 2030 Flagship projects and Medium-Term Plan that promote an innovative, commercially-oriented and modern agricultural and financial service sectors. Priority areas of policy action include creating an enabling macro-economic framework for co-operative growth, increased funding for co-operative development programmes; implementation of Vision 2030 flagship projects in the areas of fertilizer/inputs cost reduction, co-operative participation in land use reforms and provision of basic housing and other infrastructure, improved access to credit through SACCO's and a greater role of co-operatives in manufacturing, wholesale and retail trade. It also underscores the rationale for reforming and reviving co-operatives whose performance declined during liberalization. To address the issues, urgent action will be taken in 5 areas: (i) design and implementation of a Co-operative Stimulus package, (ii) re-training managers and members on modern business practices, (iii) improving efficiency with which co-operatives process and market their products, (iv) developing new methods of mobilizing internal capital and/or raising funding through partnerships, and (iv) providing technical assistance towards strengthening the marketing capacities of producer co-operatives.

One of the roles of the co-operative movement will be to design, support and develop new strategies aimed at increasing the involvement of women in income businesses through which they can become members of co-operatives. The Government will engage in sensitizing the movement on the benefits of gender proportionality in the management of co-operatives while the youth will be sensitized on the value of co-operatives through programmes providing skills and creating employment.

Successful implementation of this Policy will largely depend on the effectiveness of the Government reflected in the level of funding for co-operative development programmes, staffing, and skills endowment in the regulating agencies. The level of Government funding for the co-operative development programmes, therefore, will need to gradually rise from KShs. 1.2 billion per annum in 2010/2011 to KShs. 5 billion per annum in 2015/16. The increased

funding will be employed in conducting education and training programmes, strengthening the law enforcement capacity, provision of co-operative extension and promotional services, implementation of new development programmes, promoting efficient marketing and promotion of investments in co-operative ventures. More importantly, sustainable growth of co-operatives in upcoming years will require considerable increase in private capital. Increased co-operative financing will require raising the equity of co-operatives in order to improve their capitalization and establishment of a special financing facility to support co-operatives' investments and technical assistance.

Stimulation of co-operative growth calls for an injection of private capital to the tune of KShs. 2 billion annually in the first two years of Policy implementation, gradually increasing to KShs. 5 billion annually over a period of subsequent five years. Financial institutions such as the Co-operative Bank of Kenya and the Co-operative Insurance Company (CIC) will be expected to inject part of the additional financing for co-operative businesses' expansion. Modalities of getting finance companies, particularly venture-capital firms into financing co-operatives will be worked out after consultations with the Treasury, the Central Bank of Kenya, financial institutions and other stakeholders. In order to maintain the anticipated co-operative development tempo, the Policy recommends a reduction of contribution to the Statutory Reserve Fund created out of the surpluses of societies from 25% to 12.5 % in order to avail more funds for societies' operations. Other key elements of co-operative financing will be through development of new SACCO credit products for lower income groups to access credit and micro-finance services as well as encouraging the Co-operative Bank of Kenya and the Co-operative Insurance Company of Kenya to develop long-term capital instruments suitable for the co-operative sector. The Co-operative Movement will be encouraged to develop long-term capital instruments through the introduction of "transferable co-operative shares" at the Nairobi Stock Exchange (NSE). In that regard, the Capital Markets Authority will work out modalities of opening a "Co-operatives Window" at the NSE while the Government will consult relevant institutions and explore options for a co-operative share trading facility akin to the Nairobi Stock Exchange.

Although direct contributions by members will continue to be a key source of capital, in order to achieve massive injections of funding, it will be necessary to set up a special financing facility. A Co-operative Investment Strategy will be developed to provide a practical framework for increasing co-operative equity in order to improve their capitalization. A complementary policy action will entail developing modalities for setting up the Kenya Co-operative Investment Fund (KeCIF) for enhancing the capital base of individual co-operatives. KeCIF will be developed with special focus on building partnerships between co-operatives and other enterprises in order to attract funding. In this context, the Policy proposes to amend the rules limiting surplus-sharing with non-members, taking an approach that strikes a balance between improving the financial structure of co-operatives and achieving better financial returns for members. The Fund will also provide general guarantees to other sources of funds.

It is envisaged that the foundation for implementation of the Co-operative Development Policy will be laid over the medium term (2012/13 – 2015/16). During this period most issues pertaining to operationalizing this Policy, reviewing the relevant statutes, establishing support programmes and developing financing instruments will be concluded. Its implementation will go hand in hand with measures being taken by the Government to realize the Kenya Vision 2030 goals and objectives. Specific focus will be geared towards enhancing education and training programmes, the regulatory and institutional framework and improving delivery of advisory and co-operative extension services geared to improve access to markets and marketing efficiency by co-operatives. Restructuring of the functions of the regulatory organs to bring about efficiency, accountability and effectiveness will be emphasized.

INTRODUCTION

1. As part of the Government's efforts to harness the co-operative sector's growth potential, the Government has over the years reviewed policies and the legal framework governing co-operative operations. It has therefore become necessary to review the Co-operative Development Policy to improve the performance of the co-operative sector and mainstream it into the national development agenda. This *Sessional Paper* presents the policy framework for accelerating Kenya's co-operative growth in a dynamic and competitive global economic environment. It focuses on creating an enabling environment for co-operatives to actively engage in tackling the national challenges of employment generation, wealth creation and poverty reduction in Kenya. The goal is to improve performance of existing co-operatives, facilitate the creation of new co-operatives in the rural and urban regions of the country, promote access to affordable credit through co-operatives, re-invigorate co-operative managed input supply, consumer retail and wholesale businesses, and enable them play an active role in distributive trade. The theme of this *Sessional Paper* is **'Expanding the Enabling Environment for Sustainable Co-operative Development'**. This Policy therefore supersedes all current and previous policy, legal and administrative measures supporting the development of co-operatives in Kenya.

1.1 OBJECTIVES OF THE CO-OPERATIVE DEVELOPMENT POLICY

2. The main objective of this Paper is to provide a policy framework for accelerating Kenya's co-operative growth in a dynamic and competitive global environment as well as within a devolved system of government. The overall goal is to strengthen the institutional capacity of co-operatives and to enhance their global competitiveness in order to play an even greater role in contributing a solution to the twin challenge of poverty reduction and employment creation that Kenya faces. It presents policy measures for revitalizing Kenya's co-operative movement to contribute to the much

anticipated improvements in productivity in agriculture and financial services' sectors. It aims to improve profitability and guarantees commercial soundness of existing co-operatives, promote access to affordable credit for small-scale farmers and businessmen, and promote commercialization and productivity improvements. The policy is in keeping with Kenya's obligations to the United Nations (UN) and international co-operative fraternity regarding enhancing the visibility and central role of the co-operative movement in the development of nations. By acknowledging the critical role of co-operatives in the national economy and the need for tackling the specific problems they face, the Government commits itself to supporting sustainable development of co-operatives and reaffirms Kenya's leadership in the African continent in this key sector.

1.1.1 The strengths of the co-operative model in national development

3. The Government recognizes that due to the nature of the composition of their membership and the manner in which surplus income is distributed, co-operatives ultimately facilitate a wider distribution of wealth to the population than ordinary companies whose shareholders are usually an exclusive class of relatively well-off people. Most of the income earned by co-operatives is spent locally which boosts the local economy and development. A strong network of co-operatives provides a framework for creating employment opportunities, accessing markets, technological innovation, social empowerment, and effectively acting as financial intermediaries between members and traditional sources of finance. Kenya's co-operative movement has made tremendous contributions towards economic growth and employment in Kenya. With a membership of 10.2 million and 13,256 registered co-operative societies by 2010, the co-operative movement had mobilized over KShs. 378 billion in savings and deposits, and was a significant source of employment in Kenya.
4. At institutional level, there were over 320,000 employees charged with the responsibility of running co-operatives.

Further, the sector had generated more than 1.5 million jobs in the small scale enterprises and informal sectors through provision of credit for investment. Through savings and loans, Savings and Credit Co-operative societies (SACCO's) have brought their members into the national grid of economic activity especially in the rural areas after the withdrawal of commercial banks in the 1990's and early 2000's. They had played a crucial role in financing investments, funding education at the secondary and tertiary level, meeting medical bills and funeral expenses. Co-operatives have played a major role in the development of the productive sectors of Kenya's economy besides providing an important framework for mobilization of both human and financial resources. It has a great potential to create both direct and indirect employment through savings mobilization and investments. Its multiplier effect is greatest in secondary chains of agricultural production, housing, commerce, property acquisition, and agro-processing activities. The greatest contribution of co-operatives to Kenya's socio-economic development was demonstrated by the KShs. 152 billion credit extended to 1.2 million members by 2010 at any given time which had been used for investments, property acquisition, payment of education fees, settling medical bills, etc. Its potential to create both direct and indirect employment through member investments is huge and the multiplier effects are greatest in the secondary chains of agricultural production, loans from SACCO's to housing, commerce, property acquisition and agro-processing activities.

1.1.2 The rationale for policy review

5. Successive co-operative development policy reviews in Kenya have been necessitated by the changing economic environment and emerging national development priorities and challenges. In tandem with the dynamics of a modern economy, the government has continuously reviewed the policy framework guiding co-operative development. The Government did develop co-operative development policies in the years of 1970, 1975, 1980, 1987 and 1997. This Policy review comes in the wake of major developmental

challenges confronting the country: high levels of unemployment and underemployment especially among the youth and a major gap between the poor and non-poor in terms of incomes and access to housing, education, water, education, health and land. In addition to the broad national challenges outlined above, the co-operative sector is confronted with specific challenges that include poor governance in the movement, a low capital base that limits their expansion, and reduced returns to members. Co-operatives have limited capacity to undertake value-addition and engage in aggressive marketing. They often market produce without processing, grading or packaging.

6. The Sessional Paper addresses the above challenges by creating a favourable policy environment for realizing improved efficiency and profitability of co-operative enterprises. It outlines policy interventions that include restructuring and strengthening existing co-operatives and developing new ones in underserved areas. It aims to reinforce the catalytic role of government in co-operative development and to promote the comparative advantage of co-operatives in dealing with poverty and inequality in Kenya. The Policy has been prepared in order to achieve the following specific aims:
 - (a) To re-align the co-operative development agenda with the Kenya Vision 2030 economic and social objectives; and the new constitution;
 - (b) To iron out inconsistencies between policies and the existing laws, regulations and rules;
 - (c) To create an enabling policy environment for sustainable co-operative development;
 - (d) To widen the scope of the policy to cater for all categories of existing and emerging co-operatives; and
 - (e) To enhance the effectiveness of the co-operative regulatory and oversight framework.

1.2 BACKGROUND

1.2.1 The colonial era of co-operative initiation in Kenya

7. Co-operative development in Kenya has been influenced by two major factors: intensive colonization which left the vast majority of Africans outside the monetary economy until the late 1950's and the extensive involvement of the government in the affairs of the co-operative movement thereafter. The Co-operative Movement in Kenya traces its origin to registration of the first co-operative society at Lumbwa - Kipkellion in 1908. Although there was initially no legal and policy structures in place, co-operatives expanded through white colonial farmers' agitation. In the pre-1945 period, the white settlers consolidated their farming by forming settler organizations that included the Kenya Planters Co-operative Union (1923), Kenya Farmers Association (1923); and Kenya Co-operative Creameries (1925). These organizations were originally registered under business law and only became registered as co-operatives in 1931 when the first Co-operative Societies' Ordinance was promulgated. The Government's formal involvement in co-operatives started in 1931 when the first co-operative ordinance was enacted in order to regularize the operations of co-operative societies. In 1944, it was recognized by the colonial government that Africans needed to participate in the economy through co-operatives which were an improvement on existing rudimentary marketing systems.
8. In 1946, a new Co-operative Societies' Ordinance allowed Africans to form co-operatives. However, Africans' capacity to participate in co-operatives was minimal since there were restrictions against African participation in growing cash crops and keeping improved animals. In 1955, the Swynnerton Plan called on the government to allow Africans to grow cash crops, thus paving way for formation of more co-operatives. This was an important milestone in African agriculture as between 1932 and 1969, 1,894 societies had been registered. These were basically marketing-oriented societies in cereals, coffee, cotton, fruits and vegetables, pyrethrum, sisal, sugarcane, dairies, eggs and poultry, pigs

and others involved in ranching and farm purchase. These co-operatives also provided auxiliary services like farm inputs, credit and other services.

1.2.2 The Post-independence era of rapid growth in co-operatives sector

9. At independence in 1963, the Government embarked on Africanization of the economy whose major policy thrust was contained in the Sessional Paper No. 10 of 1965 on *African Socialism and its Application to Planning in Kenya*. This policy advocated for principles akin to those adopted by the co-operative movement hence co-operatives were considered as suitable vehicles with an appropriate framework to achieve the aspirations of the majority of Kenyans in participating in economic development. Consequently, the government reviewed the existing legislation in order to ensure that the regulatory and supervisory framework was in line with the new objectives. This led to the enactment of the Co-operative Societies' Act [CAP 490] Laws of Kenya in 1966 under which the Government undertook to use co-operatives as a medium to realize its socio-economic development agenda. The Commissioner for Co-operative Development was given wide powers including approval of the budgets of co-operative societies and removal of management committees which failed to manage satisfactorily. In order to marshal support to the co-operative movement, the Government entered into agreements with a number of development partners who included the World Bank, United States of America, Germany and the Nordic countries to assist in technical expertise, financing in the form of loans and grants to needy societies.

10. The other post independence Co-operative Development Policy was contained in Sessional Paper No. 8 of 1970 whose main goal was the consolidation of co-operative activities. This included improvement of management of societies, intensification of education and training for members, committees and co-operative employees with provision of Government support staff as supervisors.

Another review of the Co-operative Development Policy was undertaken in 1975 in which the Government stated its continued recognition of co-operatives as vital institutions for mobilizing materials, human and financial resources for national development. The Government reiterated its commitment to pursue and promote expansion of co-operative activities in all the productive spheres of the economy. During the 1980's, the Government started implementing Structural Adjustment Programmes (SAP's) for a market economy. The Sessional paper No. 1 of 1986 on *Economic Management for Renewed Growth* emphasized the importance of unfettered private sector led economic development. The Government, through Sessional Paper No. 4 of 1987 on *Renewed Growth through the Co-operative Movement*, reiterated its commitment to enhance the participation of Kenyans in the economy through co-operatives. The responsibility of organizing and managing co-operatives was left to members and their management committees while the Government played an advisory role and that of assisting them to maximize member benefits. In realizing this objective, co-operatives were required to fully participate in mobilizing domestic resources for reliable and productive investment through co-operatives for their livelihoods.

1.2.3 The post liberalization era of stagnation in co-operative growth

11. The Sessional Paper No. 6 of 1997, on *Co-operatives in a Liberalized Economic Environment* further re-defined a new relationship between the Government and the co-operative movement with the role of Government being restricted to that of creating a conducive environment for growth and development of co-operatives through formulation of effective co-operative development policies, overseeing the development and administration of the co-operative legislation and regulations. It was felt then, that government involvement in co-operatives' affairs needed to be substantially reduced and re-oriented in order to democratize and professionalize the management of co-operatives, to enable them to conform to the definition of a true co-

operative and to be operated and managed in accordance with the internationally accepted co-operative values and principles. More importantly, however, the Policy called for a gradual process of government withdrawal from the day to day management of societies. Policy implementation was supposed to be gradual allowing for attendant measures by government to assist co-operatives to adjust and cope with the resulting effects of liberalization and competition. Unfortunately, this basic preparatory phase was overlooked as co-operative society leadership was only too eager to be left alone. Some co-operative societies' leaders seized the opportunity to confer upon themselves extra-ordinary powers to appropriate resources as they deemed necessary. This resulted in massive losses that triggered withdrawal of members, increased sub-divisions of giant societies (especially in the coffee sub-sector) into uneconomic units and the consequent mushrooming of litigations.

12. Prior to SAP's, the Government had supported the co-operative movement through direct financial and technical assistance and subsidized services. That ceased with the enactment of the Co-operative Societies' Act in 1997 according to whose interpretation the Government had no role in the co-operative movement. The fundamental assumption was that ordinary members would be fully involved in approving major transactions, investments and appropriation of resources. Little effort was made to reform the leadership and management of co-operatives to safeguard members' rights and interests. As a result of the Government's withdrawal from its supervisory responsibilities, the movement was at the mercy of ill equipped and sometimes dishonest leaders. It prompted costly decisions like sub-division of societies that resulted in dismal performance of many co-operative enterprises. For example, a large number of coffee co-operatives accumulated debts with financial institutions resulting in high indebtedness. The resulting loss of confidence in those co-operative institutions was principally due to failure to make payments promptly for the produce delivered by members since much of the money went into repaying debts. Farmers could no longer access credit facilities and the small co-

operative units had heightened credit unworthiness. Some leaders enriched themselves through misappropriations, corrupt practices and mismanagement of members' resources, among others.

13. Political interference also accounted for mismanagement of key co-operative institutions leading to the near collapse of the Kenya Farmers (Co-op) Association (KFA), and the Kenya Co-operative Creameries Ltd (KCC), which has now been revived by the Government) Coupled with reduction of donor support for co-operative development programmes in mid 1990's, resources for capacity building, training and education and material development dwindled resulting into heightened co-operative unawareness among the management, leaders and members leading to poor governance and reduced appreciation of the co-operative principles and values. Thus what began as well intended liberalization measures gradually translated into irreversible weakening of commodity marketing institutions. As a result, co-operatives' share in the commodity market declined and the membership got impoverished and the co-operative movement suffered a confidence crisis. To complicate matters further, the prevailing low world commodity market prices culminated in low prices of produce delivered by farmers, reduced payments, costly farm inputs, low quality of produce, negligence of coffee trees, inter-cropping, high levels of indebtedness and increased poverty levels. The weakened performance of sugar and cereals co-operatives made the situation worse. Nonetheless, liberalization also created new opportunities for growth at national and regional level. Farmers need to be mobilized and informed on the expanded business opportunities for co-operatives in liberalized markets.
14. Recognizing the urgency to preserve and maintain a prominent role of co-operatives in national economic and social development, the Government re-established the Ministry of Co-operative Development and Marketing (MOCDM) in 2003. It amended the Co-operative Societies' Act in 2004 and prepared new Co-operative Societies' Rules. The new legal framework provided for Government

intervention to restore members' confidence in the co-operative model and also provided for stiff penalties on co-operative leaders who mismanaged their co-operatives. The move aimed at the key objectives of reviving the sector and ensuring that all societies were well governed and managed for the benefit of members. However, efforts to revive key co-operative institutions and organizations that hitherto supported agriculture e.g. KCC Ltd, KFA, KPCU, and the Kenya National Federation of Co-operatives (KNFC) were partially successful due to unresolved issues regarding their outstanding debts and ownership. Enforcement of provisions of the Co-operative Societies' Act on timely remittances by employers to SACCO societies led to recovery of outstanding arrears to the tune of KShs. 3.8 billion by 2010 out of the KShs. 4.3 billion that was outstanding in 2004. In recognition of the growing importance and sophistication of SACCO's, a SACCO Societies' Act was enacted to enforce prudential standards for SACCO's with FOSA's.

1.3 KEY POLICY HIGHLIGHTS

15. Through implementation of policy actions in this Paper, the Government aims to create an enabling policy and legal environment for enhancing competition and efficiency in the co-operative sector. This policy focuses on improving the living conditions of low income Kenyans through well managed and competitive co-operative enterprises. The high level of un-employment and poverty in the rural areas of Kenya will be alleviated by promoting investments in cooperatively managed farm services such as supply of inputs, mechanization, manufacture and blending of fertilizer, processing of farm products and enabling co-operatives to take charge of retail and wholesale trade. Employment generation in the co-operative sector will be enhanced through investment in processing and packaging of commodities, active participation in the informal and Jua Kali sectors, and investment in service sector and small scale industries. It will also consolidate and mainstream the role of co-operatives in meeting Kenya's national development agenda as set out in the Kenya Vision 2030 which is

anchored on three key pillars: the economic, social, and political pillars. The economic pillar aims at Kenya's achievement of an average economic growth rate of 10% per annum by 2012 and sustain the same until 2030 in order to generate more resources to meet the Millennium Development Goals and other Vision 2030 goals. It seeks to create "a globally competitive and prosperous country with a high quality of life by 2030.

16. In pursuit of these aims, the Paper focuses on accelerating institutional rebuilding within the movement, business re-engineering, and aggressive marketing and diversification of their products and services. Other key policy aims include mobilization of government agencies and private investors to partner with individual co-operatives in providing financial and technical support for strategic co-operative development programmes designed to accelerate the restructuring and strengthening of key co-operative institutions and promote new co-operative ventures that have great potential for wealth creation and poverty reduction. The policy also identifies avenues for encouraging young Kenyans to engage in co-operative activities, focusing on providing the necessary incentives for investment in youth managed co-operative ventures. In order to guarantee effective policy implementation, the Government will put in place a policy implementation framework that sets clear timeframes, pinpoints responsibility for action, takes on board the views of all stakeholders and ensures efficient coordination with relevant agencies. In this respect the Government has outlined specific policies to give guidance on special areas relevant to facilitating rapid and sustainable growth of the co-operative movement. These shall include the following measures:

- (a) Entrenchment of good corporate governance and best business management practices in the co-operative movement;
- (b) Creating an enabling co-operative legal and regulatory framework;

- (c) Harmonization and improvement of the quality of co-operative education and training;
- (d) Ensuring high quality and productive investments by co-operatives;
- (e) Development of efficient marketing through product development, enhanced value-chain management, and market research;
- (f) Promotion of new co-operatives;
- (g) Incorporation of ICT in the sector's operations; and
- (h) Mainstreaming youth, gender and HIV/AIDS concerns in the sector's development.

1.4 PROJECTED GROWTH TARGETS

17. The Government will encourage and facilitate the co-operative movement to step up its pace of development measured in terms of the parameters set below:
- (a) Increase active membership of co-operatives by 15% annually and support establishment of new co-operatives in agriculture, micro-credit, promising high growth activities;
 - (b) Increase and maintain the average domestic market share of agro-commodity co-operatives to 70% by 2020;
 - (c) Increase savings mobilization through SACCO's and other co-operatives by 20% annually by 2015;
 - (d) Improve the main co-operative performance indicators, namely total sales, share-capital, and total assets, etc by 10 % annually by 2015;
 - (e) Achieve an increase of 600,000 additional direct jobs within the co-operative movement and 2 million indirect jobs by 2030;
 - (f) increase growth in co-operative investments by 15% annually by 2015;
 - (g) Increase survival of co-operatives and maintain a high co-operative survival rate in agriculture, housing,

financial services, industry, wholesale and retail trade, ICT, energy, SMEs and other formal sectors from the current 38% to 98% by 2030; and

- (h) Broaden partnerships and networks with the private investors and development partners.

1.5 STRUCTURE

18. This Sessional Paper is organized into six Chapters: Chapter 1 presents an overview of the Government's policy objectives, a broad overview of the past policy developments, achievements, inherent policy weaknesses highlights of the new policy direction. Chapter 2 presents an analysis of the past and current trends in the performance of the co-operative sector and analyses the status of the co-operative movement in Kenya, broadly classified into three main categories; agricultural commodity marketing, Savings and Credit Co-operative societies, and others co-operative activities. Chapter 3 highlights the challenges affecting the growth and development of co-operatives taking into account the need for a comprehensive policy, a coherent legal and regulatory framework consistent with the aspirations of the co-operative movement while Chapter 4: outlines a broad policy framework for stimulating growth of the co-operative sector and Chapter 5 presents a policy implementation institutional framework. It prescribes the institutional framework for effective co-ordination of policy interventions while Chapter 6 contains the policy implementation matrix.

2 SITUATION ANALYSIS

2.1 THE CO-OPERATIVE MOVEMENT AT A GLANCE

19. The concept of modern co-operatives has its roots in the economic, social and political changes that took place in Europe in the eighteenth century through the nineteenth century, especially the collapse of feudalistic systems. The industrial revolution increased capitalism and urbanization which led to appalling living conditions for workers. People started looking for ways to improve their welfare and self-esteem. The co-operative form of business organization originated in England amongst the industrial workers in the mid-nineteenth century, shortly after the introduction of the modern joint stock companies. Co-operatives started as urban consumer retail enterprises but soon spread to regional areas amongst farmers. During the latter part of the nineteenth century, the concept was embraced in several parts of Europe and North America. Early in the twentieth century, the co-operative movement spread to India and gradually to Asian and African countries.

20. The International Co-operative Alliance (ICA) defines a co-operative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". These needs could be to produce, process and market goods and services, to mobilize savings and provide credit, or to facilitate access to inputs. Nonetheless, although a co-operative's main mission is to meet member needs, it is not prevented from generating surpluses that can be used to support further business expansion. Co-operatives are principally established to protect members from exploitation: provision of poor quality and often over-priced goods and services. They counteract monopolistic tendencies by a single or a limited number of private businesses besides helping members and communities to gain access to markets where existing structures fail to provide producers with fair returns. Co-operatives provide services to consumers which would otherwise not be available, for example, in remote areas or

where a large population is excluded due to lack of financial services. They add value where joint action increases the value of a product and in effect provide a share of "value-added" to the original produce through processing or packaging. To secure sufficient scale, the benefit of size is obtained by pool buying or selling collectively to get a better deal in the market place. The commonest types of co-operatives include the following:

- (a) Agricultural and fisheries co-operatives satisfy the need for supply, processing and marketing of produce;
- (b) Consumer co-operatives provide members with goods and services required at the preferred quality and competitive prices;
- (c) Housing co-operatives give low-income people the opportunity to own their own homes;
- (d) Co-operative insurance protects individuals and small businesses from risk;
- (e) SACCO's and co-operative banks serve people of limited incomes otherwise not reached by commercial banks, and extend credit and savings services to individuals and micro-entrepreneurs that are not able to secure such from commercial banks; and
- (f) Community development co-operatives are formed for the overall development of local communities especially in social aspects and education.

21. The co-operative movement is involved in most of the economic sectors of Kenya; being engaged in agricultural production, processing and marketing; provision of financial services through Savings and Credit Co-operative societies; housing, small and medium enterprise (SMEs) development, mining, etc. Co-operatives are also involved in the distribution of agricultural and livestock production inputs. The major benefits that have accrued to Kenyans through co-operative activities include employment, settlement of the people, acquisition of property and generation of income. Co-operatives support the livelihoods for a predominantly low resource endowed membership, besides being a critical

factor in the optimal performance of the agricultural sector. They offer facilities for mobilization of domestic savings and creation of opportunities for investment and employment generation.

22. Experience has shown that co-operatives when properly nurtured and managed provide the best option for uplifting the living conditions for the Kenyan people and at national level, several advantages accrue to members through the co-operative form of business organization. Co-operative values and principles foster unity and co-operation amongst the grassroots in their struggle to improve their economic situations. It is a convenient means of encouraging the common people to participate in the economic development of their local area and country. Because of the nature of the composition of their membership and the distribution of surplus income earned by the association, co-operatives ultimately facilitate a wider distribution of wealth to the population than ordinary companies whose shareholders are usually an exclusive class of relatively rich people. Unlike company shareholders, who tend to live in urban areas, co-operative members are local people. For this reason, most of the income they earn they are likely to spend locally, which boosts the local economy and development.

2.1.1 The structure of the co-operative movement

23. The organization of the co-operative movement worldwide is in tiers which form a pyramid shaped structure. At the bottom of the structure are primary co-operative societies whose membership consists of individuals. The primary societies serve their members directly. The range of business of primary societies varies from one purpose co-operative societies to multi-purpose co-operative societies combining different activities. The next tier in the pyramid consists of "co-operative societies' associations" also known as "secondary societies" or unions. These operate on the same basis as primary societies except that their membership is limited to primary societies. Through the unions, primary societies can combine their resources to purchase in bulk or acquire major capital assets that as individual societies they

could not afford. Secondary societies may further federate to form a union at a regional or national level called a National Co-operative Organization (NACO). The National Co-operative Organizations' membership consists of primary and/or secondary co-operative societies drawn from across the country; they offer specialized services to their affiliates which include insurance, commodity processing and marketing, housing; and financial services and in most cases operate under dual registration in order to satisfy the co-operative identity and business interests. At the top of the pyramid, there is a nationwide federation: the "apex society" composed of primary societies, unions and National Co-operative Organizations. At the international level, co-operatives are united under the International Co-operative Alliance (ICA).

24. The co-operative movement in Kenya is organized into a four-tier system. As at the end of 2010, there were eight NACO's, namely:
- (a) Co-operative Bank of Kenya (Co-op Bank) Ltd;
 - (b) Co-operative Insurance Company (CIC);
 - (c) Kenya Planters Co-operative Union (K.P.C.U) Ltd.;
 - (d) Kenya Union of Savings and Credit Co-operatives (KUSCCO);
 - (e) Kenya Rural SACCO societies Union (KERUSSU) Ltd.;
 - (f) National Co-operative Housing Union (NACHU) Ltd.;
 - (g) Co-operative Data and Information Centre (CODIC) Ltd.;
 - (h) Kenya Coffee Co-operative Exporters Ltd. (KCCE)
25. In addition, there are strategic co-operative organizations that play a crucial role in the proper functioning and performance of co-operatives: the New Kenya Co-operative creameries, a public corporation within the Ministry of Co-operative Development and Marketing (MOCDM) offering services to the dairy industry; the Co-operative College of

Kenya – offering education and training to the movement; and the Kenya Farmers Association (KFA) a primary co-operative that used to distribute farm inputs to farmers countrywide. The fourth and last tier is the Apex. The Apex organization is the Co-operative Alliance of Kenya (CAK) that acts as the mouthpiece for the Kenyan co-operative movement locally and internationally. Its membership is open to all registered co-operative societies and its services and activities are supported through annual subscriptions.

2.1.2 Drawbacks in the co-operative structure

26. Nevertheless, the co-operative structure has some drawbacks. It has weak direct inter-linkages (horizontally) within the tiers. Besides, some levels of the secondary tier have performed poorly in the past due to lack of patronage by primary societies at the onset of liberalization. For instance, many unions became dormant, debt laden and a skeleton of what they used to be. Similarly, the farm input supplies activity of marketing unions grossly underperformed due to lack of full patronage by the affiliates. Much of the under capacity was to do with past poor services leading to a decline in service provision resulting in affiliates withdrawing support. Also, some institutions lost credibility making them irrelevant in the changing economic landscape. Perhaps, the biggest drawback is co-operatives' inability to attract large capital investments.

2.1.3 The Co-operative Values and Principles

27. The rallying point of co-operatives worldwide is the "co-operative values" and "co-operative principles". They are the main features that distinguish co-operatives from other forms of business organizations. The co-operative values are self-help, self-responsibility, democracy, equality, equity and solidarity. There are seven co-operative principles: (i) voluntary and open membership; (ii) democratic member control; (iii) member economic participation; (iv) autonomy and independence; (v) education, training and information; (vi) co-operation amongst co-operatives; and (vii) concern for the community. The principle of "voluntary and open

membership" entails that membership of a co-operative society must be voluntary and available without artificial restrictions or any social, religious or political discrimination to all persons who wish to benefit from co-operative membership and are willing to accept the corresponding responsibilities. Conversely, members who wish to resign from a co-operative society are free to do so without any artificial hindrances.

28. The second principle of "democratic member control" entails control of the organization based on democratic principles. Thus, in all matters that involve voting in the management of co-operatives, the principle of 'one member one vote' irrespective of the number of shares held by a member applies. This is in recognition of the fact that people working together to achieve a common objective should have equal say in the joint enterprise. This is in direct contrast to the situation with ordinary corporations where control of the enterprise usually depends on the amount of capital contributed by a shareholder – 'one share one vote' - or the types of shares held, which may give preferential voting powers.
29. The third principle of "member economic participation" imposes an obligation on members to contribute equitably to, and democratically control, the capital of their co-operative. It impresses upon the thinking that each member is an equal shareholder and must contribute towards the society's economic well-being while drawing economic benefits through it. The principle is related to the second principle above. Its basis is that whilst co-operatives acknowledge capital as an important factor of production that should be rewarded, they reject the notion that it should be a means of exploiting other members as patrons of the association. According to this principle, a co-operative society must distribute to members any surplus arising from its operations in such a manner as to avoid one or some members gaining at the expense of other members. One way of achieving this is to refund to the members at the end of the financial year a share of the net surplus, if any, in proportion to use of the society's services. For example, a retail co-operative society

shop may pay rebates to members in proportion to the amount of business each member transacted with the shop in the financial year.

30. The fourth principle: "autonomy and independence", means that co-operative societies should enjoy a certain degree of autonomy and a right to run their business as they see fit. According to this principle, as long as co-operatives act within the scope of the legal framework, they should not be subjected to greater outside supervision or interference than other business organizations. The fifth principle: "Information, Education and Training" requires co-operatives to strive to promote education amongst their members, officers, employees and the public about the co-operative values and principles and the laws, which govern co-operatives. The object of this principle is to encourage the members to spread the co-operative gospel amongst the masses. However, the principle goes further and demands that co-operatives should aim at educating their members to improve their economic production, for example, by teaching them the best farming methods, modern business management and marketing practices. The sixth principle: "Co-operation among Co-operatives" requires all co-operatives to endeavor to co-operate in every practical way with other co-operatives at local, national and international levels.

31. The seventh principle: "Concern for the Community" recognizes that co-operatives are part of the community in which they operate as whatever affects the community will definitely affect them. This principle calls for social responsibility that entails, amongst other things, working towards improvement of the community in the area they operate, showing concern for neighbours, participating in development activities and showing concern for the environment. Thus all co-operatives, irrespective of the nature of their business or area of operation, should conduct their business in accordance with the above seven principles.

2.1.4 Interpretation and application of co-operative principles

32. The International Co-operative Alliance emphasizes that the seven co-operative principles are not dogma. Rather, they are guidelines or best practices for co-operatives that wish to put co-operative values into practice. However, in Kenya, some of these co-operative principles have been interpreted and practiced in a way that undermines innovation and hampers business orientation and overall growth of the sector. In particular, the use of the term 'management' for the elected leaders has provided a license for co-operative leaders to carry out managerial duties instead of concentrating on providing oversight and policy direction. This hampers professionalism by managers as they must wait for committees to meet in order to make key managerial decisions. It also restricts innovation and legitimizes conservatism with regard to the appropriation of better business practices. Further, the lack of tradability or transferability of co-operative shares limits investment and the degree of penetration into new business practices. Perhaps, the worst drawback for co-operatives is their inability to attract large capital investments because co-operatives do not recognize capital as the key factor of production. Co-operative principles and values preclude the distribution of surplus and control of the enterprise based on capital which is the foundation of most private business corporations.

2.2 CO-OPERATIVES PERFORMANCE ANALYSIS

33. Discernible growth of co-operatives in Kenya dates back to 1946 when the Co-operative Societies' Ordinance No. 38 of 1945 was enacted which allowed for the first time indigenous African Kenyans to form and join co-operative societies and also to grow cash crops such as coffee, tea and pyrethrum that were earlier restricted to white settlers. By independence in 1963, there were 1,030 registered co-operatives in Kenya with an estimated share capital of KShs. 100 million. By 1969, 1,894 societies had been registered. The registered societies were basically produce marketing-oriented that dealt in cereals, coffee, cotton, fruits and

vegetables, pyrethrum, sisal, sugarcane, dairy, eggs and poultry and pigs. Others were involved ranching and farm purchase. By the end of the first decade after independence, Kenya had registered 2,800 co-operative societies that were handling and dealing with the production of coffee, cotton, maize and beans. Agricultural marketing co-operatives formed the backbone of the Kenyan economy contributing 45 percent of the Gross Domestic Product (GDP).

34. However, following the wave of economic liberalization in the late 1980's and the 1990's, the co-operative movement could not adequately adapt to the challenges of competition due to the rigidity of internal production and marketing structures. Past efforts to modernize the sub-sector had limited effect due to failure by the movement to aggressively and fully cash in on the existing and emerging market opportunities based on their areas of comparative advantage. Besides, an ineffective legal and regulatory framework, poor leadership, lack of integrity and ineffective institutional arrangements also contributed to slackened co-operative growth.

35. However, due to governance reforms instituted by government and the resurgence of economic growth since 2003, the number of registered co-operative societies in Kenya grew steadily from 9,443 in 2000 to 13,256 at the end of 2010. Over the same period the SACCO sub-sector registered an impressive 25% annual growth in the number of registered SACCO societies growing from 3,627 in 2000 to 6,267 in 2010. But the growth of agricultural based co-operative societies was almost stagnant as it rose modestly from 4,349 in 2000 to 4,686 at the end of 2010. The total membership of the co-operative movement grew from 5.34 million in 2000, to 10.17 million members at the end of 2010. This increase was most significant in the SACCO category whose membership rose from 2.67 million in 2000 to 7.24 million in 2010. The rising numbers of registered co-operative societies, membership and turn-over was as a result of a resurgence of Kenyans' confidence in co-operatives bolstered by an improved economy which grew at 7% in 2007. The aggregate performance of the co-operative

sector in terms of turnover had improved modestly since the advent of governance reforms in 2004 from KShs 14.9 billion in 2000 to 59.346 billion by 2010. SACCO's accounted for the highest increase in turnover which rose from KShs. 7.8 billion in 2000 to KShs. 61.35 billion in 2010.

2.2.1 Operational status of co-operative societies

36. A further analysis revealed that out of the 13,256 co-operative societies registered by 2010, 5,253 were active, being able to deliver the services for which they were formed. For a long time, some co-operatives failed to sustain their operations due to various reasons while many of the performing societies did not comply with the Co-operative Societies' Act. However, a portion of that membership was inactive.

2.2.2 The geographical distribution of co-operatives

37. A review of the geographical spread of co-operatives shows that by 2010, Rift Valley Province had the highest number of registered co-operatives, (3,692 or 27.9%) followed by Nairobi (2,848 or 21.5%) and Central (1,777 or 13.4%). The provinces with the least number of registered co-operatives were North-Eastern (68) followed by Western (603), and Nyanza (972) Thus, Nyanza and Western provinces which account for nearly one third of Kenya's population had registered 7.3% and 4.5% of the total registered co-operatives respectively, representing 11.8% of the total number of co-operatives registered in Kenya by 2010. At the extreme was North-Eastern Province with just about 0.5 % of the total registered co-operatives.

2.2.3 Growth in co-operative turnover

38. In terms of turnover, the performance of the co-operative sector increased modestly after liberalization of the economy in the 1990's, as reflected in the increase in turnover from KShs 15.485 billion in 1997 to 17.505 billion in 2003. There was a further 26.6% increase in turnover from 17.971 billion in 2004 to 59.346 billion in 2010. SACCO's accounted for the

highest turnover which rose from KShs. 7.79 billion in 2000 to KShs. 13.79 billion in 2006 and further increased to KShs 39.339 billion by 2010. The sales of coffee marketed through co-operatives increased from KShs. 3.741 billion in 2000 to KShs. 4.819 billion in 2006 and further to KShs. 4.839 billion by 2010. Similarly dairy co-operatives recorded a remarkable increase in turnover rising from 1.529 billion in 2000 to 2.247 billion in 2006 and thereafter to KShs. 5.22 billion by 2010 which could be attributed to the revival of the Kenya Co-operative Creameries and other dairy co-operatives. However, the sales of sugar-cane and pyrethrum handled through co-operatives recorded a decline over the same period from KShs. 345 million in 2000 to KShs. 267 million in 2010 and KShs. 129 million in 2000 to KShs. 64 million in 2010, respectively.

2.2.4 Growth in co-operative share-capital

39. In terms of share-capital, there was an increase in the aggregate share-capital of the co-operative movement from KShs 59.66 billion in 2000 to KShs. 232.56 billion by 2010. The main increase was in the SACCO category whose share-capital rose from KShs. 54.816 billion in 2000 to KShs. 114.455 billion in 2006 and further to KShs. 226.96 billion by 2010. Conversely, over the same period there was a decline in the share-capital of commodity co-operatives as witnessed in the fall of share-capital of coffee societies from KShs. 4.193 billion in 2000 to KShs. 3.395 billion in 2006 and further down 2.370 billion in 2010. Similarly the share-capital of pyrethrum societies declined from KShs. 11 million in 2000 to KShs. 7 million in 2006 before rising to KShs 12 million in 2010 while there was an appreciable increase in dairy co-operatives' share-capital from KShs 82 million in 2000 to 459 million in 2010. Generally, there was a decline in the share-capital of other agricultural societies from KShs. 354 million in 2000 to KShs. 255 million in 2006 before recovering to KShs 472 million in 2010. In the non-agricultural co-operatives category, there was an increase from KShs. 55,372,000 in 2000 to KShs. 113,256,000 in 2006 and to KShs. 228,532,000 in 2010.

2.2.5 The impressive performance of financial services co-operatives

40. By 2010, co-operative financial intermediaries constituted 48% of all registered societies, being the most active segment of the co-operative movement in Kenya. These societies are organized on employment, commodity, trade, Jua Kali (Small-scale industries), transport and community basis. Their primary objective is to afford members an opportunity to accumulate savings thereby creating a pool from which members can access credit on favourable terms. By providing such savings and loan facilities, co-operative financial intermediaries make a significant contribution towards providing developmental capital. The financial co-operative intermediaries have developed systems that continue to be used to mobilize capital through Union Banking Sections (UBS), the Savings and Credit Co-operatives and the National Co-operative Organizations from which capital is captured in the national financial system. SACCO's mobilize their funds in the form of membership fees, share-capital, deposits, retained earnings/surpluses, external borrowing and, where necessary, grants and donations. These funds form the basis on which co-operatives undertake their investments at various levels and to finance their operations. However during the latter half of 1990's, a number of SACCO's moved in to provide a substantial and essential service to their members by offering quasi-banking facilities through the Front Office Savings Activity (FOSA). By 2010, the SACCO system had mobilized members' deposits estimated at KShs. 378 billion and had lent out KShs. 152.3 billion to 1,542,000 members.

2.2.6 Key factors in the dismal performance of commodity co-operatives

41. Prior to the mid 1980's, commodity marketing co-operative societies were the backbone of co-operative growth as they were successful in collecting, recording, bulking, processing, and transporting produce, handling members' payments and supplying seed and farm inputs to members. Agro-marketing co-operatives had invariably been linked to Statutory

Marketing Boards (SMB's) which performed the main marketing function of selling and passing payments of commodities through their co-operative societies. Coffee co-operatives handled over 72% of coffee sales while cotton co-operatives handled (95%), dairy co-operatives (76%), pyrethrum co-operatives (90%) and fishermen co-operatives (60%) of the marketed produce. However, when the Government liberalized the co-operative movement, agro-marketing co-operatives that had hitherto not developed adequate capacity to handle marketing functions in the face of competition and the vagaries of unfair trade practices could not cope. Another challenge for commodity marketing co-operatives was limited value-addition which restricted their returns to the lower-end value-chain and therefore did not take advantage of high returns resulting from the upper-end commodity value-chain. Consequently, the co-operatives' share of the total national output of coffee declined from 72% in 1980 to 56% in 2001 while the volume of production decreased from 120,000 metric tons in 1996 to about 40,000 metric tonnes in 1997, before improving to 60,000 metric tonnes in 2005, due to poor world market prices, drought, sub-division of some coffee co-operatives, lack of affordable credit coupled with the debt burden which rendered coffee co-operatives unable to access further credit for inputs. With the formation of the Kenya Coffee Exporter Co-operative (KCCE), coffee business is slowly picking up. Coffee co-operatives will be encouraged to invest in the upper end commodity value-chain.

42. At its peak production, the Pyrethrum industry supported the livelihoods of about 200,000 small-scale pyrethrum farmers in the country. Kenya used to produce 70% of the total world output of pyrethrum out of which 90% was marketed by co-operative societies but production declined during the second half of the 1990's for which different factors such as erratic weather patterns, management challenges and irregular payments to farmers were blamed. Over the last 16 years, pyrethrum production fluctuated from over 18,000 metric tonnes in 1992/3 to about 4,000 metric tons in 2002/3 and to only 1000 metric tons in 2005/06 before recovering to around 11,000 tons in 2009. Any further increases in

pyrethrum production are expected to primarily come from small-scale co-operative farmers. The Government will continue to assist the small-scale farmers to improve yields and pyrethrin content of the flowers through better husbandry and use of improved varieties.

43. The dairy industry is a source of livelihood for over a half million small-scale co-operative members in the country and milk production is a major activity in the livestock sector and an important source of livelihood in Kenya. By 2010, small-scale dairy farmers were members of 278 registered co-operative societies spread across the country in the high and medium potential dairy districts out of which 232 were active. Since 1999, the sales of processed milk declined from 1.2 million to 600,000 litres a daily in 2002. However, with the revival of the Kenya Co-operative Creameries (KCC), the daily intake had improved to 1.2 million litres per day by 2010. KCC dominated milk marketing in the country for many years but will now have to contend with a number of competing dairy processing companies. The ability of dairy co-operatives to become market leaders is greatly hampered by uncoordinated efforts between New KCC and primary dairy co-operatives, low local demand for diversified dairy products and inefficiency in dairy co-operatives' operations. Other challenges that have depressed dairy co-operatives' growth include, lack of a credit system, un-affordability of inputs and poor production support services such as dipping, Artificial Insemination (AI) and animal health services.
44. The co-operative sector plays an important role in the exploitation of fisheries resources. There were 65 active fishermen co-operatives out of which 74% are concentrated in the Lake Victoria region. The rest are found around the coastal region, inland lakes of Naivasha, Baringo and Turkana. Overall, co-operatives provide marketing services to fishermen at landing beaches. A few co-operatives provide temporal storage facilities in form of chilled storage services and credit facilities to members to finance purchase of fishing equipment and materials. By the early 1990's, fisheries co-operatives started experiencing difficulties while some became semi-dormant due to dwindling fish stocks,

poor management, poor resource exploitation and leadership challenges which eventually led to their low output. Similarly, they experienced financial difficulties due to under-capitalization and lack of competitiveness in their business ventures. Middlemen also found a way of preying on the fishermen resulting in their being cheated. In 1996 registered fishermen co-operatives were re-organized and a new programme initiated in an effort to make them viable and efficient. By the end of 2010, there were about 12,000 fishermen in the 71 registered co-operative societies. However, the number of fisheries co-operative societies declined from 82 in 2000 to 71 by 2010. Equally, membership in fisheries co-operatives dropped from 14,000 in 2000 to about 12,000 in 2010 due to lack of appropriate fishing equipment (boats, nets and cold storage) which was a major constraint to the exploitation of the fisheries potential at the coast.

45. Although cotton growing started in 1902 in the country, the cotton sub-sector was left without the necessary regulatory framework. Cotton farmers provided land while the Cotton Lint and Seed Marketing board (CL&SMB) was responsible for land preparation, supply of farm inputs (fertilizers and chemicals), transport, cotton seed and even the processing of seed cotton. This arrangement was exorbitantly priced by the CL&SMB and hence became a big disincentive to cotton farming. An attempt to transfer ginnery ownership to farmers through their co-operative societies was not fruitful as the ginneries were over-priced, old and obsolete which was tantamount to transferring financial liabilities in form of capital, repairs and maintenance from the CL&SMB to co-operative societies. The number of active cotton co-operative societies in the country declined from 86 in 2000, to 59 in 2010. It was also during liberalization the country imported seed cotton and secondhand clothes (Mitumba). The adverse effects of liberalization resulted into a general decline in cotton production and near collapse of cotton co-operatives. Cotton production in the country declined from 140,000 bales in 1995 to only 23,000 bales in 2000 but improved slightly to 25,000 bales in 2002. The decline was caused by several factors that included lack of credit and

farm inputs, unsuitable varieties of cotton seed and failure of the marketing system, and lack of an appropriate Policy and institutional framework. However, there is a high potential for small-scale cotton production, processing and marketing in Nyanza, Western, Rift Valley and Coast provinces mainly in arid and semi arid areas. The country's cotton production potential is over 300,000 bales per year while local demand stands at 140,000 bales thus leaving a surplus of 160,000 bales for export.

46. Over 80% of the country's livestock population is based in the Arid and Semi-Arid Lands (ASAL) which cover North-Eastern, parts of Rift Valley, Coast and Eastern Provinces where livestock accounts for 90% of employment and more than 95% of family incomes. In spite of the available potential, the areas have the highest incidences of poverty, averaging about 70% and very low access to basic social services. There were 23 livestock marketing co-operative societies by the end of 2010 mainly found in ASAL areas which were under performing due to factors such as under-capitalization, lack of capacity and organized markets, among others. The potential of ASAL areas to produce livestock was not effectively utilized due to low productivity, poor infrastructure for marketing of livestock and delivery services, insecurity and under-development of industrial capacity. Co-operative societies in the areas were weak and could not get their livestock to the markets on time. By the end of 2010, there was no livestock co-operative marketing society that had an abattoir or a tannery, making it necessary for the construction of abattoirs and tanneries to support livestock marketing co-operatives in the ASAL areas.
47. Honey production is an important economic activity in the Arid and Semi-Arid districts of Baringo, Koibatek, Samburu, Kajiado, West Pokot, Laikipia, Keiyo and Marakwet, Makueni, Machakos, Kitui, Mwingi, Tharaka, Isiolo, Marsabit, Tana River and Taita/Taveta of Eastern, Rift Valley and Coast provinces. There were nineteen (19) registered beekeeping co-operative societies and thirty one (31) others with beekeeping as sub-activities by the end of 2010. These societies operated below capacity due to low working capital,

lack of processing and transport facilities while the areas are endowed with climatic conditions and vegetation that is conducive to bee-keeping. It is important to note that in the same areas, agricultural activities like crop production are minimally carried out but acacia trees are in abundance. The country has the potential to produce 100,000 metric tonnes of honey but is only producing 20,000 tonnes fetching an estimated income of Kshs.4.8 billion annually. Co-operative involvement in honey, eggs and poultry marketing had largely remained untapped by co-operative societies despite the fact that there is a large market potential. There are very few bee-keeping and poultry registered co-operatives. However, these societies lack adequate capital and due to poor leadership are unable to venture into meaningful commercialization of the commodities. Marketing of honey, eggs and poultry in the country is hampered by lack of well developed marketing channels, middlemen and cartels. Also contributing to poor marketing is weak institutional capacity for co-operatives to make better returns to commodities and an impact in the market. For the poultry industry, production is hampered by unaffordable support services which include feeds, credit services and disease control.

48. Shelter is a basic human right. Through the United Nations, governments have made declarations and commitments to provide adequate shelter for all through sustainable human settlements. Kenya is experiencing an acute shortage of housing, especially for the low-income segment of the population. This shortage has been aggravated in the urban areas by the influx of people from rural areas. In 2010, there were 732 housing co-operatives. However, their housing programmes have stagnated due to lack of affordable mortgage facilities and long term lending to assist in housing development. Besides, poor planning, high cost of construction and building material and the complex land administration mechanisms discourage investors from committing funds for housing projects. Co-operatives provide appropriate savings and credit facilities to their members at competitive interest rates through which accessibility to credit on affordable terms enabling members to participate

effectively on the acquisition of property such as land, decent shelter, transport facilities, etc is possible.

49. Horticultural farming in Kenya dates back to the 1960's when the sector had only few players in the market. Traditionally, Kenyan horticultural products relied on European markets. The principal horticultural exports are cut flowers, French beans, snow peas, mangoes, avocados, processed and fresh pineapples and Asian vegetables. Cut flowers account for 51%, French beans 18% while Asian vegetables dominate the horticultural export mix. However, small-scale horticultural farmers lack enough capital and technical know-how. Factors that continue to inhibit growth and development of small-holder horticultural co-operatives include the influence of middlemen in the marketing system, lack of production efficiency and inability to tap the opportunities existing in the world market through new products and processed commodities. Local small-scale producers have been left to struggle and organize themselves under co-operatives with little incentives and returns. Other problems include high transportation costs of small quantities to markets and unreliable supply of quality seeds.

50. Transportation is a major activity within the co-operative movement both for passengers and goods. Most vehicle owners, especially in the public transport sub-sub-sector, formed SACCO societies to enhance their ability to modernize their fleets. The Public Transport system in Kenya has had no organized system through which the people of Kenya can effectively plan their movements. In a bid to address this inequality and afford Kenyans an opportunity to eke a living, Kenyans were allowed to own and run informal Public Service Vehicles (PSV's). The influx of these PSVs brought in more chaos than they set out to address. The Government, in a bid to bring sanity in the Transport Sector ordered PSV operators to either form co-operatives or companies through which they could be supported for effective and efficient services. Prior to the Transport Policy operationalization, there were 162 registered co-operative societies in the Matatu transport sector which underscored

the Government's recognition of the potential of the industry and its ability to organize the business into entrepreneurial opportunities. As at the end of 2010, there were over 400 registered SACCO societies in Matatu Transport business. The Government will continue to be an active player in facilitating the implementation of the National Transport Strategy Policy which requires operators to be organized into SACCO societies to ensure ease in operationalizing the strategy, support such initiatives and facilitate co-operative societies to modernize their fleets and strengthen networking. Similarly, the Government will continue to re-organize and support SACCO's in the transport sector to offer this vital service in the realization of its development agenda.

51. The youths form a large segment of the Kenyan population and have the potential for the growth of the co-operative movement. They also provide a pool from which new members will be drawn to support and sustain the future co-operative movement. As at the end of 2010, about 50 youth groups had transformed into co-operative societies under various activities. In order to encourage youth activities, the Government initiated the Youth Enterprise Development Fund (YEDF) to transform youth groups into formal organizations. The Government will continue to encourage youth groups to transform into co-operatives that can be involved in serious business while accessing funding from financial institutions, including the Youth Enterprise Development Fund.

3 THE CHALLENGES FACING CO-OPERATIVE DEVELOPMENT

52. The overriding challenge to co-operative development is creation of an enabling policy, legal and regulatory framework for sustainable growth and promotion of good governance. The other challenge of revitalizing co-operatives and accelerating growth of the co-operative sector in Kenya lies in improving the adaptability and responsiveness of the co-operative movement to emerging and contemporary economic trends locally and internationally. It is therefore crucial that co-operatives invest in new technology as well as product development and market research to be able to satisfy market demand. An equally important challenge is to correct the apparent misconceptions about the government's role in co-operatives in a liberalized market economy.

53. Despite the various measures already taken by Government in support of co-operative development, Kenya's co-operatives still need financial and technical support from Government and development partners for business re-engineering and expansion. The primary concern of the Government is, therefore, to resolve the policy, legal and regulatory constraints and alleviate deficiencies inherent in the structure and capacity of the movement, by promoting modern business and management practices and turning cooperatives into efficient avenues for national development. Co-operative development also faces other challenges that include the limited technical and enforcement capacity in the Ministry, failure to develop and enforce clear prudential standards and lack of a culture of self regulation.

54. The appreciable growth of the co-operative movement in terms of numerical strength and their asset portfolio has not been matched by adequate allocation of both financial and human resources by the Government for co-operative development programmes and promotional services. With such low funding at KShs 1.2 billion, (less than 0.2% of total government expenditure), the capacity of the Ministry to provide support services such as member education and

training, regulatory and oversight functions, policy formulation and implementation have been greatly hampered.

55. This Paper highlights the constraints posed by poor governance characterized by improprieties in management, limited democratization and failure to safeguard members' interests and optimize on business interests for their common good. The other critical challenges facing co-operative development include the following;

- (i) Enhancing budgetary allocation for co-operative development services and programmes, especially co-operative education and training, supervision/extension, dispute resolution, compliance audits, inquiries, promotion of new ventures, governance reforms, restructuring and revival of existing co-operative institutions;
- (ii) Facilitating value-addition by co-operative ventures;
- (iii) Seeking solutions to escalating costs of production precipitated by deteriorating infrastructure services, poor terms of trade and energy;
- (iv) Resolving the legacy of debts owed by co-operatives to financial institutions, and Marketing Boards denying them access to more credit facilities;
- (v) Integrating Information and Communication Technology (ICT) in the operations of co-operatives;
- (vi) Encouraging co-operatives to play a leading role in finding a solution to youth unemployment; and
- (vii) Fighting the AIDS scourge to ameliorate its impact on co-operative activity.

56. Co-operative development in Kenya must be anchored on enabling macro-economic policy framework continuity in co-operative legal and governance reforms and commitment of sufficient human and financial resources to specific co-operative reform initiatives. Co-operatives have a major role in stabilizing the cost of, and deliver fertilizer at an affordable price. Co-operatives also have a key role in implementing

some aspects of the new Land Policy on more efficient utilization of high and medium potential lands. They will be largely involved in organizing collective farming and supply of inputs to cooperative farmers besides providing housing. A most critical function of co-operatives in enhancing agricultural production concerns improving market access for our smallholders through better supply chain management, and value-addition, before crop and livestock products reach local and international markets.

57. In a nutshell, the challenges facing the growth and development of co-operatives can be broadly traced to a deficient policy, legal and regulatory framework; and internal structural and institutional deficiencies within individual societies. The solutions to the above challenges will include (i) establishment of an appropriate and progressive policy, legal and regulatory framework adapted to contemporary global circumstances and the new Constitution, (ii) review and harmonization of the laws governing co-operatives, (iii) entrenchment of good governance principles and institutionalization of ethics, modern management and best business practices within co-operative societies, (iv) injecting additional capital to support acquisition of new technologies, and expansion of co-operative businesses; (v) improving the quality of co-operative education, and (vi) enhancing the profitability and sustainability of co-operative enterprises.

3.1 CREATING AN ENABLING LEGAL ENVIRONMENT FOR CO-OPERATIVE DEVELOPMENT

58. Since 1966 all co-operatives in Kenya have been governed by the Co-operatives Societies' Act (CSA) Cap 490) which has, so far, ensured tranquility in the movement. Although the Act was reviewed in 2004, there is still need for realigning it with the emerging socio-economic environment to address the needs and peculiarities of some existing and new types of co-operatives besides ensuring that it reflects the spirit of the new Constitution. With the rapid expansion of the movement and the sophistication of its players, gaps in the law have been exposed. There will be need for a more innovative and effective legal framework for co-operative

development given the emerging economic and social challenges. Those new administrative and legal requirements that have been occasioned by the new Constitution will be incorporated without giving credence to clamour for sub-divisions or restriction of co-operative societies' businesses along County or District boundaries.

59. The formulation and enforcement of relevant co-operative laws and registration of co-operative societies shall be overseen at the national level while promotion, extension/supervisory and management audits services will be managed at devolved governments. In this respect, legislation will be enacted to streamline provisions for county specific responsibilities in co-operative development, governance, tenure for elected officials, appointment of returning officers to preside over society elections, procedures for filing elections returns, registration of office bearers by the Commissioner of Co-operative Development following elections and sanctions for leaders' who engage in management improprieties. It will also give provision for sufficient consultations and consensus in the process of registering by-laws and filing of indemnity forms as a way of making leadership accountable in line with co-operative principles, values and operating standards. Provisions will be introduced to reflect the distinct needs, realities and diversity of various primary and national co-operatives including specific provisions encouraging them to pool resources, venture into capital intensive investments in housing, consumer retailing, inputs manufacture and supply, mobile telephony, ICT, wholesale trade and manufacturing, etc. The roles of the apex body (CAK) and NACO's in promotion and safeguarding the co-operative principles will be clearly spelt out to facilitate the adoption of harmonized operating standards. It will also provide for transitional measures to ensure that all existing co-operatives are realigned to this policy besides providing schedules that relate to regulation at the County level, venture capital accumulation, co-operative involvement on the stock market and emerging non-traditional areas of investment.

60. The co-operative law will be harmonized in the following areas:

- (a) Provide clarity of the new roles of national Government in co-operative development vis-à-vis the devolved governments and co-operatives' representative organizations;
- (b) Provide clarity of the responsibilities of devolved governments in co-operative development;
- (c) Provide clearer procedures for the administration of the Act;
- (d) Establish an Advisory Board to play the role of a policy implementation forum at national level to ensure smooth implementation and realization of the co-operative policy, legislation and support programmes;
- (e) Provide clarity on the criteria and procedures for the registration of new co-operative societies;
- (f) Provide new regulations governing co-operative education and training, audits, conversions, amalgamations, transfers;
- (g) Provide new regulation for sub-division and liquidation of co-operative entities;
- (h) Provide special schedules that relate to housing co-operatives, co-operatives' involvement in the stock market, promotion of co-operatives in new areas of investment; and
- (i) Provide for transitional measures to ensure that all existing co-operatives are realigned to the new policy and revised laws.

3.2 DEEPENING THE ONGOING GOVERNANCE REFORMS

3.2.1 The current co-operative governance structure

61. Co-operatives in Kenya are currently governed through a structure consisting of General Meetings of members, supervisory committee, management committee, secretary manager/general manager/CEO, and external auditors. The

supreme authority of a co-operative society is vested in the General Meeting (GM) during which members have a right to attend, participate and vote on all matters. One of the key roles of members attending a general meeting is the election of the co-operative society's office bearers for the ensuing year. The election largely determines the calibre of leaders and thus has an impact on the way the co-operative will be governed. Other roles played by members at a GM are provided for in the Co-operative Societies' Act. In practice, the general oversight and management of co-operative societies is vested in the supervisory and the management committees respectively, both elected by members at a General Meeting. The main responsibility of the committee is to determine the direction, in which a co-operative society takes while ensuring that the society is well managed and accountable to its members. A supervisory committee oversees the work of the management committee and officers of the co-operative society and its findings are tabled at quarterly management committee meetings and at society general meetings.

3.2.2 Governance shortcomings in the co-operative movement

62. The critical governance shortcomings in the co-operative sector largely arise from insufficient clarity of roles and responsibilities between members, the elected leaders and the management, inadequate interpretation and application of by-laws and guidelines, inappropriate management and operational systems, and limited professionalism in the management of societies. Some co-operative leadership lacks appropriate skills to enable them meticulously execute management responsibilities. In some instances, failure of the general membership to demand for accountability greatly undermines the tenets of good governance while lengthy procedures for dispute resolution especially through the court system hamper the smooth operations of societies. Lack of proper prudential standards and disregard for internationally accepted management principles has generally led to apathy, dormancy of some societies resulting in high poverty levels among the co-operative

members. Due to this state of affairs, the Government has reviewed co-operative management guidelines and intends to press for the adoption of standard operating procedures calling for separation of responsibilities between elected co-operative leaders and the management. In order to address these concerns, the roles of the members, committees, management and other stakeholders will be separated to avoid duplication, overlaps and conflict of interest. Due to the expected increased members' awareness, it is anticipated that cases of improprieties will be reported and properly addressed.

3.2.3 Promoting good Governance

63. In order to institutionalize ethics and good governance principles in the movement, the Ethics Commission for Co-operative Societies (ECCOS) will be strengthened to oversee and ensure effective adherence to the governance law code and closely monitor the integrity status of the societies' leadership, management and supervisory committees. Co-operative societies will be required to hold elections regularly (preferably every three years), present audited annual accounts to their general meetings within the first quarter of the following financial year and provide financial and management information to all members. Similarly, the Government will carry out impromptu inspections to ascertain compliance with the law and management guidelines; and advise society committees on areas that require improvement. It will also carry out inquiries where it has reason to believe that an intervention will be in the interest of members and the public. The Commission will ensure that each committee member files an indemnity with the Commissioner for Co-operative Development while each society will adopt a value system with a code of conduct that promotes clear delineation of duties and responsibilities between management and elected committees/boards. To ensure effective and efficient implementation of the code of ethics, an office to receive public complaints on co-operative issues will be established. The Commission will conduct investigations in suspected cases of impropriety and liaise

with law enforcement agencies for preventive and corrective measures.

3.2.4 Entrenching professionalism in co-operative societies' management

64. Although there has been tremendous change in the environment in which co-operatives operate, many have continued to utilize traditional and outdated methods of management. This has compromised performance and resulted in complacency, indiscipline, thus partiality undermining efficiency and effectiveness. It is imperative that leadership and management capacities of the movement be enhanced. In this regard, co-operative societies will be expected to; (a) employ professionally qualified management and operational staff and make them accountable to the society on the basis of set targets, (b) ensure that each committee member takes a basic training programme on management of co-operative business, (c) each society will set aside budgetary resources for continuously educating its employees and committees, and (d) elect leaders who have a track record of being honest and accountable. In order to strengthen the institutional capacities of co-operatives, the Ministry will, jointly with professional accounting bodies, review the accounting and disclosure regulations to recognize and provide for known and probable losses and reserves for co-operative growth before undertaking any distribution of surpluses. In this regard, the Government will vote some funds to update the co-operative accounting, auditing, liquidation, supervision and inquiry manuals, and in conjunction with the Co-operative College of Kenya, continuously review the training curriculum for co-operative staff. To enhance leadership capacity in co-operatives, the government will develop leadership courses and introduce initiatives for obtaining rapid results.

3.2.5 The role of Government in co-operative governance

65. The Government plays an indirect governance role through the development of an enabling policy, legal and institutional framework. Its main responsibility is to formulate, oversee,

regulate and enforce appropriate policies, laws and rules for the smooth operation of the co-operative movement. In this respect, the Government will continue to respect the sanctity of the co-operative principles while ensuring that the interests of the general membership of the co-operative movement are safeguarded. Likewise, the Government will continue to enforce the law and facilitate dispute resolution in the movement by ensuring speedy conflict resolutions by the Co-operative Tribunal. As good governance issues assume the centre stage in co-operative development, the Government is increasingly interested in promoting the adoption of modern management and business practices based on internationally acclaimed prudential standards. The function of external control and supervisory role will continue to be carried out by the Government and external auditors.

66. The need for enhancing capacity of the regulating organs to provide efficient oversight and effectively regulate co-operatives can hardly be overstated. There is need to augment the technical and enforcement capacity of the Government at the national and devolved levels. In doing so, it will be necessary to recognize that functions of the Ministry have evolved over time and, therefore, it has become imperative that the staffing and staff development objectives in the Ministry reflect the new responsibilities of regulating a highly sophisticated financial services co-operative sub-sector, as well as undertaking investment and marketing promotion. In this regard, the Government reorganized and expanded the mandate of the Ministry of Co-operative Development and Marketing to enable it make proactive interventions to spur the growth and development of co-operatives.

67. The Ministry was reorganized around technical departments (education and training, registration, extension, banking and finance, governance, marketing and audit) and continues to oversee the operations of the Co-operative College of Kenya, the New KCC Ltd and other advisory organs like the Co-operative Tribunal and the Ethics Commission for Co-operative Societies. However, this Policy takes cognizance of limitations in the structure of the Department of Co-

operative Development and inherent weaknesses that made it difficult for the Ministry to effectively carry out its mandate. The critical importance of the Ministry's marketing and investment promotion functions will be reflected in the hierarchy of the establishment. In this respect, the technical departments of the Ministry will be re-structured, re-organized and up-graded to reflect representation at all levels of administration from the national level to the devolved governments. Due to the increasing sophistication of the co-operative movement, some ministerial oversight functions will be delegated to specialized agencies.

3.3 STRENGTHENING THE CO-OPERATIVE REGULATORY FRAMEWORK

68. The inadequacies inherent in the regulatory framework constitute an impediment to sustainable co-operative growth. Poor performance of co-operatives in the past was as a result of weak oversight and regulatory capacity. Technical and enforcement capacity in the Ministry and other agencies charged with the responsibility of regulating the sector will be improved through staff recruitment, training and redeployment. Effective regulation shall involve re-defining procedures for operations, entry standards and exit conditions, ultimately creating an environment for fair competition and efficiency in the sector. Within the provisions of this Policy, the Government will continue to execute the role of regulator, overseer, and promoter of co-operatives. There will be need to augment the technical and enforcement capacity in the Ministry and prescribe clear guidelines for self-regulation.

69. In the early months of policy implementation, the Ministry will review its organizational responsibilities and prepare detailed organizational structures to reflect this policy shift and to enhance the staffing, professional and operational capacity within the regulatory and oversight authorities at the national and devolved levels. In order to regulate the sector effectively, the Government will cleanse and annually update the co-operative societies' register and continuously determine those co-operatives that are operational, active,

abiding by the law and capable of providing tangible economic and social benefits to their membership. The Government through the Ministry and in collaboration with devolved governments will continue to promote co-operative development through the following functions:

- (a) Clarity of the new roles of the national Government vis-à-vis County authorities, the apex body (CAK) and NACO's;
- (b) Provide clear procedures for the administration of the revised Act;
- (c) Clarity on the requirements and procedures for the registration process in order to provide firm foundation for the viability and sustainability of the co-operative model;
- (d) Clarify procedures for registration of those informal sector entities willing to be formalized into co-operative societies
- (e) Intensification of Co-operative Information, Education and Training programmes;
- (f) Enforcement measures to improve management and prudent application of members' financial resources;
- (g) Procedures for improved provision of extension and advisory services;
- (h) Resolution of disputes;
- (i) Facilitating access to markets and information; and
- (j) Promotional measures to improve co-operatives' access to financial resources.

3.3.1 Consolidating self regulation within the co-operative movement

70. There is clear need to encourage and promote self-regulation in the co-operative movement through internal operational and administrative guidelines, internal quality control systems, proper human resource (HR) policies and procedures, marketing guidelines, policies and procedures, and improved application of information and communication

technology. The gaps identified in the self-regulatory and supervisory framework in Kenya's co-operative sector include (i) lack of internal financial policies and procedures; (ii) ineffective internal management and operational guidelines; (iii) lack of ethical behavior guidelines; (iv) limited application of planning, monitoring and evaluation guidelines; and (v) unprofessional leadership. The conduct of the co-operative movement's affairs will be defined and articulated by co-operatives themselves in their by-laws. Such codes of conduct will define various approaches to management, accounting procedures and policies, terms and conditions of service for professional staff and credit policy.

71. Effective self-regulation will entail re-definition of responsibilities of the apex society and NACO's and will be enhanced by transforming the Co-operative Alliance of Kenya (CAK) into a more effective representative entity to preserve and propagate the co-operative principles and values on which the movement is founded. CAK will have the role of being the mouthpiece of the co-operative movement: to speak and articulate the interests of the movement at national, local and international forums, to interpret the implications for smooth operations and sustainability of all categories of co-operatives. Towards this end, National Co-operative Organizations and specific area unions will be encouraged to redefine the type of an apex body they need and chart out a course for strengthening the CAK by enhancing membership and subscriptions. The second function of the apex body will be to facilitate growth and development of co-operatives through provision of various technical and professional services.

72. At management level, the apex may provide consultancy services such as development of accounting systems, preparation of terms and conditions of service for society employees, reviewing organizational structures for various types of societies and unions, development of corporate policy for unions, investment appraisal and feasibility studies, financial sourcing and personnel recruitment. In addition and in line with Kenya's policy of export-oriented growth, the apex body will facilitate co-operatives to penetrate into

export markets through sponsoring export expertise for the co-operative movement. By using the international movement-to-movement linkage, the apex body will promote co-operatives' exports to various co-operatives in the rest of the World. On co-operative development, especially for those areas where co-operatives are weak or have not yet emerged, it will be the duty of the apex body to educate possible members about the benefits of a co-operative and assist willing members to form co-operatives.

3.3.2 The future role of NACO's in co-operative regulation

73. Co-operatives have continued to operate under the four-tier system but in some cases, with little regard to it. Membership to unions, NACO's and the Apex society has not been clearly defined thus exposing them to the risk of losing members. It has not been clear to members that these institutions provide an important framework for production and marketing of goods and services in the marketing supply chain. It has been noted that some of the co-operatives do not support their unions as contained in their articles of registration making them reliant and dependent on extraneous income for their survival. The role of NACO's in co-operative regulation shall involve setting and enforcing clear performance standards and operational guidelines for their affiliate societies to enable performance measurement and benchmarking within the sector. In order to overcome the above challenges, the apex co-operative and NACO's will be restructured and modernized to offer better services. The main challenge is to network NACO's and enhance the role of the Co-operative Bank of Kenya and the Co-operative Insurance Company to become more effective and competitive in the commercial market. The clear functional role of all NACO's for the optimum use of resources is defined in chapter 5.

3.3.3 Improving co-operative registration services

74. In order to provide efficient oversight services, the status of co-operative institutions will need to be monitored closely. New Applications for a society's registration will be evaluated

to determine their viability as economic and social units. They will have to prove authenticity of membership and demonstrate that no political or any other external patronage or influence exists. Towards this end, CAK will be encouraged to work with the Government and thereby influence government policy in all sectors of the economy where co-operatives are involved in favour of co-operative societies. Depending on their felt-needs, members will be free to promote, form and apply for registration of any type of an economically viable co-operative society whose aim will be to improve its members' welfare. For the purposes of business operations, no maximum size of a society shall be prescribed since size shall depend on perceived economies of scale and the conditions and objectives under which the society will be initiated. Where efficiency and effectiveness and long-term sustainability of a society is threatened due to large membership, members of such a society may decide on optimum level of membership representation but subdivision of societies will be discouraged. In the same vein, where societies wish to strengthen their economic base and tap the economies of scale, they may decide to amalgamate.

3.3.4 The operational framework for improved Co-operative Extension Services

75. This Policy recognizes the uniqueness of co-operative extension and reiterates that effective co-operative extension and advisory services will contribute to the growth of the sector. Co-operative extension services focus on promotion of new societies and improving the management of co-operatives, partly through expertise among field staff in entrepreneurship, post-production processing technologies, value-addition, marketing and finance. The co-operative extension system will promote access and exchange of information gathered by local and international marketing agencies and other ministries' marketing departments. The National Agricultural Sector Extension Policy recognizes that sector ministries, through their own extension resources, will continue to provide extension on cross-cutting issues. Implementing co-operative extension requires skilled personnel at all levels with appropriate knowledge and

attitudes to contribute to moving the sector's co-operators to a more commercial orientation. Co-operative extension staff will be trained in the delivery of information and advice on new technology aimed at increasing production and processing. While the first step in extension will be to link clients to available local market opportunities, there is a bigger task of expanding access to local and international markets. Co-operative enterprises require a range of different kinds of advice and information ranging from production to processing and marketing. Co-operative extension will involve the following approaches:

- (a) Creating awareness of opportunities and linking co-operatives to domestic, regional and global markets;
 - (b) Educating the public and co-operators on co-operation as a business and linking clients to sources of market information;
 - (c) Encouraging innovativeness through training and scaling-up of appropriate technologies;
 - (d) Promoting value-chain analysis for all co-operatives and training co-operators in appropriate value-chain analysis techniques to enhance adoption of, and maximizing returns from new technologies;
 - (e) Promoting local consumption of locally produced co-operative goods by educating the public through appropriate outreach methods, publications and media; and
 - (f) Encouraging and developing the capacity of co-operatives to engage in provision of agricultural extension services.
76. This Policy calls for extensive use of eligible and specialized co-operatives to deliver agricultural, livestock, and fisheries development extension services and use of appropriate co-operative extension methods to create awareness of specific co-operative development constraints in each area and build capacity among the co-operators to deal with the issues locally. It also involves linking co-operatives to appropriate marketing agencies where appropriate processing

technologies will be documented by the CAK and the Ministry's staff for distribution on a cost-recovery basis to co-operatives. The Ministry will promote public outreach activities through its participation in shows, exhibitions, field days and other events.

3.4 IMPROVING THE QUALITY OF CO-OPERATIVE EDUCATION AND TRAINING

77. Co-operative information, education and training is among the internationally accepted co-operative principles whose objective is to provide members, management and employees of the co-operative movement with adequate knowledge and skills to enable them carry out their respective roles effectively. Its other objective is to ensure that the general public is informed about the co-operative model, philosophy, ethics, business and culture. The primary aim of this Policy is to develop an enlightened and responsible leadership capable of directing and effectively controlling co-operative enterprises for the benefit of members while education will focus on specific target groups with clearly defined goals and objectives.

78. Co-operative training programmes will be designed to improve the overall management skills and quality of service offered to members of the co-operative movement. Special efforts will be made to identify educational and training needs of the co-operative sector and design training programmes to address them. At membership level, education programmes will aim at developing an informed, active and participative membership whose emphasis will be on duties and responsibilities of members and the understanding of their triple role as members, customers and owners of co-operative enterprises. Education at the committee level will therefore focus on the co-operative organization, its mission, its core business, the co-operative environment, co-operative governance, leadership, entrepreneurial skills and professionalism in recruitment of staff.

79. Another important aim of this Policy is to set standards to guide institutions that undertake co-operative training. It embraces standardization of curriculum for various levels and types of training with clearly defined goals and objectives. The Government has already prepared the Co-operative Education and Training Guidelines. Efforts will be made to undertake a further review of these guidelines as need arises. In this respect a Human Resource Development Committee composed of Government and co-operative movement representatives will be established and strengthened to handle the responsibility of planning and coordinating education and training programmes, monitoring and evaluating co-operative education and training programmes and developing terms and conditions of service for co-operative movement staff. It will be the responsibility of the committee to evaluate and regulate all training programmes offered by various co-operative training institutions through formulation and implementation of appropriate curricula and maintenance of agreed education and training standards. The Human Resource Development Committee will be responsible for the following functions:

- (a) Planning and coordinating education and training programmes;
- (b) Accrediting the co-operative training institutions;
- (c) Monitoring and evaluating co-operative education and training programmes;
- (d) Reviewing the terms and conditions of service for co-operative training staff; and
- (e) Enhancing the role of the Co-operative College of Kenya in co-operative training.

80. Training institutions in collaboration with the Ministry of Co-operative Development and Marketing will continuously review, design and develop relevant curricula and training packages that achieve the above stated training goals and objectives. In line with this, educational programmes, seminars, workshops and courses will be organized at both grass-root and national levels. In addition to local programmes and courses available, relevant training

opportunities abroad, will also be pursued. Managers will be encouraged to undertake advanced training through distance learning.

3.4.1 The various levels of co-operative education and training

81. The division of responsibilities between the Co-operative College of Kenya and the various co-operative education providers shall vary according to the level of instruction. The general thrust of programmes at the primary and high school levels will be the responsibility of the ministry of Education. The training program in primary schools and high schools will place emphasis on a teaching method known as "co-operative learning." The Ministry of Education will examine various options to determine their future involvement in the measures cited above and others. Co-operative leaders and Government officers from relevant institutions will be encouraged to organize co-operative information days for schools to introduce co-operatives and their values to the youth. Such programmes will entail the co-operative philosophy and its usefulness towards economic and individual growth and be informed of the value of using the co-operative approach in incorporating and running their enterprises.

82. Co-operative training will be encouraged at every level of the educational system and increase in teaching of co-operation at different levels of the school system and at Kenyan Universities. Deliberate efforts will be made to encourage co-operative education at all levels of college education with a view to sensitizing students and graduates to involve themselves in co-operative related activities. An awareness campaign targeting professional groups that provide advice to companies, e.g. accountants, lawyers, human resource consultants, architects, will be launched at various levels of co-operative education and training. The programmes will be aimed at inculcating the needed skills by leaders, employees and members of co-operative societies to ensure a constant flow of trained personnel at the movements' managerial level. Teaching about the co-operative initiative will be at the

core of raising its profile especially among young people to address one of the major concerns of the co-operative movement on the seemingly limited attention to the co-operative initiatives at the primary, secondary, college and university levels. At professional level, co-operative managers will be assisted to form and maintain an institute of co-operative practitioners in similar lines with other professional bodies such as the LSK, ICPAK and KPS. Similarly, the Co-operative Alliance of Kenya (CAK) will promote radio and television programmes such as those of Mshiriki Na Ushirika and other print literature like the Mshiriki wa Kenya. A member elected into a leadership position in a co-operative society will undergo an induction course at the society expense, within three (3) months of election into such a position. The leaders will thereafter undergo at least a 15 day refresher course or any other relevant course at least once a year in areas that deal or cover the society's objectives, management, leadership and diversification.

3.4.2 Enhancing the role of the Co-operative College of Kenya in co-operative education and training

83. The Co-operative College of Kenya is a semi-autonomous training institution which has infrastructure suitable for mounting various specialized courses and to serve as a centre of academic excellence in the co-operative movement in Kenya, promote the development and expansion of opportunities for continuing education in co-operative management and finance and conduct examinations, award degrees, diplomas, certificates and make other academic awards. In order to meet the ever-increasing training needs of the movement at all levels, the College embarked on the utilization of modern information technology, expansion programme and decentralization of its programmes and courses. It is envisaged that the future expansion of the College will include construction of modern physical facilities, staffing, and provision of research and consultancy services. The Government will continue to support the Co-operative College as a semi-autonomous academic and training institution in areas of physical infrastructure development, staffing, and developing its research and consultancy

capacities. Periodical reviews will be carried out and strategies developed on how the College can be expanded for the benefit of the co-operative movement and the associative economy. The Government will continue to fund the College to develop its own capacity of self-sufficiency in revenue generation and development into a fully-fledged university in order to play a greater role in funding its training programmes.

3.4.3 Regulating co-operative education and training Institutions and service providers

84. It will be the responsibility of the Government to identify, evaluate and regulate training programmes through formulation and implementation of appropriate guidelines, maintenance of standards and an education policy. These standards will be contained in the Co-operative Education and Training Guidelines whose objective is harmonization of training approaches. Guidelines on co-operative education will focus on standardization of curriculum for various levels and clarify the types of training to be offered by institutions with clearly defined goals and objectives. The Government, through the Human Resource Development Committee, will vet and accredit training institutions, identify, evaluate and regulate training programmes offered by various co-operative training institutions using the guidelines. The Training programmes will be designed in such a way that they achieve the set objectives of improving the overall management skills within co-operative enterprises. The identification of education and training needs of the co-operative sector will continue to be a high priority area so that training programmes address them from the onset. Co-operative education will be offered by the Government in its endeavor to create a strong and enlightened co-operative movement. Towards this end, County and district co-operative education committees will be strengthened and other providers including CAK, NACO's, Unions, co-operative societies and development partners involved in setting the training agenda.

3.4.4 Funding for co-operative education and training

85. Funding of co-operative education, training and information will continue to be the responsibility of the movement and to a certain extent that of the Government. Each society will be expected to meet the cost of training and educating their members, committee members and staff. However, where education is for the common good of the whole movement, each society may be required to contribute to education and training in accordance with the normal principles of equity. A funding mechanism, to be mutually agreed within the movement, will be promulgated. Within this general framework, co-operative societies and the Government may raise funds for co-operative education, training, and information in various ways that include provision of adequate budgetary allocation, subscription towards a co-operative education, training and information fund whose purpose will be to promote education and training and grants and donations from development partners and well wishers so long as these sources help to create sustainability and are in conformity with the co-operative ideals of self-help and self-responsibility.

3.5 PROMOTING CO-OPERATIVE MARKETING AND VALUE-ADDITION

86. The greatest challenge for co-operative development in Kenya is to build the capacity of co-operatives to effectively market their produce and services in a liberalized and competitive global market economy. Many co-operatives lack appropriate management and marketing systems while value-addition is underdeveloped due to lack of market research, poor product and market development strategies, lack of access to Business Development Services (BDS) and inadequate capital for investment in improved technologies. Kenya's co-operative movement has therefore generally relied on traditional markets for their products, rarely venturing into building new brands. An effective marketing and research approach will help improve enterprise profitability and growth. Key policy issues to be addressed

will include product quality, tradable volumes, member benefit rates and procedures.

87. For the sector to achieve the required growth, efforts will be made to restructure marketing agencies for major products handled by co-operatives such as coffee, pyrethrum, cotton, milk, honey, oil crops and sugarcane besides developing quality control inspectorates for certification of products and control of service standards. The government will encourage and promote processing for export markets while ensuring that members' payments for their produce are pegged at reasonable proportions of gross sales net of taxation. For co-operative societies to remain competitive, they will need to re-define their position in relation to the relevance of the products and services they offer and the costs at which they offer the services through situational analyses and costs of offering the services will be weighed against the benefits that accrue to members. The Government will assist societies in conducting analytical surveys and research into their operations with a view to promoting the co-operative difference. Agro-commodity co-operatives will need to document their optimum operating costs by determining the economic mix of raw materials, other inputs and personnel for operational efficiency. In order to increase efficiency in the supply of inputs, co-operatives will play a critical role in the procurement and supply of major farm inputs and in influencing competitive pricing.

3.5.1 Enhancing capacity for co-operative marketing

88. The main issues that individual co-operatives will need to deal with are low product quality, tradable volumes, member benefit rates, etc. To improve the marketing functions of co-operatives, efforts will be devoted to train co-operative managers in critical marketing and entrepreneurship skills, sensitize and educate co-operative management committees on effective marketing of members' produce, goods and services, develop appropriate co-operative marketing strategies and systems (business concepts and information modules) and promote innovation and use of new technology

in co-operatives. This policy identifies the following strategic thrusts:

- (a) Identification of competitive market outlets for co-operative products and services and building capacity in international trade;
- (b) Capacity building through dissemination of marketing information, supporting marketing intelligence, training of co-operative managers and leaders on marketing options;
- (c) Promotion of value-addition, packaging and branding of agricultural produce marketed through co-operatives by proactively exporting value-added goods to regional and global markets;
- (d) Facilitating the development of marketing systems such as e-commerce and on the Web;
- (e) Exploring avenues for co-operatives to acquire capital to invest in product development and value-addition activities; and
- (f) Providing credit and extension services to farmers at society level.

3.5.2 Enhancing the Marketing Function of the Ministry

89. This Policy embraces two dimensions: capacity building support to the Co-operative Marketing Department and Marketing development support to co-operative organizations. Currently, the Ministry's Marketing Department is leanly staffed and under-funded and its marketing operations are based at the headquarters with limited extension in the field. The Ministry's capacity in terms of staff, financial resources, organizational structure and equipment is insufficient across the board. Building co-operatives' marketing capacity through training and provision of technical support, policy guidance, technology transfer and access to marketing information is critical. Restructuring the ministry to realign its functions and recruitment of sufficient staff with relevant professional skills and optimal deployment will be core to the effective operations of the Ministry. Improving the Ministry's capacity to effectively carry

out co-operative marketing promotion functions will commence with an assessment of the Ministry's capacity in terms of human resources, systems and equipment in relation to marketing functions and identification of appropriate staff levels and skills and professionals required through rationalizing the existing human resources, skills, roles and responsibilities for effective performance, re-organizing and restructuring the Marketing Department to function in tandem with the other departments and undertake capacity building in terms of staff, technology, skills and equipment across the board. The Government will provide a promotion service to the co-operative sector.

3.5.3 Promoting partnerships and networks

90. In the current business environment, merging is the trend. While the trend in the private sector is towards mergers, the tendency in the co-operative sector is more towards subdivisions which result into uneconomical societies, duplication of functions and internal competition between co-operatives themselves. Technology transfer, packaging and branding of goods and services produced by the sector was extremely low and non-existent in the sector as co-operatives concentrated their efforts in bulking raw commodities for processors. Making choices between the best mix of communication, distribution and service channels are low, uncoordinated and sometimes unfocused. Opportunities to develop networks and partnerships between co-operative societies to reduce internal competition amongst them exist. There is need for co-operatives to form joint ventures with other private investors through a Co-operative Private Partnerships (CPPs), attract direct investments in identified areas, and participate in Export Processing Zones. Partnering and networking with high profile global initiatives such as fair trade, organic products, indigenous knowledge and certification bodies can leverage and create synergy in all productive sectors where co-operatives are active and will be encouraged.

3.5.4 Promoting direct consumer marketing

91. Under the direct consumer marketing initiative, much of the strength lies on a very strong brand, superior products, higher quality packaging, ensuring continuous availability and a very strong presence. Under this Strategy, the Government in collaboration with co-operative societies will upscale and promote direct consumer marketing in the sector in order to increase the market share of co-operative produced products. Information on what is available and needed will be collected, packaged and disseminated at all levels including the web by the Government.

3.5.5 Promoting business marketing

92. Business to business dealing usually involves well trained and informed professional buyers on either side who seek to get either high value or lower costs for their respective organizations. There is great demand for high quality produce and commodities by manufacturers and processors in the food industry which co-operatives can take advantage of through outsourcing, contracting, joint ventures and partnerships. Co-operatives will be encouraged to engage the services of well trained marketing personnel and also embark on human resource development and Business Development Services.

3.6 PROMOTING CO-OPERATIVE RESEARCH

93. Co-operatives in Kenya are currently more concentrated in basic economic sectors such as agriculture, housing, industry, transport, finance and banking. There has been inadequate research on factors influencing further co-operative sector's growth and expansion. Studies on the role of co-operatives have mainly focused on their performance in terms of registered numbers, membership, benefits to members, turnover and asset portfolio. However, it is increasingly important to broaden research to include the overall contribution of the sector to the Gross Domestic Product and its capacity to respond to global competition. Co-operatives face the challenge of enhancing added value

and opening up new avenues of investment for their products in upcoming years.

94. The new competitive business environment requires the emergence of businesses that can quickly adjust to market signals and alert to detect major market trends and new production, marketing and management methods. Co-operatives in all sectors need access to strategic know-how that can give them a comparative advantage. A better determination of the issues at stake and identification of the constraints and problems co-operatives face are essential. For sustainable growth of the sector, greater efforts will be directed at new product research and development, publication and application of existing research and innovation while at the same time supporting documentation of best practices and dissemination to the entire co-operative movement. Studies also need to identify specific strategies to help co-operative businesses gain a foothold in emerging high growth sectors since up to now, studies on the role of co-operatives have focused on their role in the key sectors of agriculture and finance. However, it seems increasingly important to broaden the discussion to include the challenges of globalization.

95. The Government, in collaboration with the co-operative movement and development partners, will support co-operative research and marketing initiatives through funding and forging of strategic research alliances. In order to promote research in the sector, the Government will embrace the following policy initiatives:

- (a) Support co-operative research and development initiatives through budgetary provisions and strategic alliances with stakeholders to build capacity in research within the co-operative movement;
- (b) Publish and disseminate research findings to the co-operative sector and stakeholders;
- (c) Establish a databank to provide information on membership in terms of age, gender and occupation

with location to help in decision-making and planning for market segments; and

(d) Ensure sufficient funding to research efforts.

96. However, the wider co-operative development policy environment needs to be conducive to expansion of research. Among the most important regulatory issues in this context will be timely remittance of subscriptions, release of research findings and how pragmatic the findings are to the constraints inhibiting growth. In order to implement and deepen research endeavor, the co-operative movement will explore avenues for setting up a Co-operative Research Fund (CRF) to support and mainstream the research agenda. The Issues that need to be agreed upon include formation of a research Foundation and design of an appropriate institutional structure to manage funds meant for research, selection criteria for areas of research, vetting of research findings and their publication.

3.7 DEVELOPING CO-OPERATIVE BANKING AND FINANCIAL SERVICES

3.7.1 The challenges facing the Co-operative Financial services' sector

97. The greatest impediments to SACCO growth and development is poor governance, fiscal indiscipline, weak institutional capital, high levels of non-earning assets, lack of monitoring and reporting of non-performing loans, inadequate management capacity, limited outreach, and poor financial and operational standards. The Government's policy objectives on SACCO's are in tandem with the Vision 2030 which is to have a vibrant and globally competitive financial sector driving high levels of savings and financing Kenya's investment needs. However, the good work being done by the co-operative societies is sometimes frustrated by marketing agents and employers who deduct the members' proceeds but do not remit such proceeds to the respective societies on time.

98. The Government will enhance the legal provision to make such delayed actions economic crimes that will be punishable under the Co-operative laws or the Criminal Law or both. Over the years, SACCO's heavily invested members' funds in buildings, land and other non-earning assets. These dead assets locked up SACCO surpluses thereby denying them resources to lend to members. The situation often forces some SACCO's to borrow expensive funds from the financial system for on-lending to members at subsidized rates. Some SACCO's lacked effective accounting systems and relied on near antiquated computer systems. Additionally, most SACCO staff had limited capabilities on ICT while their internal controls were extremely weak, especially in the branch offices where little had been done by management in performing surprise cash counts.

99. This Policy creates an environment that will support provision of quality and competitive financial services to members with operational transparency and forge critical links to the broader financial market. The overall objective of the policy is to develop an efficient and professionally managed co-operative financial services system cognizant of the co-operative principles, values and ideals. Specific objectives will be to improve access to financial services by increasing SACCO's outreach, product development and embracing better customer service, adopting prudential standards and adherence to a regulatory framework. SACCO's will be encouraged to form strategic alliances, linkages and networks through which members can access financial services from partner institutions at competitive rates. The specific policy objectives are as outlined below:

- (a) Improving access to financial services by increasing SACCO's outreach, improving product development and embracing better customer service;
- (b) Creating stability in the financial services sector through good governance, adopting prudential standards and adherence to the regulatory framework;

- (c) Creating high standards of professional leadership and operational efficiency; and
- (d) Encouraging co-operatives to form strategic alliances, linkages and networks through which members can access financial services at competitive rates.

3.7.2 The envisaged SACCO Reforms

100. Since a strong financial system requires diverse financial institutions, it is good public policy to support prudential soundness and a competitive provision of service by both banks and SACCO's. The Government recognizes that SACCO reforms are a pre-requisite to facilitate savings mobilization among low income households who have no access to commercial banks and has enacted specific legislation devoted to the management of SACCO societies, especially those operating FOSA's. In the medium term, SACCO's will diversify avenues for mobilization of savings and improved intermediation between savings and investments. The SACCO Societies' Act will be revised to set standards and enforcement systems to improve the financial management and soundness of SACCO's thereby protecting members' savings in those societies. In order to promote rapid growth of SACCO's, the Government will

- (a) Promote the development of new savings and credit products that encourage mobilization and proper utilization of savings;
- (b) Encourage the formation of more SACCO's to mobilize domestic financial resources and encourage its re-investment in the same local area to improve sustainability;
- (c) Reformulate loan Policy guidelines and procedures;
- (d) Put in place policies that encourage SACCO members to increase savings mobilization by setting minimum deductible SACCO share contributions to between 5 – 10% of net earnings so as to increase loan-able funds to meet members' credit requirements;

- (e) Establish an agency to oversee the operations of deposit taking SACCO's;
- (f) Encourage SACCO's, in collaboration with their NACO's, to explore possibilities of providing mortgages and hire purchase facilities to their members and school children to open Deposit Accounts with SACCO societies for purposes of saving through their parents/guardians who are members of the societies;
- (g) Establish a SACCO Depositors Protection Fund to give the necessary cover for the SACCO societies with FOSA's in case of financial improprieties; and
- (h) Ensure that marketing agents and employers who deduct members' proceeds but fail to remit such proceeds to the respective societies on time are made to do so and make legal provision to make such delayed actions economic crimes punishable under Co-operative Law and/or Criminal Law or both.

101. SACCO's will be encouraged to carry out an aggressive deposit mobilization programme, set up a window on the Stock Exchange Market where the SACCO's sector can sell, buy and value their shares, create more internal incentives to attract savings, create and use relevant insurance programmes that cover members' savings and loans, and improve outreach to all areas in the country. In order to have streamlined co-operative banking services, the Co-operative Banking Manual will be revised and enlarged to cover SACCO societies operating FOSA's. The manual will contain the co-operative banking policy, organization and accounting procedures. Each society will be encouraged to follow such standardized systems for the efficient delivery of banking services but, where a society sees a need to deviate from the standard practice, it shall seek government approval before implementation.

3.7.3 Regulation and supervision of SACCO's

102. The Government recognizes that SACCO reforms are a pre-requisite to facilitate savings mobilization among the low

income households who have no access to mainstream commercial banks. In the medium term, the operations of savings and credit co-operative societies will be streamlined and made sustainable and diversified avenues for mobilization of savings and better intermediation between savings and investments explored. The Government enacted a legislation specifically devoted to the management of SACCO societies, especially those operating FOSA's intended to; (i) provide access to affordable financial services to a wider section of Kenyans, including those in the rural areas, thereby creating scope for further employment, (ii) strengthen the stability of the financial system to ensure that prospects for a financial crisis are either eliminated or mitigated. A Deposit Guarantee Fund for SACCO's will be created and operationalised to protect SACCO savers.

3.7.4 The Role of NACO's in co-operative banking and financing

103. The National Co-operative Organizations for SACCO's will be encouraged to participate fully in their members' growth and development through:

- (a) Conducting member's education and specialized training;
- (b) participation in the development of operational manuals for their members;
- (c) Ensuring efficient and competitive services delivery by their members;
- (d) Instilling proper corporate governance;
- (e) Conducting regular management audits and inspections;
- (f) Ensuring that proper management procedures and prudential standards are practiced;
- (g) Providing a forum for members to consult and propose future collaborations;

- (h) Interlinking their member societies nationally, regionally and internationally, either directly or through the apex co-operative organization;
- (i) Supporting and strengthening integrated ICT development; and
- (j) Providing research and consultancy services.

3.7.5 Consolidating the role of the Co-operative Bank of Kenya in co-operative financing

104. The main purpose of forming the Co-operative Bank of Kenya was to offer affordable banking services to the Co-operative Movement. In this regard, the Bank forms the link between the co-operative movement and the national financial market. The Bank will continue to provide financial services, technical know-how and a range of other high quality banking services, technical assistance in project appraisals, financing, evaluation and monitoring, thereby ensuring proper funds' utilization and eventual co-operative growth. Under banking and merchant banking services, the Bank will mobilize long-term finance to ensure that it serves the co-operative movement better. The Bank's role will be strengthened to provide the necessary financial support to the movement. Apart from playing this basic role, the Bank will be expected to blend its services with a "co-operative" touch. Similarly, co-operatives will be encouraged to continue patronizing the bank through deposits and other banking services.

3.7.6 Enhanced provision of Co-operative Insurance services

105. The Co-operative Insurance Company of Kenya (CIC) was formed when it was considered beneficial for co-operatives to secure their insurance policies from a central point. The company offers insurance cover on financial services, life, motor vehicles and general properties. In ensuring financial stability, co-operative societies will be expected to practice prudent financial and other resources' management that includes risk management through insurance. Co-operatives will be expected and be at liberty to seek insurance cover on society properties, members' savings and loans from

competitive service providers. Some SACCO societies' managements have come up with internal risk management programmes commonly referred to as "Sinking Fund" or "in-house insurance" to offset members' loan balances in case of a member's death. However, experience has shown that such arrangements are prone to abuse by the very owners who set them up and are inadequate in case of calamities. In this regard, the Government will encourage co-operative societies to seek risk management programmes from experts. However, in the true co-operative spirit, they will be encouraged to continue utilizing the services of the CIC. In line with this requirement, CIC will be expected to provide competitive financial products for its clientele. Its products shall, therefore be expected to be relevant, affordable and of high quality. As a co-operative institution, CIC will be committed to upholding co-operative values that are applicable to insurance business and support the constructive relations among co-operatives. The CIC will be expected to pursue noble and progressive co-operative insurance development and nurture and practice a business culture that will create confidence for the satisfaction of shareholders and the insurance industry. In the process of providing insurance, the CIC will be involved in the mobilization of funds and dissemination of insurance knowledge and risk management. The CIC will therefore, be expected to manage its affairs prudently, effectively and efficiently in order to remain competitive.

3.7.7 The SACCO Deposits' Guarantee Fund (SDGF)

106. This Policy envisages the creation of a Savings Deposits Guarantee Fund for SACCO societies. The Deposits Guarantee Fund will be a stakeholder financed facility by SACCO's contributing an agreed percentage of their total savings/deposits liabilities SACCO's membership to the fund will be conditional on meeting prudential standards while financially weak or poorly managed societies will need to be restructured to qualify. To allow for an adequate threshold of SACCO's to qualify, the SSGF will be implemented over the medium term.

3.8 IMPROVING THE PRODUCTIVITY OF CO-OPERATIVE INVESTMENTS

107. Co-operative investments are usually classified into two categories, namely, financial and capital investments. Financial investments entail the employment of cash in the form of loans to members, shares in other co-operative organizations, savings and deposits in banks and other financial intermediaries, commercial papers, and Treasury bills or bonds for returns. Capital investments involve the employment of liquid cash in long term ventures like purchase of land, transport facilities, construction of buildings for rental, and owner occupation or for commercial activities and processing facilities. The co-operative principles emphasize dependency on own capital or equity which is not repayable in the future with the share-capital being a token advance payment for right of future services. However, this mode of financing is by individual membership and legal provisions for allocation of reserves and is rarely sufficient to satisfy the financial needs for expanding co-operative business. Capital borrowed is determined by a GM subject to amounts stipulated by law. Sources include members and outside sources like government, financial institutions and business partners. Borrowing from members is preferable as it attracts low rates of interest. External borrowing can be through accepting deposits, loans for a specific project or through revolving funds (deducting a specified percentage of sales as a levy). Preference for borrowing should be from co-operative related financial institutions (credit societies, Co-operative bank, Co-operative insurance).

108. The co-operative movement has been heavily involved in various types of investment i.e. shares deposit, savings, housing, manufacturing, processing, banking, insurance, handicraft, etc. It is appreciated that Kenya's co-operatives have diversified into multi-sectoral activities that involve investment of vast sums of members' funds. Whereas diversification is justified by the additional benefits that accrue through profits generated by such activities, experience has shown that such diversification sometimes overburdens the society's management and in some cases,

has resulted into business inefficiency and has become a net drain on internal resources. However, some of the investments are not core activities of the particular co-operative societies and had sometimes proved unviable. Major concerns in this area include lack of transparency, failure to carry out proper feasibility studies before involvement, inadequate capitalization, lack of qualified personnel to manage the complex investments and departure from core activities without appropriate members' approvals. In other cases, Management Boards did not take adequate steps to differentiate between members' shares, project funds and income thus attracting unnecessary penalties, particularly on taxation.

3.8.1 Prerequisite for co-operative investment

109. In order to streamline investments in the sector, those investments that contribute directly to the core business of the co-operative society will be encouraged. The Government will therefore discourage co-operative from making investments that divert the society from pursuing its mission and that do not improve the financial status of a society. Each co-operative society will develop a corporate strategy with clear investment goals, a set of principles and/or by-laws to govern future investments. Prior to undertaking any investment, proper feasibility studies will be carried out and members adequately consulted through disclosure of the full costs, proposed mode of financing and the expected benefits or risks to give approval and participate through equity contributions. All investments will be provided for in the approved societies' budgets before they are undertaken. The Government will require that all assets be insured and that investments yield the expected returns for members and that societies only invest when they have surplus funds.

3.8.2 Ownership of Investments

110. The modalities for investment by co-operatives shall be guided by the co-operative principles and the regulatory environment provided by the Government. The ownership of

co-operative investments shall be governed by principles of returns to investment and where investments compliment the core business of the society, a member will be entitled to stake a claim on the society assets. However, if a society invests in a project that is outside its primary business, it shall require individual members to contribute towards the acquisition of the investment through separate voluntary share contributions. The investment project shall be organized in such a way that members who participate will be identified and the project will be registered and managed as a separate legal entity. Unless circumstances dictate otherwise, these investments will adapt to the co-operative business model. In this regard, members will be issued with share certificates that may be passed down to their nominees in case of death or share-holders can opt to continue reaping benefits long after leaving the common bond. Efforts will be made to encourage co-operatives to move into non-traditional co-operative areas to take advantage of emerging economic prospects.

111. In order to survive in this competitive environment, co-operatives will require the creation of new ventures that involve creativity, innovativeness and new business ideas preferably through joint ventures. That will require the co-operative movement to form strategic partnerships with the private sector in promoting diverse agricultural processing, housing, and credit and finance initiatives. The Government will support the development of technical, commercial and financial linkages to enhance exchange of experience and sharing of risks and benefits, and will encourage financial institutions to provide group loan products aimed at promoting such investments while conscious of environmental issues.

3.8.3 Building a capital base of co-operative business expansion

112. In those sub-sectors requiring major investments (dairy industry, agro-food processing, and manufacturing, etc.), co-operatives will be required to raise considerable funds to undertake investments in new facilities, acquisitions and

modernization of production equipment, hence such co-operatives will be encouraged to change their by-laws to establish partnerships with private businesses in order to attract additional investment resources. The Government will encourage the co-operative movement to assess the cost-effectiveness of raising considerable funds to invest in new ventures. Preparation of a Kenya Co-operative Investment Plan and creation of a Kenya Co-operative Investment Fund will be important steps towards improved capitalization of co-operatives. The facilities will enable the co-operative movement to access the critical financial products that will improve its capitalization or equity and provide general guarantees to other sources of funds for co-operative enterprises.

3.8.4 Improving the quality of investments by co-operatives

113. Investments by co-operatives will be based on the principle of maximizing economic and social returns and need to take into account availability of technical and managerial staff and ability to handle competition in a liberalized market economy. No co-operative society will invest its funds in non-core business without the approval of the Commissioner of Co-operative Development and by a general meeting through a special resolution. In order to borrow external funds and invest in non-core activities, a co-operative society, which under its by-laws has power to borrow money, shall from time to time at a general meeting fix the maximum liability which it may incur from non-members.

3.8.5 Mitigating the risks associated with investments by co-operatives

114. In order to minimize risks associated with investments, the government will require co-operatives to carry out investments in ventures where the society has a competitive advantage in terms of management capacity, increased member benefits and in areas which play a complementary role to the core objectives of the society. To meet challenges resulting from the investments, the government will ensure that investment proposals are prepared by qualified and

professionally acquired firms or individuals, discussed and approved by members at legally convened meetings, that sources and adequacy of funding is ascertained, and that there are qualified personnel to run the enterprises while the society does not depart from its core activities and the investment has an appropriate ownership structure.

3.8.6 Promoting new co-operative initiatives

115. A number of new investment opportunities have emerged for co-operatives to expand into emerging high growth areas and new partnerships. The co-operative movement would also wish to reach a greater number of people, particularly the youth, in urban and rural regions. Though it will be up to the co-operative movement to promote new co-operative initiatives, the Government will support broader efforts aimed at promoting new co-operative initiatives (through mass media campaigns, and promotion of partnerships with various economic agents, presentation of co-operative success stories, etc.) and expanding co-operatives' customer base, particularly among the youth. Furthermore, professionals who wish to promote the establishment of co-operative businesses will be assisted to understand the co-operative initiative.

116. An awareness campaign targeting professional societies that provide advice to companies (accountants, lawyers, etc.) will be undertaken and will stress on concrete advantages of the co-operative initiative for dealing with problems such as transferring ownership in SMEs. Co-operative societies will continually evaluate the business environment for new opportunities where they can invest to promote growth and generate more incomes for their members. The new investment opportunities will either be in core business or non-core activities and cross-sectoral. In the case of core business, future investments will be in value-addition, market expansion and other sub-sectoral investments that enhance the core business. In the case of non-core investments, future emphasis will be on promotion of co-operative investments through the stock exchange and joint ventures

with private sector partners. Co-operatives will be encouraged to venture into the following new areas; -

- (a) **Establishment of consumer outlets and business parks** to support the growth of agro-business and industrial clusters;
- (b) **Manufacture or blending of fertilizers** especially the organic type through the use of compost and animal waste;
- (c) **Development of biogas technology** by encouraging individual members to go into biogas production where dairy farming is successful;
- (d) **Development of youth managed co-operatives** (e.g. Boda Boda transport services, plumbing, ICT, recycling of waste for environmental conservation, job creation and value-addition ventures).
- (e) **Production and marketing of ICT software and hardware** to encourage standardization and the use of tailor made packages;
- (f) **Food and agro-processing, grain milling and produce packaging** for value-addition;
- (g) **Eco-Tourism:** Eco-tourism combines ecological sites tours with hotel business that does not spoil the environment. There are some SACCO's with plots in tourism circuits that could be developed;
- (h) **The Stock Exchange:** SACCO's, both rural and urban, are in a position to assist their members to trade (buy and sell) in stocks (IPO's as well as listed stocks). Initially, they could start as agents for established stock brokers, gradually moving to become full members of the stock exchange trading firms. The clients will be society members and investors within areas of society operations;
- (i) **Wholesale finance business** that is of short term in nature and overnight lending among societies with surplus funds;

- (j) **Cooling Plants:** Dairy and rural SACCO's joint ventures where milk production is large. Storage of morning and evening milk for bulk transportation in tankers;
- (k) **Resource centres:** A combination of hotel rooms, library and small groups meeting halls, dining, cyber café, plenary hall and laundry mart, salon, gym, etc;
- (l) **Motorized Fishing Boats:** These will enable fishermen to go far into the lakes and sea with fishing gears that would only net large and mature fish. They could also be fitted with refrigeration equipment;
- (m) **Freezing halls (rooms at the landing beaches):** Fishermen would store their catches in the freezing halls while looking for markets. Combining freezers and refrigerated vans would allow fish co-operatives to organize a profitable business with minimum wastage;
- (n) **Mamba Villages:** Production of crocodiles for commercial meat within the hotel industry in different local circuits;
- (o) **Telecommunications:** This is a fast growing sector especially in mobile providers. ICT: There is huge potential in this area e.g. ISP, Digital Villages;
- (p) Business process out-sourcing; and
- (q) Transport: investment in ships, ferries, airlines, bus fleet, etc.

3.8.7 Investing in FOSA's

117. Front Office Services' Activities have emerged as a major investment activity for co-operative societies (SACCO's and Unions) and are essentially offering financial services in competition with commercial banks and other financial institutions. Financial operation of FOSA's involved handling huge funds from both members and non-members with high financial risks. Investments in FOSA's will be guided by rules created under a SACCO Societies' Act. The other requirement for opening and operation of FOSA will include:

- (a) Investment in FOSA facilities shall not be funded from member's contributions (shares) without approval by a GM.
- (b) The viability of the FOSA investment must be justified by undertaking a feasibility study

To achieve economies of scale, SACCO's will be encouraged to pool resources to invest in joint FOSA's in selected locations.

3.8.8 Opening up a window for co-operatives' participation in the Stock Exchange

118. Many societies have extensively invested in assets whose shares, as held by their individual members, are not easy to transact to third parties due to lack of a secondary market for them. Currently, co-operatives are restricted to serve members thus limiting shareholding to members only. The effect of this principle is a membership that is restricted to members' shares despite the ideology of voluntary joining and exit conditions. Currently, some co-operatives have established their own mechanisms to trade their shares which include an over-the-counter (OTC) trading. Dynamics of a modern economy require mobility of resources hence the need to establish a secondary market for co-operative societies' shares. This will be a long-term option which requires establishment of mechanisms for transferability and transmission of shares. However, in order to facilitate faster and effective transferability of co-operative shares while at the same time safeguarding the co-operative principles, the Government will explore possibilities of establishing an active co-operative share trading facility akin to the Nairobi Bourse. A Taskforce with representatives from the Ministry of Co-operative Development and Marketing, the co-operative movement, Treasury, the Central Bank, the Sock Market Authority will be appointed to review the matter and make appropriate recommendations.

3.8.9 Borrowing funds for investment purposes

119. Co-operative societies require financial resources for investments in terms of fixed and working capital.

Investment capital will either be raised through own funds or borrowing. The source of own funds will be share capital and retained earnings. Any investment undertaken by a co-operative society is expected to generate enough cash flow to meet all its expenditure and give returns to members. Investments using borrowed funds require generating enough income to finance repayment of a loan. The borrowing will be tied to the life of the assets during which time it is expected to generate income to repay borrowed capital plus interest. In making decisions on sources of borrowed funds, co-operatives societies will have to consider cost and flexibility, how quickly the funds are required, assets to be offered as security, repayment terms, level of risk associated with investment, stability of societies' income, and the terms and conditions set by providers of funds (contractual restrictions on borrowing from other sources on payment of dividends before loan is paid in full, etc.)

3.8.10 Off-shore Borrowing

120. Even though off-shore borrowing is a complex business that requires knowledge about currency fluctuations and associated risks, co-operative societies may borrow in foreign currency to finance imported capital goods for an economically viable project/investment.

3.8.11 The legal framework governing co-operative investments

121. Modalities for investment by co-operatives will be guided by the co-operative principles and the regulatory environment provided by the Government to ensure that co-operatives do not divert much from their core businesses and their activities are undertaken in a regulatory environment which guarantees their smooth operations and safeguarding of members funds.

3.9 CONSOLIDATING CO-OPERATIVES' ROLE IN KENYA'S INDUSTRIALIZATION

122. Co-operatives provide an excellent base for promoting the establishment of agricultural processing plants and industries managed in a co-operative manner or a sole proprietor basis. Value-addition in agriculture is important in ensuring competitiveness of Kenya's produce in the markets and creates more employment, improves value earned and increases incomes that accrue to the entrepreneurs. It also reduces wastage which in turn increases the returns to farmers and, in case of foodstuffs, reduces the cost of foods to consumers. The ability by agricultural marketing co-operatives to go beyond their basic marketing roles and invest in agro-processing business is a major step in industrial transformation. Currently, the major agro-processing industries owned by co-operatives are in coffee, cotton, milk, fish, forest products, flourmills and brick making. Efforts will be made to promote establishment of co-operative-based processing plants and establishment of cottage industries with clear sub-contracting systems with large industries in areas where co-operatives have comparative advantage (e.g. production of organic fertilizers, manufacturing of farm equipments, bicycles, textiles, leather and shoe, ICT equipment, etc). The Government will continue to support such initiatives through capacity building and improvement of physical infrastructure. As part of its policy of industrialization, the government will encourage co-operative participation in light industries, including manufacture/blending of fertilizer, manufacture of agricultural equipment and consumer products with the ultimate goal of making the general environment more supportive and encouraging Kenyans to continue participating in co-operative managed industries. Towards this end, the Government will encourage the formation of Jua Kali co-operatives and will provide assistance to enable the societies expand and grow stronger while encouraging financial institutions to provide group loan products aimed at promoting co-operative investments in manufacturing.

3.10 DEVELOPMENT OF SMES

123. The government appreciates the critical role the Small and Medium Enterprises play in contributing to economic growth through employment creation, poverty reduction and development of an industrial base. It is anticipated that the strengthened Jua Kali co-operative societies will continually evaluate the business environment for new opportunities where they can invest to promote growth and generate more incomes for their members. To address this, Government intends to promote motivation and skills development and explore ways of promoting business development and marketing of SME's products. The focus will be to create an enabling environment for the growth and development of the SME's by providing demand driven services to the sector through Public-Private Partnerships. To further strengthen SMEs, the Government will encourage them to pool their resources together in order to exploit economies of scale and form Jua kali co-operatives and build their capacities to enable them face any challenges and expand their services to various sub-sectors. Similarly, the SME's will be provided with educational materials and tools for capacity building.

3.11 PROVISION OF HOUSING THROUGH CO-OPERATIVES

124. There exists an acute shortage of housing in Kenya, especially among the low-income urban population; a prime opportunity for housing ventures. As at 2010, there were 732 registered housing co-operatives. However, their housing programmes have stagnated due to lack of affordable mortgage facilities and long term lending by financial institutions. Besides, poor urban planning, high cost of construction and building material and the complex land administration systems discourage investors from committing borrowed funds to housing projects. In the period 2003 to 2007, the Kenya Government committed itself to roll out 150,000 housing units annually and co-operatives were expected to meet 25 percent of the target. That was to alleviate the housing crisis in Kenya estimated at three million urban dwellers with inadequate shelter. The role of co-operatives in the provision of decent shelter will take

different forms and individual co-operatives will be encouraged to afford members with opportunities to mobilize resources and issue mortgages to enable them acquire individual houses. The Government will undertake a comprehensive review of the movement's participation in the housing sector in full cognizance of the challenges posed by a rapidly changing and volatile financial sector.

125. Individual co-operatives will be encouraged to issue mortgages to their members to enable them acquire individual houses and that specific savings mobilization schemes will be encouraged to enable members qualify for loans based on their savings and income. The Government will facilitate promotion of more housing co-operatives particularly in the slum areas of urban towns. Housing by-laws will be revised to enable more people put up affordable housing. Material costs policy will be revised through reduction of Value-Added Tax and the provision of bulk building material will be through housing co-operatives so as to reduce overhead costs for co-operative housing developers. In order to strengthen housing co-operatives and guarantee their sustainability the Government will facilitate the provision of affordable funds to be channeled through housing co-operatives and facilitate promotion of more housing co-operatives particularly in slum areas of urban centres and towns. Specific savings mobilization schemes will be encouraged to enable members qualify for loans based on their savings and income. The Government will facilitate the provision of additional credit to housing co-operative societies to implement housing projects in both the rural and urban areas.

3.11.1 The role of National Housing Co-operative Union (NACHU) in Housing

126. NACHU is the National Union for housing co-operatives. Its functions include promotion of housing co-operatives, promotion and organizing housing programmes for co-operatives, planning and development of feasible housing projects for consideration by investors such as the National Housing Corporation and provision of professional services

such as architectural, engineering, surveying and draft membership to housing co-operatives. The Government will support NACHU to enable it to realize its objectives by providing an enabling environment for the Union to operate. In line with the millennium development goals in the provision of shelter, water, sanitation and upgrading of human shelter, the Government will solicit for technical and financial support from development partners for housing co-operatives through NACHU.

3.12 INTEGRATING ICT IN THE CO-OPERATIVE SECTOR OPERATIONS

127. Information and Communication Technology has been identified as a major driving force for economic development and has potential to facilitate achievement of the Millennium Development Goals that were set by the UN during the dawn of the 21st century. Information and Communication Technology is a major catalyst for globalization and has turned the world into a global village. ICT advances continue to impact heavily on all sectors of the economy and have been recognized as an essential tool in the management of present-day co-operatives. Effective and quick response to this technological challenge will facilitate the co-operative movement to reap maximum benefits from the fast growing ICT industry. The sector Policy on ICT will be crucial because it will be one of the ways through which government funding can be used to improve leadership and management capacity in agricultural co-operatives and strengthen their competitive edge through improvement of both internal and external information flow for decision-making. However, installation of ICT infrastructure is expensive and beyond the reach of most co-operatives societies.

128. Over the years, there has been inadequate financing of ICT in the entire public sector due to lack of resources and a strategic direction on ICT development. The e-Government strategy and ICT policy document are now in place and ready for implementation and will guide implementation of ICT in the entire public service. The Ministry will use them as a guide in enhancing standards highlighted in the document.

However, the rate of ICT adoption and its overall application in both the Ministry and the co-operative movement remains low and the capacity of the sector to fully utilize ICT under-developed, condemning organizations to rely on manual records and operations (such as files) making it hard for information retrieval and dissemination. The need for accuracy in record keeping is crucial as production of the consequent derived records determines the efficiency and sustainability of the society and the sustained patronage of its members. Manual processing of the necessary records, as currently done, is time consuming and very expensive. Most societies that have managed to automate their operations have done so on individual basis bringing in challenges of integration, compatibility and coordination as societies undertook varying information systems.

129. The Government has a dual role in ICT development for the co-operative sector: policy formulation to create an enabling environment for integration of ICT in the operations of all sectors and facilitation of integration and standardization. Co-operative societies and institutions with similar activities will be expected to form partnerships for sharing information systems and solutions, costs and enjoyment of economies of scale. The Government will develop an ICT management framework for the co-operative sector in order to put in place standards, guidelines, rules and procedures that will speed up establishment of the necessary information systems while playing a catalytic role of a champion and regulator and will focus more efforts and resources for the development and institutionalization of ICT in the sector. Efforts will be made to accord high priority to ICT during financial allocations by the government and co-operatives.

130. In collaboration with NACO's, the Government will develop and provide standards and guidelines for acquisition, development, management, support and use of ICT hardware and software in co-operative processes and service delivery. A Central depository Database on all aspects of co-operative activity will be developed and maintained by the Government which will also provide baseline information access through its field stations

whereby one-stop-shop information centres will be operationalised and connected to a central database to facilitate easy and timely access and availability of quality information necessary for co-operative development by anyone, anytime and anywhere in the republic. In order to achieve this, the Government will provide telecommunication and electricity power infrastructure in the entire country as its aim is to facilitate distance education, sharing of educational resources and databases, organization of conferences, discussion and circulation of documents and undertaking research. ICT will be harnessed to improve efficiency, accessibility and quality of learning through collaborative and interactive processes.

3.12.1 ICT networking

131. Lack of networking and inadequate telecommunication networks, especially in rural areas, has seriously hampered communication and information exchange among co-operatives. Even though some societies and co-operative institutions are operating Local Area Networks (LANs), they are not linked among themselves or with their grassroots and regional stations. The setting up of computer networks will enable the co-operative movement to linkup with national information systems; have access to other members' information systems and international co-operative organizations to facilitate access to the worldwide web (Internet) and online services such as electronic mail and sharing of information with relevant stakeholders.

3.12.2 Promoting electronic commerce for co-operatives

132. Electronic commerce (e-commerce) is the process of transacting business through ICT. It ensures increased speed of transactions, responsiveness to customers and access to distant markets. It reduces information and communication costs which are barriers to cross-border transactions, increases international trade, reduces home-market bias and boosts financial flows and technology transfer, and provides unprecedented opportunities for the co-operative movement to create focal points for enquiries

and promotion of their products and services. By adopting ICT, the movement will be able to access national, regional and international markets' information for co-operative products and services. With the use of Internet, the co-operative movement will enhance its capacity to participate in electronic commerce. Introduction of ICT in co-operative marketing will have at least two broad effects: lead to introduction of new products and services and better address existing needs or give rise to new consumer demands. The Government and co-operative societies will be able to effectively conduct research, promote and market co-operative products and services and be in a position to participate in international trade negotiations and fairs.

3.12.3 Financing ICT development

133. Installation of ICT infrastructure is expensive and beyond reach of most co-operatives societies. The situation is further aggravated by poor prioritization of ICT during financial planning and budgeting by both Government and the co-operative movement. The Government will deliberately accord high priority to ICT during financial allocations and also require co-operative societies and institutions with similar activities to form partnerships for sharing information systems and solutions, costs and enjoy economies of scale. In order to encourage increased usage of ICT, the Government will undertake the following actions:

- (a) Formulate ICT development policies to create an enabling environment and performance improvement in service delivery through application of ICT;
- (b) Develop a Co-operative Information System and establish a Central Co-operative Database at the Ministry headquarters as the custodian of co-operative information;
- (c) Develop an ICT management framework for both the Ministry and the co-operative movement in order to ensure sound and consistent ICT management practices across the sector;

- (d) In collaboration with NACOs, develop and provide standards and guidelines for the acquisition, development, management, support and use of ICT hardware and software in co-operative processes and service delivery;
- (e) Develop a human resource base with requisite skills needed to develop, maintain, manage and utilize ICT programs, projects and systems; and
- (f) Propose the integration of ICT into the curricula of the Co-operative College of Kenya and other co-operative Human Resource Development institutions.

3.13 PROMOTING CO-OPERATIVES' INVOLVEMENT IN COMMUNITY DEVELOPMENT

134. The seventh principle upon which co-operatives are founded is 'Concern for the community'. This implies that co-operatives need to consider how their development impacts on the community in which they operate. As the co-operative movement grows, it is bound to affect communities socially, economically, culturally and the physical environment. In showing concern for community, co-operatives work towards the sustainable development of communities through policies and activities as approved by their members. Pursuant to this concern for community, co-operatives contribute directly to the development of the areas in which they operate through social integration, change of attitude, donations towards construction of schools, health centres, learning institutions, development of infrastructure and construction of facilities such as cattle dips, coffee factories, etc. Co-operators become beacons of light through investment of co-operative benefits in quality education for their children, construction of decent shelter for their families, purchase of transport facilities and provision of healthcare thus improving the quality of life. Environmental issues are of great concern to the national development and co-operatives are expected to play an important role in environmental conservation and management. Co-operatives will be required to exploit natural resources in a sustainable manner and manage environmental degradation and pollution. The Government

will encourage co-operatives to set aside a portion of their resources for environmental conservation in their areas of operation while members will be urged to spare some of their time to participate in co-operative education, community outreach, cultural enhancement, patronage of social activities and empathize with the less fortunate in their local areas.

135. Co-operatives constitute a system that has a great potential to bring about community integration particularly when self-help and voluntarism appears to be diminishing. Moreover, co-operatives can and do provide a wide range of services benefiting the whole community. As co-operatives move forward to make sustainable development, there will be urgent need for them to create awareness in their membership on the necessity to participate in the development of communities in which they live. It is against these reflections that the Government will support and encourage co-operatives to reposition themselves to provide such services and facilities that benefit the entire community. Some of the programmes that co-operatives will be encouraged to undertake in this regard include: -

- (a) Preserving and improving the natural environment;
- (b) Supporting food security programmes in the community;
- (c) Supporting efforts on diseases and epidemic prevention and control;
- (d) Providing a focal point where communities can gain fundamental adult education: literacy and numeracy;
- (e) Generally serving as a socio-economic and cultural fulcrum of communities in which ideas are generated, problems discussed and solutions suggested thus bringing harmony and understanding in communities;
- (f) Providing a forum for discussion of development issues of direct benefit to communities; and
- (g) Supporting youth development activities.

3.14 PROMOTING ACTIVE YOUTH PARTICIPATION IN CO-OPERATIVE DEVELOPMENT

136. The youth in Kenya constitute about 42% of the national population. However, legal barriers continue to inhibit their participation in co-operatives at membership and leadership levels. This has denied co-operatives of the invaluable contribution by this large potential group. In an effort to encourage participation of youths in co-operative activities, the Government will sensitize co-operatives on the need to recognize the potential in the youth and integrate them in their activities. Development of co-operative programmes aimed at providing skills and creating employment for the youth by the Government and the movement in collaboration with workers organizations and vocational training centres will be emphasized. Efforts will be made to promote youth participation in co-operatives through extension services and integrate co-operative education at all levels of the school system. Sponsoring cultural activities involving the youth where co-operative messages are underscored and encouraging youth participation in co-operatives through formation of co-operative youth clubs in schools and vocational training centres will be key elements of a co-operative youth empowerment policy.

3.14.1 Promoting youth co-operatives

137. Certain measures or actions in this Policy are specifically aimed at young people. The government intends to promote partnerships between the main organizations that work with co-operative businesses with the aim of fostering the growth of youth-owned co-operatives. This policy initiative targets the youth with the objective of creating jobs and enterprises for the youth in the regions, recreating a vibrant economy outside of main urban centres and counteracting an exodus of young people from rural areas. In this regard, the Government will organize a Youth Summit to launch the concept of youth services co-operatives. The youth services co-operative (YSC) initiative will be developed as a partnership between the co-operative movement and the government to help the youth initiate small-scale co-

operative businesses and assume all principal duties (marketing, accounting, personnel management, production). For a fixed period, generally during holidays, the youth will be taught how to manage a business that provides them with seasonal work. YSC's will provide various services to the community like lawn mowing, painting, gardening, repairs, general maintenance, etc. The Government will make plans to create Multipurpose Co-operative Business Development Centres for co-operative business development. The centres will provide an e-commerce gateway for students to market books, computer equipment, various ICT supplies, etc. Student co-operatives will be able to offer a wider array of ICT products and services and compete on a more equal footing with private competitors. The platform will make numerous services and networking available to student co-operatives, making them very competitive.

3.15 MAINSTREAMING GENDER AND HIV AIDS CONCERNS IN THE SECTOR

3.15.1 Promoting Gender equity in the co-operative sector

138. Gender issues involve equality in the treatment or involvement of men and women in socio-economic development issues. However, gender imbalance in co-operatives remains a matter of concern. Women and the youth have shown great enthusiasm and eagerness to engage in business by forming co-operative societies and also take up the mantle of leadership in existing ones. The Ministry plans to mainstream gender and youth concerns in the movement through:

- (a) Incorporating gender and youth concerns in the Co-operative Development policy;
- (b) Sensitizing the movement on the benefits of gender proportionality in the management of co-operatives;
- (c) Lobby for affirmative action in the composition of management committees;
- (d) Sensitize the youth on the need to form activity based co-operative societies; and

(e) Mainstreaming the fight against HIV/AIDS pandemic.

139. The co-operative movement will be encouraged and guided to design, support and develop new strategies aimed at increasing the involvement of both gender, particularly women in income generating activities through their becoming members of co-operatives. Obviously, women's high potential to save has been exhibited in the substantial amounts mobilized through informal women groups. These savings are however exposed to high risks due to lack of accessibility to legal and regulatory services. The government will make deliberate efforts towards encouraging transformation of these women group into Women SACCO's where they will have access to structured government services for growth and development. Increased participation of women will also provide them with an opportunity to hold management and leadership positions where they will enjoy greater power through decision-making. It will be incumbent upon each co-operative within their principle of education, training and information to give members gender sensitive education in order to enhance gender balance. The government will engage in sensitizing the movement on the benefits of gender proportionality in the management of co-operatives.

3.15.2 Preventing and mitigating the impact of the HIV/AIDS pandemic

140. HIV/AIDS pandemic deserves special consideration given that it impacts negatively on all sectors of the economy. It is estimated that about 14% of adult Kenyans suffer from HIV/Aids and that it affects the most productive segment of the population i.e. between the ages of 24 and 49. Besides, the scourge is more felt in certain geographical areas than others and its impact is significant in agricultural commodity co-operatives and SACCO societies. Increasingly, more resources are being spent in providing medical support, caring for the orphaned in the provision of basic needs like food and education as well as heavy funeral expenses which could otherwise be used for economic growth. For agricultural commodity co-operatives, it means low

production and for SACCO's it means high loans delinquencies, loss of savings, membership and income not only to the society but also to the households and the economy at large.

141. The threat of HIV/AIDS to co-operative development is two-dimensional: HIV/AIDS at the workplace and HIV/AIDS in the co-operative movement. For those affected, it means the application of productive resources towards Medicare, defraying of funeral expenses and upkeep of the increasing number of orphans and dependants. The Government has established close-working relationships with national AIDS prevention programmes, NGOs and other agencies and will continue to use the co-operative infrastructure to distribute materials and disseminate information on preventive measures. It will further provide support and counseling to persons living with HIV/AIDS and integrate HIV/AIDS information in member education programmes targeting co-operators. Co-operative members will be sensitized on the impact of HIV/AIDS, and conducting behavior change education programmes at the work place and society level. Emphasis will be on supporting the orphaned, the infected and the affected persons, providing care and support at society level and encouraging co-operatives to integrate HIV/AIDS awareness in their education programmes. The sector HIV/AIDS Co-ordination unit will be strengthened and resource mobilization for HIV/AIDS Programmes undertaken. Although the scourge has not reached crises proportions, there will be need to mitigate on its impact before the situation deteriorates. To address the threat of the disease to the Co-operative movement the Government intends to regularly assess the impact of HIV/AIDS epidemic in the sector and promote policy formulation on Aids in the sector.

4 PROMOTING RAPID AND SUSTAINABLE CO-OPERATIVE GROWTH

142. In the previous two chapters, the performance of co-operatives in the last three decades and key challenges facing the co-operative sector in Kenya were analyzed and solutions to the challenges identified. In this Chapter, the issues covered in the analysis of performance and the challenges are crystallized into a set of policy measures aimed at accelerating and sustaining high levels of growth in the co-operative sector. The Policy seeks to revitalize the co-operative movement and accelerate its development in terms of increased co-operatives' contribution to GDP, increased numbers and higher survival rates of co-operatives, increased volume and value of goods and services produced by or marketed through co-operatives, increased share of co-operatives in the nation's agriculture, financial services, housing, transport, communication, manufacturing and trade, and the bolstering of public awareness on the importance of co-operatives in national development. However, the success of this policy will not be measured by quantitative indicators alone; it will also be based on the social benefits accruing to policy implementation, a dimension that is synonymous with the Millennium Development Goals of the UN. The overriding goal is to create an efficient and globally competitive co-operative sector and transform it into a major player in Kenya's pursuit of its Vision 2030 social and economic development objectives.

143. This chapter commences with an overview of the macro economic framework critical for enhancing competitiveness within the co-operative sector. It sets key co-operative sector growth targets for the long-term and the medium term; alludes to the much needed pro-poor monetary and financial policies and actions for pursuing the national vision 2030 targets on savings mobilization and investments as well as Vision 2030 objectives for the agricultural growth and commercialization. It summarizes the policies designed to strengthen the co-operative movement, contribute to the much anticipated improvements in productivity in agriculture

and financial services sectors, and stimulate the resurgence of economic growth. Not only does this policy target precise, measurable economic results; it also aims at encouraging authentic, sustainable, high quality co-operative development.

144. The Policy measures in this chapter are considered integral to the development of the co-operative sector both as a contributor and completer to other broader national development initiatives and hence require innovative financing options to succeed. The priority areas of policy actions towards spurring growth include the following

- (a) Creating a favourable macro-economic framework for co-operative growth;
- (b) Implementation of key Vision 2030 flagship projects in the areas of fertilizer/inputs cost reduction, co-operative participation on land use reforms and provision of basic housing and other infrastructure, improved access to credit through SACCO's and other types of co-operatives, a greater role of co-operatives in wholesale and retail trade, etc;
- (c) Restructuring and strengthening key co-operative support institutions;
- (d) Stimulating growth through stimulus initiatives;
- (e) Improving market access and marketing efficiency by co-operatives by building the capacity of co-operatives to undertake value-addition and embrace effective marketing strategies for their products and services;
- (f) Exploration of new investment opportunities and development of new investment programmes and funding arrangements;
- (g) Facilitating access to the capital and financing required for co-operative growth
- (h) Providing publicity, specialized promotional services adapted to co-operative requirements; and
- (i) Development and integration of ICT in the Ministry and co-operatives operations.

145. The other Policy measures will involve harmonizing Government efforts in support of co-operative development, as well as to take concrete actions to acknowledge the importance of the co-operative initiative in Kenya's economic and social development. It seeks a proactive involvement of the various government departments, private, civil society and development partners' agencies in promoting co-operative development within their respective areas of responsibility. The Government and its development partners will join hands in undertaking awareness campaigns to promote the co-operative initiative to the general public, particularly by celebrating the successes of co-operatives in the various sectors in which they operate. Teaching about the co-operative initiative is at the core of raising its profile especially among young people. In this regard, one of the major concerns of the cooperative movement is the seemingly limited attention to the co-operative initiatives at the secondary, college, and university levels. Cooperation in general receives much less attention than the corporate initiative. This situation has indirectly influenced the choices young people make when they enter the business world.

4.1.1 CREATING AN ENABLING MACRO-ECONOMIC FRAMEWORK FOR CO-OPERATIVE GROWTH

146. Arising from the implementation of sound fiscal and monetary policies supported by strong structural reforms, Kenya's economy grew significantly from virtual stagnation in 2002 when it expanded by 0.6% to 6.1% in 2006 and 7% in 2007. This was the first time in two decades for Kenya to record four consecutive years of high economic growth. The robust economic growth was evident in all sectors of the economy. The agriculture sector growth improved markedly from negative 3% in 2002 to a positive 5.4% in 2006. Similarly, the manufacturing sector expanded by 6.9% in 2006, up from 0.1% in 2002. The financial services sector also strengthened after recording a negative growth rate in 2002, the sector grew by 6.5 percent in 2006 with all sub-sectors performing strongly: annual bank credit rose from minus 1.7% of GDP in 2001 to about 7% of GDP in 2006

with new credit supporting the expansion of economic growth particularly in the productive sectors of the economy such as agriculture and tourism. Access to financial services increased and, importantly the SACCO's expanded their activities by 25 %. The Insurance industry has expanded strongly over the recent past, recording gross premiums of approximately KShs. 42 billion in 2006, translating to a growth of approximately 16% over the previous year. Reflecting confidence in the economy, the NSE index increased by 314%, reflecting an increase in market capitalization from KShs.112 billion in 2002 to KSh.792 billion in 2006.

147. While consumption growth during 2003-2007 was driven by the increase in the real income of the population, it will be difficult to maintain a high rate of growth of the economy over a longer period without a boost in investment. Public policies should be geared more to increasing investment and enhancing its efficiency in generating output. Such investment could be usefully targeted to re-activating the remaining excess capacity in the economy and modernizing the capital stock. To continue pursuing a pro-active co-operative policy, the Government will play an active role in rejuvenating the financial services co-operatives' sub-sector and influencing the mobilization of savings through SACCO's.

148. In order to realize the social and economic aims of this Policy, the Government will increase its budgetary allocation of resources to the co-operative sector which has the potential to produce enough jobs for a rapidly expanding working age population. Measures will be made to avoid a possible drain of resources out of the sector principally through taxation on dividends. The draining of resources out of co-operatives could lead to rising inequality and significant levels of poverty. While poverty levels diminished from 56% as the economy began recovering in the mid 2003, statistics from the Central Bureau of Statistics indicated that poverty affected 44 per cent of the population in 2007. Other credible estimates suggested that poverty was in the range of 44 - 46 percent in 2007. Nonetheless, poverty rates remain high in

rural areas in general and especially in arid or remote regions.

149. In order to reverse these trends, public investment will be re-allocated to agriculture, co-operatives, construction and labour-intensive industries such as food and light industry and to the SME sector to help generate the kind of broad-based employment at decent wages that is critical for containing inequality and making progress against poverty. In order to meet the poverty reduction aims of Government, the rate of growth of the economy will be accelerated to 10 percent per annum by 2012, while the investment ratio will need to be raised by 3-5 percentage points. But to make a dent in poverty, the pattern of growth should shift more towards increased agricultural production and small and medium-sized enterprises financed through co-operatives and commercial banks.

150. A more vibrant smallholder agricultural sector based on greater access of farmers to credit through co-operatives will be promoted. In order to achieve such a faster pace and more inclusive pattern of growth, fiscal and monetary policies will be more expansionary and investment more equitably focused. In view of the policy constraints imposed on Kenya's growth, this policy advocates an investment-led expansion, focusing investment in rural co-operatives in order to reach the vast majority of the poor. Financing for such an increase in investment will be derived from new savings products within co-operatives and by on-lending some of the bank deposits held at the Central Bank of Kenya through co-operatives.

4.1.2 Monetary and financial policies

151. While trade and financial liberalization have contributed to Kenya's growth, the benefits of such growth have not fully accrued to all segments of society, especially rural areas. A prominent feature of the country's banking structure is the relatively high cost of credit and its limited access especially to the rural people and key poverty reducing sectors including agriculture, co-operatives, SMEs and rural non-

farm activities. Moreover, the interest rate spread, i.e. the difference between lending and deposit rates, tends to be high in Kenya. The higher the spread, the higher the cost of credit to the borrowers for any given deposit rate. A high spread could also mean that the deposit rates are unusually low, which discourages savings and reduce resources available to finance bank credit.

152. As a result, the expansion of SMEs activities face severe credit squeeze as informal and other sources of fund are too limited to satisfy their rising credit needs. Under the situation, along with deepening the existing efforts of the Government and the Co-operative Bank of Kenya to channel a larger share of credit flows to rural sectors through co-operatives, a complementary approach would be to develop and strengthen relationships and linkages between the commercial banks, the co-operatives system, and savings and credit associations that can facilitate group savings and lending to SMEs, micro-enterprises and other rural activities. The initiatives could also be tied to refinancing, credit guarantees and other policies that promote credit allocation to priority poverty reduction initiatives.

4.1.3 Augmenting Government and private funding for co-operative development

153. Successful implementation of this Policy will depend on the level of funding for co-operative development programmes, promotional services, staffing, and skills development. The level of government funding for co-operative development programmes will therefore need to gradually rise from KShs 1.2 billion in 2010/2011 to an optimal level of KShs 5 billion per annum by 2015/2016 to be devoted to the strengthening of oversight, law enforcement, capacity building to enhance extension and advisory services; exploration of new markets and new investment opportunities, design and implementation of special development programmes. Co-operatives will need substantial injections of private capital in up-coming years in order to attain their full growth potential.

154. The co-operative movement needs a special investment fund to focus more on financial products that can improve the capitalization or equity of co-operatives. Stimulation of co-operatives' growth calls for an injection of external capital to the tune of KShs. 2 billion in the first two years of Policy implementation, gradually increasing to KShs. 5 billion annually over a period of five years. Modalities of getting the many finance companies, particularly venture capital firms to get involved in financing co-operatives will be worked out after consultations with the Treasury, the Central Bank of Kenya, financial institutions and other stakeholders.

155. Although direct contributions by members will continue to be a key source of capital, in order to achieve massive injections of funding, it will be necessary to set up a special financing facility. A co-operative investment strategy will be developed to provide a practical framework for increasing co-operative equity in order to improve their capitalization. A complementary policy action will involve developing modalities for setting up the Kenya Co-operative Investment Fund (KeCIF) with the objective of enhancing the capital base of co-operatives. Special focus of the fund will be on building partnerships between cooperatives and other enterprises in order to attract funding. In this context, this Policy proposes to amend the rules limiting profit-sharing with non-members, taking an approach that strikes a balance between improving the financial structure of co-operatives and achieving better financial returns for members. The joint efforts of the co-operative movement and government will include the formulation of the Kenya Co-operative Investment Plan and creation of a co-operative Investment Fund (KeCIF). The Fund will also provide general guarantees to other sources of funds. The option will allow KeCIF to deal with co-operative enterprises directly based on their needs, even when these entities appear too small to meet the Fund's criteria.

156. This Policy calls for adoption of the concept of "participating preferred shares" into the co-operative law to attract capital from external sources into co-operatives. Co-operatives will be encouraged to issue participating preferred shares with

features and a yield determined once for their entire lifetime. The co-operative movement will be encouraged to develop long-term capital instruments through the introduction of "transferable co-operative shares" at the Nairobi Stock Exchange. Towards this end, the Government will liaise with the Capital Markets Authority on the possibility of opening a Co-operatives window at the NSE. This will create confidence and stem the vagaries of capital flight from co-operative based economic enterprises. The NACO's are expected to play a critical role in promoting this venture, encouraging the export and import trade in addition to providing savings protection.

157. The other key elements of reforms in co-operative financing will be through development of new SACCO credit products to allow the lower income groups to access credit and other financial services as well as encouraging the Co-operative Bank of Kenya and the Co-operative Insurance Company of Kenya to develop long-term capital instruments suitable for the co-operative sector. A particular challenge will be the exposure and subjection of SACCO's to the vagaries of a liberal financial system, especially systemic risks. For SACCO's, financial integration will require modernization so as to offer competitive services obtaining in the wider financial system. Besides the above legal measures the Government will formulate a SACCO Development Strategy that will enable financial services' co-operatives to attract capital and develop an efficient and professionally managed co-operative financial services' system. The opening up of FOSA's by SACCO societies will continue to receive Government support while problems engendered in the formative stages of this new innovation shall be addressed through the enforcement of legislation specifically devoted to the management of SACCO societies, especially those operating FOSA's.

4.1.4 Harmonization of the co-operative tax regime

158. While co-operatives in many countries are exempt from certain aspects of taxation and enjoy favourable treatment, Kenyan co-operatives face a number of direct and indirect

taxes which have become a disincentive to co-operative growth. Examples of these taxes include corporation tax, withholding tax and investment tax. More importantly, as a body corporate, a co-operative society is liable to taxation under the law. Tax is levied on the income accruing to it and is determined in accordance with the tax laws. During the societies' operations, the income that is society specific has to be distinguished from individual members' incomes, which the society handles. Members' funds will be clearly set aside from society income to protect the society from unfair taxation. A multiplicity of taxes make co-operatives unattractive destination for investment and reduce benefits to their membership. For instance, to encourage domestic savings, an insured person gets income tax relief. However, the same benefit is not passed to SACCO's which have the same objective. Tax is however levied on the income accruing to it and is determined in accordance with the tax laws.

159. Profit reinvestment is another way of capitalizing co-operatives yet, up to now, the dividends paid to members are included in members' income for the tax year in which the dividends were paid. The negative impact of this taxation on members' dividends directly reduced member interest in the type of investment. Because of this, co-operatives could not objectively expect significant capitalization from their members. In order to encourage co-operative members to contribute to the development of their enterprises, a new tax measure to make it possible to postpone taxation of dividends paid in the form of privileged shares in an eligible co-operative until the member disposes of the shares will be enacted. While implementing this Policy, the Government will continuously review taxation laws relating to co-operatives in order to bring co-operative taxation in line with organizations of similar nature to eliminate possible aspects of double taxation. In addition, in order to maintain the co-operative development tempo, the Policy recommends a reduction in the current percentage to the Statutory Reserve Fund created out of the surplus of the society from 25% to 12.5 % in order to avail more funds for societies' operations.

4.1.5 Facilitating savings and Investments mobilization

160. To achieve the Vision 2030 growth objectives, the level of investment is projected to rise to 31.3% of GDP by 2013. The Government seeks to raise gross national savings from about 26% of GDP in 2010/11 to 29% of GDP by 2030. In order to move towards the required levels of investment and national savings, significant reforms will be undertaken in the SACCO sub-sector because any increase in investment in small-scale agriculture will be derived from new savings products within the co-operatives sector. In order to continue pursuing a pro-poor co-operative policy, the Government will play an active role in rejuvenating the SACCO sub-sector and influencing the mobilization of savings through SACCO's and other co-operatives to rural areas. It will encourage SACCO's to carry out an aggressive deposit mobilization programmes, create more internal incentives to attract savings, create a Deposit Guarantee fund to protect member's savings and develop products that address new, emerging members' needs. There will be deliberate efforts by the Co-operative Bank of Kenya and other commercial banks to channel a larger share of credit flows to co-operatives as a complementary approach on developing and strengthening relationships and linkages between the commercial banks, and savings and credit co-operatives. The key elements of co-operatives' role in the financial sector reforms will include building a stronger industry structure and deeper penetration of co-operative banking services through the following measures:

- (a) Developing new savings and credit products that encourage mobilization of savings and proper utilization of resources;
- (b) Encouraging the formation of new rural SACCO's to mobilize domestic financial resources and encourage its re-investment in the same rural areas to improve sustainability;
- (c) Encouraging utilization of new SACCO credit and micro-financing products to allow for lower income

groups within the co-operative membership to access credit and other financial services;

- (d) Encouraging amalgamation between SACCO's and other types of co-operatives for sustainable financing of co-operative investments; and
- (e) Encouraging the co-operative Bank of Kenya and the Co-operative Insurance Company of Kenya to develop long term capital instruments suitable for the sector.

2 LAYING A FIRM FOUNDATION FOR ENHANCED CO-OPERATIVES' CONTRIBUTIONS TO VISION 2030 OBJECTIVES

161. Kenya's long term development plan, the Kenya Vision 2030 highlights various challenges that the country will face in its quest to achieve its development and the Vision's targets by the year 2030. These challenges include: greater competition at the international level emanating from changing global economic trends; ensuring continued macro-economic stability; minimizing institutional risks, especially related to corruption and security; ensuring food security, scaling up the quantity and quality of infrastructure, especially the condition of roads, access to and reliability of water, cost of electricity, port and rail services; promoting efficiency through adoption of new technologies, improvement in governance and reducing transaction costs to business; and raising the level of investments from the current estimate of 20% of GDP to about 30% of GDP. This policy embraces measures that are designed to contribute to the implementation of the Kenya Vision 2030 Flagship projects as well as Medium-Term Plan aims to promote an innovative, commercially-oriented and modern agricultural sector and financial services sectors. These priority policy actions that are essential for the optimal performance of agriculture and other productive sectors are indicated below:

- (a) Harmonization/consolidation of agricultural/co-operatives policies and legal frameworks;
- (b) Promoting an active co-operatives' role in fertilizer/Input cost reduction/stabilization;

- (c) Promotion of agribusiness investments/value-addition and exports through co-operatives;
- (d) Enhanced co-operatives role in the supply chain in the wholesale and retail trade sectors; and
- (e) Consolidation of co-operatives' policy and legal reforms.

162. A number of policy and legal interventions will be undertaken in order to address the policy and legal barriers to the expansion and development of co-operatives. This Policy identifies legal frameworks governing co-operative operations that will be harmonized and realigned with those pertaining to development of agricultural commodities such as coffee, pyrethrum, cotton, cereals, sugarcane, etc. More critically, co-operatives will need to develop their own internal capacities and structures for self-regulation in various areas such as internal management and dispute settlement.

4.2.1 Co-operatives' role in fertilizer/inputs cost reduction/stabilization

163. The high cost of fertilizer and other inputs is the single most formidable challenge to increased productivity in agriculture and the consequent spells of famine that often hit the country. The Government recognizes the major factors contributing to the high cost of fertilizers as follows: the major importers and suppliers of fertilizers and agricultural machinery/implements operate "cartel" businesses, raking huge profit margins at the expense of farmers as well as making the items unaffordable to most small-scale farmers. Since most suppliers of fertilizers and other agricultural inputs lack countrywide representation, they appoint agents, distributors and stockist who also need their margins thus making the inputs even more expensive. The problem of unnecessarily high costs of fertilizers, coupled with cases of fake and adulterated farm inputs became more prevalent when the Kenya Farmers Association (KFA) went under. The re-entry of a national co-operative into the agro-inputs business is expected to re-kindle important linkages with

other institutions for the benefit of increased agricultural productivity. A steady and affordable access to inputs will ensure national food security, thus making savings on unnecessary food imports and creating exportable surpluses.

164. In the past, KFA and District Unions played a critical role not only in the supply of major farm inputs but also in influencing competitive pricing. They were successful in aggregating members' input requirements and then purchased centrally in order to create economies of scale and saved costs to individual members. Secondly co-operatives institutions (e.g. KFA, KPCU and District Co-operative Unions) have extensive supply stores throughout the country that could be useful in efficient distribution of inputs to producers. Financially strong inputs supply co-operatives with nationwide distribution networks will break the existing "cartels", benefit from economies of scale and bulk buying, "cut out" the middlemen and reduce incidences of fake/adulterated fertilizers. The Government will promote the resurgence of inputs supply co-operatives to create the necessary capacity to trade in large volumes of inputs to take advantage of economies of scale besides exploring avenues for local blending and manufacture of fertilizers through restructuring, business reengineering and injection of fresh capital in a national input supply co-operative designed to efficiently and effectively carry out the input procurement and distribution/supply function. A national input supply co-operative will form networks with manufacturers through which fertilizer procurement and distribution will be coordinated thereby leading to better availability of quality and more competitively priced fertilizer and other inputs as well as improved mechanization of agriculture for the benefit of Kenyan farmers. Complementary policy measures will include the following:

(a) Operationalisation of co-operative fertilizer/input procurement funds;

(b) Enabling dairy farmers to access animal health care products and feeds on short-term credit through guaranteed payment arrangement by new Kenya Co-operative Creameries Ltd thus enhancing milk

production output with improved monthly cash-flow at household levels and purchasing capacity;

(c) Working with other primary co-operative societies and SACCO's to enable their members' access agricultural inputs through credit arrangements.

4.2.2 Co-operatives role in operationalizing Disease Free Zones

165. The Government recognizes the importance of livestock as a source of livelihood for communities living in ASAL areas where there are co-operative societies dealing in ranching. Under the MFP, efforts will be made to encourage and support co-operatives dealing in livestock production, processing and marketing. Specific interventions will include establishment of co-operative owned abattoirs, co-operative involvement in AI services and rehabilitation of livestock marketing infrastructure.

4.2.3 Co-operatives role in commercialization and productivity improvements in agriculture

166. The current land tenure system in Kenya cannot allow for significant agricultural development since sub-division of farms into minute plots has adversely affected farm productivity. Land ownership in Kenya is characterized by too many small scale farmers owning very small pieces of land that are uneconomical (in terms of field operations and productivity) and a few large scale farms that are underutilized. Co-operatives offer great opportunities for re-development of land and re-settlement of persons in designated growth centres, consolidation of small land holdings into collective co-operative managed farming. Land will be owned individually but farmed collectively through co-operatives. Farmers will retain their ownership but farm operations will be consolidated (as is the case in some parts of India, Japan, Malaysia and South East Asia).

167. The co-operative system will provide a platform for creating economies of scale for mechanization and bulk purchase of inputs besides providing new housing in housing zones

where schools, hospitals, electricity and water will be easily provided. In the long-term, commercialization of small-holder farming will partly be addressed through land use reform measures including (i) bringing idle and under-used lands into intensive cultivation by more efficient co-operatives; (ii) investing in large-scale mechanized farming by consolidating farmland into viable farming units which will be complemented by the creation of co-operative housing corridors in farming areas to allow for resettlement of families away from farmland.

168. As part of their agricultural commercialization initiative, SACCO's have introduced micro-finance products that embrace after-sales service to members engaged in agricultural production. Co-operatives will be encouraged to come up with tailor made micro-finance products to enable the un-banked socio-economic groups (the youth and women) to access affordable credit, an initiative which is in conformity with objectives of Vision 2030 on productivity and empowerment of women and youths. Co-operatives will continue to play a critical role in not only the supply of major farm inputs but also in influencing competitive pricing and will be encouraged to aggressively venture into the distribution of inputs in rural areas. The Government will maintain producer incentives for continued production of all crops and increase the co-operative market-share by restructuring increasing credit facilities for commodity co-operatives, promulgating and operationalizing marketing rules for the smooth management and fair marketing in the co-operative movement. Particular focus will be on assisting cotton co-operatives to diversify into the manufacture of edible oils, soap and animal feeds; and addressing the issues of poultry farming in the country through the initiation of new poultry co-operatives and projects. The policy measures to advance commercialization of agriculture will include the following:

- (a) Develop frameworks for increasing credit facilities for commodity co-operatives to spur growth;
- (b) Promotion of value-addition, packaging and branding of agricultural produce marketed through co-operatives;

- (c) Promoting the growth of strategic input supply co-operatives that will create the necessary capacity to trade in large volumes of inputs to take advantage of economies of scale;
- (d) Revitalization of viable Co-operative Unions and Farmers SACCO's to manage local input distribution;
- (e) Promotion of co-operative managed commercial farming and providing housing within a reformed land tenure system;
- (f) Restructure the marketing function of Statutory Marketing Boards to ensure that marketing is consolidated to avoid growth of bodies with duplicate roles;
- (g) Extend fiscal incentives to input supply co-operatives to undertake bulk input purchases and distribution;
- (h) Pay farmers competitive prices (not less than 80% of the gross income net of tax) for goods and services; and
- (i) Improve products range through regular product research and development and carry out promotion of goods and services.

4.3 RESTRUCTURING AND STRENGTHENING KEY CO-OPERATIVE INSTITUTIONS

169. Reduction of poverty among world population by 2015 is one of the millennium development goals. It aims at ensuring improved living standards where one is able to earn and make a living through measures that eliminate hunger and famine. This Policy underscores the importance of reforming and reviving co-operative societies and institutions whose performance was affected during the liberalization era of the 1980's and 1990's. Many of the dormant agricultural marketing co-operatives had played a key role in the procurement of farm inputs and marketing of members' produce. Co-operative unions, for example, specialized in the procurement of inputs while primary co-operatives handled the marketing of members' produce. These structures had functioned well in a controlled market

environment where marketing boards provided the ultimate markets for co-operative produced commodities but later declined under liberalization. However, most co-operatives have continued to operate with the same structures and approaches that are not optimal in a competitive environment, resulting in poor performance of many co-operatives. For example, reduced co-operative business has rendered the services of Unions redundant as primary co-operatives developed similar operations to optimize their businesses.

170. To reverse this decline, urgent action is required in 4 areas: (i) training society managers and members on how to profitably manage their institutions, (ii) improving the efficiency with which co-operatives process and market their products, (iii) developing new methods of mobilizing internal member capital and/or raising funding through partnerships, and (iv) providing technical assistance towards strengthening the management capacities of eligible producer co-operatives. This Policy proposes the development of a Co-operative Stimulus Package that focuses on reform of the internal operational structures of the co-operative movement to provide internal checks and balances in response to contemporary management challenges. The restructuring and strengthening of the management co-operatives holds the key to the government's economic growth and poverty reduction aims. Within the co-operative stimulus initiative, the Government intends to encourage Public-Private Partnerships that are able to work with co-operative businesses to bolster co-operative expansion. The co-operative stimulus initiative will embrace public-private partnerships options in providing technical assistance to co-operatives. Action will include creation of a national agency to carry on the functions similar to those hitherto performed by the defunct Kenya Farmers (Co-op) Association, restructuring Kenya Planters Co-operative Union and restructuring of selected viable co-operative unions. Other co-operatives eligible for the stimulus package include those involved in dairy, cotton processing, horticulture, coffee processing, fisheries, pyrethrum, honey processing and livestock marketing.

4.3.1 The co-operatives growth stimulus

171. The Co-operatives Growth Stimulus initiative involves restoration of the management and production capacity of co-operatives whose performance declined during the era of liberalization through provision of technical assistance (including feasibility analysis), preparation of corporate business recovery plans, besides promoting public private partnerships in providing the much needed capital for business re-engineering. It will include restoration of the operations of eligible co-operative institutions and societies to acceptable levels of financial health. It will establish an environment and promote specific measures that could enable the institutions to evolve into democratic, self-governing and financially well managed institutions. The ultimate aim is to restore the requisite production capacity, enhance efficiency and/or profitability and competitiveness. The key components of the Co-operative Stimulus Package are (i) restructuring of eligible and viable dormant dairy, pyrethrum, fishermen, inputs supply, coffee, livestock marketing, and cotton marketing co-operatives societies, (ii) reform and restructuring Unions' and NACO's, (iv) promotion of new fish, cotton, coffee, pyrethrum, dairy, horticulture processing and marketing by co-operatives, (iii) strengthening of existing livestock marketing co-operatives, in the ASALs of Kenya and (iv) strengthening SACCO regulatory structures and capacity to mobilize savings and promote new investments. Preference will be given to co-operative institutions and societies that meet the following criteria:

- (a) Demonstrated a high potential to create horizontal linkages with other co-operative businesses and vertical linkages to domestic, regional and international markets;
- (b) Demonstrated capacity to increase the incomes and provide affordable services to economically distressed households;

- (c) Commit them to providing a prescribed proportion (25%) of the total stimulus budget as matching funds through owner contributions; and
- (d) Demonstrate that their stimulus is consistent with poverty reduction, employment generation and equity aims of government as well as good environmental stewardship.

172. The stimulus package will carry with it conditionalities for management and institutional reforms. In this respect, the eligible co-operatives will be required to present background information on the status of their operations, and highlight the nature and extent of deterioration of existing facilities besides deficiencies in human and financial resources. They will propose the specific management reform measures needed in each entity and formulate a rescue plan. Detailed measures needed to improve the governance and efficiency of the dormant co-operatives will be presented in specific feasibility studies. Given the crucial role of training in the co-operative recovery process, tailored re-training programmes will be developed for the societies targeted for stimulus. Through this policy the Government underscores the importance of consistent reporting and disclosure of financial accounts by the targeted institutions besides making available sufficiently detailed, comprehensive, up-to-date and authenticated data on their performance.

173. The Government will consider specific government involvement in the revival of strategic co-operatives based on perceived potential for poverty reduction, wealth creation and enhancing inter-regional equity. A Taskforce will proceed to review other countries' experiences in the restructuring and stimulating the revival of co-operatives, particularly in developed and developing economies with a prominent co-operative sector e.g. India, China, Canada, Papua new Guinea, Ethiopia, etc. The Task force will formulate a practical and implementable plan of action to revitalize key co-operative institutions.

The Pilot phase

174. The Pilot phase of the Co-operative Stimulus Initiative will include those societies for which pre-feasibility studies and business plans have already been prepared. The government will assist such societies to put in place professional management, to mobilize and sensitize members on their responsibility and contribution to the revival effort, mobilize and promote contacts between the eligible societies and prospective donors /investors. In those industries requiring substantial investment resources (dairy industry, agro-food processing and manufacturing), co-operatives will have to raise considerable funds to undertake investment in new facilities, acquisitions and modernization of production equipment. Eligible co-operatives will be encouraged to review their by-laws to include/promote partnerships with private investors for purposes of raising additional resources. For small societies with sub-optimal capital bases, the Government will encourage amalgamations to enable the larger entities reap the benefits of the economies of scale. Within this policy framework, the Government will also encourage societies in similar industries but disaggregated into regional entities (e.g. district-based societies) to amalgamate and form national societies to ensure adequate capitalization.

4.3.2 Revitalization of agro-commodity marketing co-operatives

175. The Government will encourage commodity marketing co-operatives to access additional capital and invest in product development and value-addition activities; identify competitive market outlets for co-operative products and services; and build capacity in international trade. Co-operatives will be encouraged to collaborate and form strategic alliances with the private sector-based institutions in development and implement feasible marketing strategies.

4.3.2.1 Stimulating the growth of Dairy co-operatives

176. The dairy co-operative societies have not fully recovered from the ramifications of rapid liberalization undertaken in the 1990's. Many of them have lost their competitiveness due to milk wastage during transportation for lack of efficient road network and milk coolers. The adverse effects of liberalization led to collapse of some dairy co-operative societies due to inaccessibility to markets and at times importation of cheap dairy products thus intensifying competition to the less efficient local producers. Other weaknesses are poor quality feed stuff and drugs, inconsistent producer prices, poor farmer linkages with the technology providers and expensive technical services and inputs. Some of the broader opportunities available to revive the dairy industry are the existence of a healthy macro-economic environment that is conducive to attraction of potential investors, and expansive regional market opportunities including the Middle East, Southern Africa (Botswana), the EAC and COMESA blocks.

177. The dairy co-operatives stimulus component focuses on solving the problems of milk wastage and improving milk marketing through restructuring and strengthening the management of dairy co-operatives. The Pilot initiative will involve supporting the New Kenya Co-operative Creameries and other eligible primary dairy co-operatives whose feasibility studies have been done, to make them more efficient in their operations and expanding their export markets. The policy encourages dairy co-operatives to amalgamate or share facilities/services, and to invest in and operate plants aimed at lengthening the shelf-life of the milk and milk products besides providing extension services, Artificial Insemination (AI) services, dipping, animal feeds, and veterinary services.

4.3.2.2 Stimulating the growth of cotton co-operatives

178. The goal of the cotton processing and marketing co-operatives stimulus initiative is to reduce poverty in the cotton growing areas of Coast, Western, Nyanza, Eastern,

and parts of the Rift Valley provinces, by improving cotton co-operatives' capacity to undertake production, processing and marketing leading to increased incomes to members. The benefits of this initiative will accrue to farmers, ginners and traders in agro-chemical equipment, transporters, textile millers, cloth makers, yarn makers, seed cake manufacturers and cotton seed oil refineries. Opportunities abound under the AGOA initiative where countries are free to export textile made from local yarn and cotton unlike the current situation where imported yarn and cotton are used. Similarly, over 52 textile mills registered in Kenya require over 140,000 bales per year but today these mills compete for the little cotton produced and hence operate below capacity while others have been forced to close down. With the revival of the cotton sub-sector, these mills would be operational, create employment as well as produce yarn for both EPZ and for export. The small-scale cotton co-operatives processing and marketing stimulus will target about 900,000 small scale cotton growers who are members of co-operative societies. Cotton co-operative members will be empowered through education and training programmes on appropriate technology on cotton production.

4.3.2.3 Stimulating the growth of fishermen co-operatives

179. This policy will encourage sustainable exploitation of fisheries, build capacity for value-addition and strengthen partnerships with the private sector in processing activities such as fish filleting, fish canning, smoked fish, fish meat, skin-tannery and other fish by-products. The broad objective of the stimulus component on fishermen co-operatives is to enhance the performance of the active fishermen co-operative societies as well as revive the dormant ones besides improving fisheries production, processing and marketing through fishermen co-operative societies. The specific objectives include improvement of fishing methods and equipment (technology), installation and rehabilitation of fish cooling, storage and processing facilities, capacity building, and access to affordable credit, environmental conservation and protection. The interventions will aim at increasing or restoring the fishing, storage, and preservation

capacity of local fishermen co-operatives followed by establishment of value adding fish processing facilities. Implementation of a stimulus package for fishermen co-operatives will lead to increased production, processing and marketing of fish products through improved methods of fishing. Improved storage infrastructure and marketing system will enhance the ability by fishermen co-operatives to control and regulate the supply of fish to markets thus ensuring price stability. There will also be improved sanitation and supply of water along landing beaches. Proper environmental conservation and management will guarantee sustainable utilization of the fisheries resources while strong co-operatives will accord opportunities to improved sensitization and mainstreaming of gender and HIV/AIDS issues.

4.3.2.4 Stimulating the Growth of pyrethrum co-operatives

180. Kenya produces 70% of the total world output of pyrethrum. Of this, 90% comes from co-operative societies. Pyrethrum production declined from 18,000 MT in 1992/93 to 4,000 metric tonnes in 2002/03 before recovering to 11,000 tonnes in 2009. Although pyrethrum production is expected to increase, the increase will primarily come from small-scale co-operative farmers. The Government will continue to assist the small-scale farmers to improve yields and the pyrethrin content of the flowers through better husbandry and the use of improved varieties. The Government will examine the possibility of increasing representation of co-operatives on the Pyrethrum Board of Kenya to reflect their share in the industry. The Government will also encourage the production of end use pyrethrum products with the aim of expanding the local market. An increase in pyrethrum production is expected primarily to emanate from small-scale co-operative farmers.

4.3.2.5 Stimulating the growth of livestock co-operatives

181. Most of the livestock slaughtered in major urban centres today originate from Arid and Semi-arid Lands. In spite of the available potential, the areas have the highest incidences

of poverty averaging about 65% and very low access to basic social services. The infrastructure per-capita is very low compared to other parts of the country and literacy levels are also low. There is, therefore, need to integrate ASALs into the overall development strategy of the country so that the resources which are in abundance in the region can be tapped for the benefit of the people living in the regions. The few livestock marketing co-operatives in the country are performing below expectation due to factors such as under-capitalization, lack of capacity, lack of markets, among others. The private sector shies away from ASAL areas because of poor infrastructure, insecurity and low population, among others. This Stimulus Policy Initiative will promote the formation and revival of livestock co-operative marketing societies while strengthening livestock marketing co-operatives that will target pastoralists the Arid and Semi Arid areas so as to enhance livestock marketing and improve livestock sales in order to increase income and general standard of living of the pastoralist communities. Co-operatives will be encouraged to venture into transportation of live animals, meat and leather to urban markets besides establishing co-operative managed abattoirs and AI services. The Policy addresses the need for procurement of refrigerated and other vehicles by the societies besides proper and sustainable animal husbandry and protection of environment to minimize degradation of the soil and vegetation.

4.3.2.6 Stimulating the growth of coffee co-operatives

182. The Government recognizes the key contribution the coffee sector plays in the economic development of the country particularly in the rural areas. In the 1990's, coffee farmers experienced the worst challenges and difficulties particularly after the wind of liberalization blew across Africa. Faced with the production and marketing problems, the coffee farmer became disillusioned. While the large-scale and plantation coffee farmers could afford to mobilize resources, the scarcity of production resources pushed the small-scale farmers' output lower. In order for Kenya to reclaim its position in the world market and continue to enjoy premium

prices, it will need to invest in production of high quality coffee and ensure its production is reliable, sustainable and predictable. Marketing will be key to the resurgence of the coffee sector as Kenyan coffee is reputed worldwide to be of the highest quality. Co-operatives will be strengthened through institutional restructuring and capacity building, including development of strategic partnerships. Value-addition will start at the farm level through provision of advisory services and marketing information to the farmers and co-operative societies, roasting, grinding, branding and packaging while branding will involve describing the rare and unique value of Kenya coffee identified by classification and origin.

4.3.3 Other focal areas for revitalization of commodity co-operatives

183. **Bee-keeping:** This is increasingly becoming an important economic activity in the ASAL districts. Efforts will be made to promote bee-keeping as an important economic activity to create wealth and generate income for the communities living in these areas. Co-operative societies will be encouraged to establish honey refineries to process honey for both domestic and export markets. Other agricultural commercialization initiatives that will be supported and promoted through co-operatives include promotion of irrigation co-operatives in the semi-arid areas, production, processing and marketing of roots and tubers, bixa and medicinal plants to generate wealth and employment creation. The Government will also encourage co-operatives to establish storage and extraction factories in the horticulture producing areas with a view to increasing unit value, shelf-life, reduce weight and explore export markets. Co-operatives from these areas will be supported to venture into horticultural activities for purposes of wealth and employment creation.

4.4 COMPLEMENTARY POLICY MEASURES

4.4.1 Promoting Public-Private Partnerships

184. In many developing countries, governments and co-operatives form close business partnerships, with co-operatives providing certain kinds of services that generally have a social value. In areas of mutual interest, co-operatives have enjoyed the support of other private enterprises in requesting that the government implement measures addressing their special and unique status. The government will encourage further partnerships between the main organizations that work with co-operative businesses with the aim of fostering their growth while respecting their differences. The feasibility of creating new business partnerships between co-operatives and the private sector will be carefully analyzed especially in the housing and slum upgrading, agricultural input supplies, fertilizer manufacturing/blending, and development of irrigation co-operatives to mention a few. In the short term, discussions will focus on harmonizing the work of the various partners and providing additional support to co-operative irrigation, input supply and housing groups so that they may access financial assistance.

4.4.2 Enhancing inter-sectoral linkages and networking

185. In Kenya, co-operatives need to form and operate as networks. Until networking comes into fashion, co-operatives will be unable to break their isolation, build synergies and take advantage of economies of scale. Kenya's co-operatives need to build extensive networks through which they will be able to share information and services with various partners. Depending on the sector, they will develop ties with a number of government departments and organizations including Investment Banks, Ministries of Agriculture, Fisheries and Housing. Co-operatives will receive strategic information and advice from universities with an interest in co-operative-related research. Sectoral co-operative unions and associations will formulate and implement joint strategies to support and develop co-

operatives in their respective sectors. They will also provide specialized services that will ensure the growth and survival of co-operative enterprises.

4.4.3 Promoting regular research on co-operative contributions to local and national economy

186. Up to now, studies on the role of co-operatives mainly focus on their performance in terms of registered numbers, membership, turnover and asset portfolio. However, it is increasingly important to broaden research to include the real contribution of the sector to GDP besides analyzing the challenges of economic globalization to the co-operative movement. Studies on globalization and its impact on co-operatives will identify sectors with good potential for co-operative growth and perform an analysis of sectors where the co-operative system could spur faster development.

4.5 PROJECTED GROWTH TARGETS

187. Implementation of the Policy measures will spur growth not only in the co-operative movement but also in the associated sectors of the economy namely, agriculture, financial services, housing, manufacturing, trade, etc. Building on the current growth momentum and the ongoing governance and legal reforms, the Co-operative Development Policy targets for the sector between 2009 and 2030 include the following:

- (a) Increase active membership of co-operatives by 15% annually by 2015 and support the establishment of new co-operatives in irrigation agriculture, micro-credit, and other promising high growth activities;
- (b) Increase and maintain the average market share of agro-commodity co-operatives at 70% by 2030;
- (c) Increase savings mobilization through SACCO's and other co-operatives by 20% annually by 2015;
- (d) Improve the main co-operative performance indicators, namely total sales, share-capital and total assets by 15% annually by 2015;

- (e) Achieve an increase to 600,000 direct jobs within the co-operative movement, and 2 million indirect jobs by 2030;
- (f) Increase growth in co-operative investments by 15% annually by 2015;
- (g) Increase survival of co-operatives and maintain a high co-operative survival rate in agriculture, housing, financial services, SMEs, and other formal sectors from the current 70% to 98% by 2030;
- (h) Broaden networks with private investors and development partners; and
- (i) Develop an effective Corporate Social Responsibility framework for the co-operative movement.

5 ENHANCING THE INSTITUTIONAL FRAMEWORK FOR CO-OPERATIVE POLICY IMPLEMENTATION

188. In order to realize the goals and objectives of this policy, the Government will establish effective participation and coordination mechanisms for all stakeholders to ensure that their collective effort is directed towards common pursuit.

5.1 THE ROLE OF GOVERNMENT IN POLICY IMPLEMENTATION

189. In order to meet the objectives of this Paper, co-operatives will require a stable macro-economic environment and security. The main role of government in policy implementation will therefore be the creation and maintenance of an enabling macro-economic environment for co-operative participation in not only processing and marketing of agricultural commodities and support to production activities through provision of credit and inputs but also in domestic resource mobilization, trade and investment opportunities. The government will provide services such as security, favourable taxation regimes and infrastructure and support co-operative efforts to participate in economic development. Other roles by Government will include the following:-

- (a) Review and formulation of sector specific regulatory frameworks for effective implementation;
- (b) Assessment and approval of policy implementation plans before presentation to treasury for funding and thereafter monitor and evaluate progress in implementation;
- (c) Provide regulatory and oversight functions to the co-operative sector in order to build public confidence;
- (d) Coordinate with other ministries/departments and county governments to ensure that co-operative issues are taken into account in their plans;
- (e) Monitor the performance of the co-operative sector in order to improve operational standards so as to encourage more members to participate in the sector;

- (f) Promote adoption of new technology and facilitate the transfer of technology and information as well as assess compliance with environmental issues; and
- (g) Generally promote the co-operative business model as the preferred approach to empowering the underprivileged in society.

5.1.1 Coordination of Policy Implementation

190. The Ministry has technical and service departments through which policy implementation will be fast-tracked, coordinated and monitored. For effective implementation of the Policy, there will be need to strengthen linkages between the Ministry, County Governments and the Co-operative Movement. Other linkages for fostering partnership are with the Ministries of Agriculture, Livestock Development, Fisheries Development, Finance and Development Partners and NGO's. This Paper seeks the involvement of the various government departments, county governments, private, civil society, and development partners' agencies in promoting co-operative development within their respective areas of responsibility. By combining the efforts of all stakeholders in the productive and social sectors namely agriculture, financial services, trade, industry, education, administration, planning, etc; the Co-operative Development Policy aims to create multiplier effects and make co-operative development a long-term development agenda.

191. It underscores the need for National and County Governments to harmonize their efforts in support of co-operative development and to take concrete actions to acknowledge the importance of the co-operative Model in Kenya's National and County economic and social development. It raises awareness about co-operatives' specific development needs which will be given full consideration in the drafting of laws, the preparation of targeted co-operative development and financing programmes and allocation of Government budgetary resources. The National and County Governments and their development partners will join in awareness campaigns to promote the co-operative initiative to the general public,

particularly by celebrating the successes of co-operatives in the various sectors in which they operate.

192. A Policy implementation structure (National Co-operative Policy Steering Committee - NCPSC) constituting the respective Ministers of Co-operative Development and Marketing, Agriculture, Livestock Development, Fisheries Development, Finance, and Office of the President as well as high level representation of Development Partners and the co-operative movement will be established to formulate policy implementation guidelines, oversee resource mobilization and take stock of progress in policy implementation. A Co-operative Policy Implementation Technical Committee (CPITC) will be established under the Principal Secretary, Ministry of Co-operative Development and Marketing with the Commissioner providing the Secretariat. The Technical Committee will bring together the Principal Secretaries and relevant heads of Department and Directors in the relevant ministries as well as (technical) representatives of development agencies, the co-operative movement and beneficiaries. The technical committee will oversee and approve preparation of annual work plans and budgets and proper management of resources and, provide advice to NCPSC on the required technical services. The technical committee will be replicated at County and district levels.

193. Given the diversity of the co-operative sector, the implementation framework is therefore structured at all levels from national, middle and local levels utilizing both public and co-operative movement institutions to implement various policy interventions. At all levels of the implementation framework, efforts will be made to discuss the problems constraining the progress of policy implementation in order to suggest ways of overcoming them. Secondly, efforts will also be made to always provide a link between public and co-operative movement institutions involved in the implementation of the policy to create required synergies and technical backstopping. It is emphasized that the philosophy of the co-operative development policy is premised on the understanding that delegation of responsibilities for planning

and execution of development priorities for co-operatives is vested with key stakeholders in the co-operative movement and their institutions.

5.2 The role of apex society in Policy implementation

194. The apex society will be the mouth piece of the co-operative movement in the country and outside the country. Consequently, the apex society will be restructured, professionally staffed and capacity built to meet its mandates. There will be need to develop a strong lobby for the movement in matters that affect their survival. In addition the apex society will provide research and consultancy services to the movement to guide co-operatives on prudent policy options and business investment opportunities within their spheres of operation.

5.2.1 The role of NACO's

195. In running an efficient and effective co-operative system in Kenya, the National Co-operative Organizations will be required to participate fully in their members' growth and development by conducting members' education, specialized training and participation in the development of operational manuals for their affiliates and instilling good corporate governance. They will conduct regular management audits and inspections and infuse professionalism into their affiliates' management. NACO's will provide a forum for members to consult and propose future collaborations while interlinking their affiliates nationally and regionally either directly or through the apex co-operative society for collaboration besides providing research and consultancy services.

5.2.2 The role of Secondary Co-operative societies (Unions)

196. Secondary co-operative societies (Unions) have a major role to play in the development of co-operatives in their areas of operation. In order to perform their roles well, the government will consider writing off their debts to give them a new impetus to perform. The unions will therefore be

expected to offer bookkeeping and management services to their affiliates, bulk purchase inputs and merchandise goods for their affiliates and organize centralized transportation of commodities for their affiliates.

5.2.3 The role of primary co-operative societies

197. Primary co-operatives provide the platform through which ordinary members come into contact with the co-operative movement. It is therefore imperative that primary co-operative societies be well managed, provide fast and efficient services, and project the image that will attract citizens to desire to belong to or form co-operatives. Primary co-operative societies will be guided to organize their members to effectively understand their roles in the fulfillment of the objectives of this policy and to undertake education and training of their members in conjunction with their secondary societies.

5.3 The role of financial institutions

198. Although the co-operative movement has developed its own sources of funding its activities and programmes, the funding is not adequate and accessible to all. Therefore, the formal financial institutions will be expected to bridge the gap particularly in providing long term financing of working capital and on-lending to co-operative members for various enterprises. On-lending activities will be reserved especially for SACCO societies. In this regard, co-operative societies will be expected to meet lending requirements and develop mechanisms that mitigate against undue risk exposures aimed at improving their credit ratings. In addition, co-operatives will be encouraged to form alliances in order to attract better financing terms.

5.4 The role of development partners in pursuing Policy objectives

199. Development partners comprise regional co-operation organizations, bilateral and multilateral donors, and charitable organizations. Regional cooperation organizations

such as EAC and COMESA provide opportunities for expanding Kenya's market for goods and services. They also provide synergies for dealing with cross-border issues that impact on the sustainability of co-operatives such as non-money laundering and remittances of co-operative dues for members by companies operating abroad especially, tourist institutions. Development Partners are critical in not only providing technical assistance but also financial resources to implement programmes. They will assist in shaping sectoral policies and articulating areas or conditions for support. Development Partners also play a role for providing trade information locally, nationally and internationally to improve access to markets and reduce market distortions. However, the main role for Development Partners will be to provide funding to fill gaps that the government cannot otherwise cover. This is crucial for other stakeholders to re-establish themselves in the co-operative movement. The Government will continue to link the co-operative movement with development partners for effective and improved collaboration and sustained co-operative growth and development

6 POLICY IMPLEMENTATION MONITORING AND EVALUATION FRAMEWORK

200. The implementation Matrix for the Co-operative Development Policy indicates critical actions that must be taken urgently as well as in the medium term. The matrix is informed by the key policy measures and actions that are contained in the Policy. Broad-based actions and outcomes are listed. The costs for the implementation of priority actions identified in this Paper will be shared between the National Government, County governments, development partners and the co-operative movement. Significant technical and financial assistance from development partners is envisaged. For a comprehensive implementation of the policy, the major activities that need urgent funding from government and its partners include the following;

- (a) Institutional reforms in terms of policy, legal and regulatory reviews;
- (b) Capacity building and training to enable the movement cope with dynamics of a competitive economy in addition to providing investment capital in support of priority development programmes and a requisite infrastructure supportive of co-operative activities and programmes;
- (c) Providing seed funds to facilitate establishment of a stimulus programme for key co-operative sector growth;
- (d) Providing funding for co-operative marketing and research activities; and
- (e) Facilitation of the development of essential management and governance manuals.

201. It is envisaged that the foundation for implementation of the Co-operative Development Policy will be laid over the medium term (2011 – 2015), during this period most issues pertaining to operationalizing this policy, reviewing the relevant statutes, establishing support programmes and developing financing instruments will be concluded. Its implementation will go hand in hand with measures being taken by the Government to realize the Vision 2030 goals and objectives. This will run in conformity to and will form

part of the broad national development policy under the social and economic pillars with regard to economic reforms and poverty reduction. Despite the resource limitations facing the sector, the various policy measures in this Policy are considered integral to the development of the co-operative sector both as a contributor and completer to other broader national development initiatives and hence require innovative financing options to succeed. This endeavor recognizes the need for a blend of resources, members' subscriptions, public finances, borrowed funds and development partners. For weak societies with potential and bright business prospects, financial institutions are looked unto to syndicate local and external credit for on-lending to societies and ultimately to members. To qualify for these financing options, co-operatives will be encouraged to form alliances in order to attract better financing terms.

202. Given the importance attached to stimulating a rapid growth of the co-operatives sector, it is preferred to fast-track the implementation of actions in some critical areas that are considered to impact significantly on the development of the sector. Specific focus will be geared towards enhancing the regulatory and institutional framework and improving delivery of advisory and co-operative extension service to improve access to markets and marketing efficiency by co-operatives. Restructuring of the functions of the Ministry of Co-operative Development and Marketing to bring about efficiency, accountability and effectiveness will be important. Whereas it would be difficult to exactly indicate the precise level of funding required to revamp the co-operative sector and to strategically implement policy options canvassed in this Policy Paper, the bulk of the financial resources to kick start priority activities and programmes necessary to revitalize the sector will be worked out in the Policy implementation matrix.

6.1.1 Co-operative Development Policy Implementation Matrix

SUMMARY OF GOALS, OBJECTIVES, OUTPUTS AND INTERVENTIONS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ACTORS	ASSUMPTIONS
<p>OVERALL GOAL</p> <p>To create a globally competitive and vibrant co-operative sector</p>	Reduce population below poverty line from current 48% to 20% by the year 2030	Annual Economic review reports, CBS surveys and census on poverty and welfare	MOCODM, MOPND	Stable micro-economic environment external sector stability, political stability and political will to implement interventions
<p>PURPOSE</p> <p>To realize fast and sustainable growth of co-operative sector measured in terms of the number of active societies, active membership, total volume and value of output, volume of savings and investments, contribution to GDP, total number of people employed directly or indirectly, co-operatives share in sectoral markets, co-operatives contribution to social equity and</p>	<p>National Co-operative Development Policy established six months after approval by Parliament</p> <p>Co-operative Policy Implementation Technical Committee operationalised within six months of approval by Parliament</p> <p>Increase active co-operative membership</p>	Baseline survey, Quarterly and Annual reports poverty and welfare monitoring	MOCODM, MOPND	Societies will be preparing and submitting quarterly and annual returns

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poverty reduction, and the value of exports by co-operatives.	<p>by 15 % annually by 2015</p> <p>increase the volume of savings through SACCO's and other co-operatives by 15% annually by 2015</p>			
KEY POLICY OBJECTIVES				
<ul style="list-style-type: none"> To increase co-operatives contribution to GDP by strengthening co-operatives' production/processing capacity, sales, turnover, and profitability 	<p>Government budgetary allocation for co-operative development services and development programmes gradually increased to KShs 5 billion by 2015.</p> <p>Kenya Co-operative Investment Fund (KeCIF) operationalised by 2015;</p> <p>Quantity and quality of investments increased by 15 % annually by 2015;</p> <p>Co-operatives access</p>			

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SUMMARY OF GOALS, OBJECTIVES, OUTPUTS AND INTERVENTIONS	to external sources of capital and financing improved through bilateral and multi-lateral agreements;			
<ul style="list-style-type: none"> To increase direct and indirect income, employment opportunities within co-operative movement in order to reduce poverty and ensure increased household incomes in Kenya 	Achieve an increase to 600,000 direct jobs and 2 million indirect jobs through co-operative investments by 2030			
<ul style="list-style-type: none"> To create an enabling and conducive legal and regulatory environment for enhanced growth and profitability within the co-operative sector 	Review the CSA, SSA and the Co-operative College of Kenya Act (1995) by 2012 Operationalise the co-operative investment guidelines by 2012			
<ul style="list-style-type: none"> To streamline the Management of co-operative societies, enhance good governance, consolidate transparency, and democracy within co-operatives societies 	Fully Operationalize the Ethics Commission for Co-operative Societies by 2011 Operationalise Governance			

	Guidelines by 2012			
<ul style="list-style-type: none"> To improve market access, marketing efficiency by co-operatives and increase share of co-operatives in commodity markets 	Improve the main co-operative Performance Indicators, specifically, turnover, total value of assets, share in sectoral markets etc by 10 % annually by 2015			
<ul style="list-style-type: none"> To strengthen, restructure and revitalize key co-operative institutions and organizations 	Transform 40 % of hitherto dormant but viable strategic co-operative enterprises into commercially successful and globally competitive business corporations by 2030.			
<ul style="list-style-type: none"> To facilitate co-operatives linkages with private investors, development partners, research institutions, universities, and industry for enhancing co-operatives role in Kenya's industrialization 	Develop a Co-operative Public-Private Partnership (CPPP) Strategy by 2013			
<ul style="list-style-type: none"> To improve SACCO Regulatory 	Develop new SACCO			

framework, entrench prudential standards, revitalize co-operative financial intermediation and increase share of SACCO's in the financial services market	lending products Encourage amalgamation between SACCO's and other types of co-operatives for sustainable financing of co-operative investments			
• To promote viable co-operatives investments, and research	Increase growth in cooperative investments by 15 percent annually			
• To enhance service delivery by the regulating Ministry, improve the quality of cooperatives education and training,	Create co-operative registration policy enforcement mechanisms			
• To integrate ICT in MOCDM and co-operatives operations	Fully computerize sector operations by 2015			
• To promote HIV AIDS awareness, prevention, and mitigation	Fully implement the sector HIV AIDS prevention strategy by 2015			
• To mainstream youth	Organise a Youth			

involvement in co-operative development	Forum for co-operatives in 2012			
• To mainstream gender and HIV AIDS concerns in the co-operative sector	Develop a road map towards gender equality in 2013			
• To ensure environmentally sound co-operative investments	Prepare environmental compliance guidelines for co-operative investors by 2012			