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ON

**CO-OPERATIVES IN A LIBERALIZED
ECONOMIC ENVIRONMENT**

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FOREWORD

This Sessional Paper No. 6 of 1997 provides a policy framework for Co-operative development in a changing economic environment and the Co-operative Management approach. The major change in the economic environment has been the liberalisation of economic activities and the emergence of competitive market economy. Changes in the Co-operative Management approach involves the withdrawal of state involvement in the day to day management of co-operative societies and unions.

The Paper defines a new relationship between the Government and the Co-operative movement. The management of co-operatives will be in the hands of the members in line with co-operative Principles. This management approach will create an enabling environment for making Kenyan Co-operative movement a conglomerate of true co-operatives. Further, it will make their management democratic and professional and enable co-operatives to be self-controlled and self-reliant.

The future role of the Government will be that of creating a conducive environment for co-operative growth and development through formulation of effective co-operative development policies and overseeing development and administration of co-operative legislation. The current co-operative legislation will be reviewed to provide for a level playing field for co-operatives to compete with the other business organisations as well as for safeguarding the interests of all co-operative stakeholders including the members and creditors.

The policy Paper is developed in line with Government's development strategy spelt-out in national policy documents among them, Sessional Paper No.1 of 1994 and current Development Plan (1994-1996). This policy document is a culmination of a series of seminars and workshops held between the Movement and the Government.

CHAPTER ONE

1. INTRODUCTION

1.1 Past Co-operative Policies

1.1.1 In 1975, when Sessional Paper No.14 on Co-operative Development Policy for Kenya was published, the Government stated its continued recognition of co-operatives as vital institutions for mobilising the natural, human and financial resources for national development. Apart from contributing enormously towards growth and development of agricultural sector through an integrated package of marketing, input supply and financial services, co-operatives have grown to embrace virtually all sectors of the economy albeit with varying degrees of success.

1.1.2 The Government reiterated in the Sessional Paper its commitment to pursue and promote expansion of co-operative activities in conformity with respective sectoral objectives. This policy was re-affirmed in the subsequent four-five-year development Plans (1979 - 1996).

1.1.3 In 1975, there were 996 active Co-operative societies with a membership of 664,000 and a turnover of 691 Million Kenya shillings. By 1995, co-operative activities had grown dramatically, registering about 5129 active societies, with a membership of 2.7 Million and a turnover of more than 10 Billion shillings.

1.1.4 Since the publication of the Sessional Paper No.14 of 1975, many changes have taken place in both the political and socio-economic framework. Of more importance is the Structural Adjustment Programmes (SAPs) and market reforms undertaken since 1980s. Sessional Paper NO.1 of 1986 on Economic Management for Renewed Growth emphasized the importance of unfettered private sector growth in steering the economy to accelerate and sustain development. Policy documents especially, the current National Development Plan and Sessional Paper No.1 of 1994 on Recovery and Sustainable Development to the Year 2010, re-affirms the need for a private sector led development of the Kenyan economy.

1.1.5 This Sessional Paper has been prepared to first echo the Government's long-term development strategy - liberalisation of the

economy. Second, noting the importance of co-operatives in the overall development of the economy, the Sessional Paper sets out policies and strategies and, measures to be implemented towards liberalising the co-operative subsector while minimising any harmful disruptions. The policies will enable evolvement of a conducive environment for the development of member-based, member-controlled, member-owned, democratic, autonomous, self-sustaining, and commercially viable co-operatives.

1.2 National Goals and Objectives

1.2.1 Kenya's long-term goals and objectives since attaining independence have been: to meet individual basic needs; political equality; social justice; human dignity; freedom from want, disease, ignorance and exploitation; equal opportunities; and, expansion and integration of the economy with equitable sharing in its benefits.

1.2.2 The strategies that have been adopted to achieve these goals are: creation of income earning opportunities; control of population growth through family life education; improvement of family expenditure and life styles through equitable taxation system; provision of basic services such as education, health care and water supply; creation and strengthening of infrastructural facilities; ensuring rural-urban balance through District Focus Strategy; and, provision of conducive and enabling environment through relevant policy changes to enable the private sector play a leading role in the economic development of the economy.

1.3 Strategies of the Co-operative Sector

1.3.1 Growth of co-operatives in this country has enjoyed an enormous government support. This support took various dimensions, which include: actual budget allocations for support of co-operative activities especially immediately after independence; sourcing and channelling of donor funds to co-operatives; closely guiding and supervising activities of co-operatives through the provisions of Co-operative Societies Act (CAP 490) and the rules thereto. Though the Government has all along regarded co-operatives as private organisations, it was necessary, especially immediately after independence for the Government to play a pragmatic role in the overall growth and development of co-operatives in this Country.

1.3.2 With liberalisation, it has become necessary for the Government to facilitate the creation of commercial, autonomous and member-based co-operative organisations. It will be the Government's policy therefore to enhance liberalisation of the co-operative sector gradually in a reasonable time. Thus, the process of change will necessarily include pragmatic phasing out arrangements. In order to consolidate the benefits derived from co-operatives, it will be necessary for the Government to provide, especially during the transition period, sufficient support and attendant measures to assist co-operatives to adjust and cope up with the resultant effects of liberalisation.

CHAPTER II

2.1 Co-operatives in National Development

2.1.2 Co-operatives by their very nature contribute to the improvement of living conditions of their members especially the low income earning segments of the population. Co-operatives through a voluntarily agreed association are able to tap energies of a group effort and economies of scale for the benefit of the participating members. The benefits that can accrue from an autonomous, mutually-agreed self-help and self-controlled systems of carrying out income-earning activities through a co-operative are many and varied. Due to this ability of co-operatives to harness group synergy that enables them to collect surpluses at grassroot level for the benefit of members, they have been recognised as essential vehicles for economic growth and development of a national economy.

2.1.3 A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Like companies, co-operatives are economic organisations whose income-generating activities are devoted to the economic and social welfare of their members by providing services which enable individuals to improve their personal skills and economic means for self advancement.

2.2 Co-operative Values and Principles

2.2.1 **Co-operative Values:** Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

2.2.2 **Co-operative Principles:** The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the

responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitable to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by the members. If they enter into arrangements with other organisations including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their co-operatives. They inform the general public, particularly the young people and opinion leaders about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

2.3 Benefits of Co-operative Organisations

2.3.1 Co-operatives as vehicles for socio-economic development contribute to economic growth and development in many ways. The major benefits that come out of co-operative organisations can be summarised as follows:-

- (a) Collection, transportation, processing and marketing of agricultural produce.
- (b) Mobilisation of savings and channelling the funds to individual members for specific development projects.
- (c) Support to agricultural production through distribution of farm inputs.
- (d) Dissemination of applied technology of members.

(e) Provision of credit to members for defraying urgent expenses such as school fees, funerals, hospital bills etc. at affordable costs.

(f) Assisting in income distribution by participation through enabling large sections of population to engage in various income generating economic activities.

(g) Creating employment directly through engagements for various cadre of staff and more importantly, self employment as farmers and artisans.

(h) A co-operative is an institutional framework through which:

(i) Otherwise small uneconomic surplus can be harnessed by tapping economies of scale.

(ii) Poverty can be alleviated by planning, organising, implementing and managing income generating economic activities.

(iii) Agricultural producers can reap maximum benefits out of their produce by eliminating middlemen.

(iv) Social control mechanisms become an acceptable substitute for physical assets as collateral for loans.

(v) Development funds are channelled to individual members.

(vi) Members can be educated on economic and social issues affecting them including development of entrepreneurial skills.

(vii) Wealth and capital can be created and owned jointly by large groups of low income earners.

- (viii) The national economy can be indigenised as co-operative members tend to be largely the indigenous people.

2.4 Gender Issues in Co-operatives

2.4.1 Although membership in co-operatives is voluntary and open without any discrimination by gender, in certain types of societies, women membership is low. This is the case where there are cultural factors that tend to exclude women from ownership of property, especially in the agricultural sector where those who benefit from society services are those who own land which is the main factor of production. In other economic sectors where such forms of discrimination do not exist, as is the case with wage and salaried employment, membership in co-operatives by women is substantial. This notwithstanding, women in co-operative leadership positions even where their membership is large, is insignificant.

2.4.2 In applying the principle of voluntary and open membership, co-operatives will ensure that women do not only have equal opportunities in membership but also enjoy equal opportunities in leadership, education and training among other factors.

2.4.3 In the agricultural co-operative sector, although women are the dominant producers, men are the majority shareholders of the agricultural societies because they are the legal owners of the family land on which women work. This cultural reality will prevail for a foreseeable future. However it is incumbent upon co-operatives within their principle of education, training and information, to give men members gender positive education in order to change their views and attitudes towards women. There is therefore a need to sensitise men members and leaders on the importance of gender balance while making key appointments and electing committee members. In doing so however, co-operatives should not compromise quality in leadership and professionalism that is necessary for a successful and competitive co-operative management.

2.4.4 Women form a large segment of the less endowed in both urban and rural areas and are therefore likely to benefit most from effective participation in co-operatives. The need for them to belong to an institution is already manifested through their large membership in women groups. One

of the roles of the co-operative movement will be to design, support and strengthen new strategies aimed at the involvement of women in income-generating activities through which they can become members of co-operatives. Increased membership will no doubt improve women's voice in co-operatives. However, it will be necessary for co-operative societies to intensify co-operative education for women in order to enable them to participate more effectively. Co-operative societies will therefore include in their by-laws explicit clauses that encourage women to participate in the co-operative decision-making. This coupled with gender sensitisation should create an enabling environment for more effective participation and empowerment of women members in co-operatives.

CHAPTER THREE

3.1 Government Contribution to the Development of Co-operatives to date.

3.1.1 Government's 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. Hitherto, co-operatives were registered under business law. The increased intervention occurred in 1945, when a new Act came into being and the first Commissioner for Co-operatives was appointed in 1946. The 1945 Ordinance was a turning point for co-operatives. For the first time, the indigenous Kenyans were not only officially allowed to form and join co-operatives, but were also allowed to grow cash crops like coffee which was earlier restricted to the white settlers. By 1963, when Kenya became independent, there were 1030 co-operative societies with a turnover of Ksh. 100 Million.

3.1.2 Immediately after independence, it was the policy of the Government to involve all wananchi in the economic activities of the new nation. Co-operatives were a handy institutional framework, through which many indigenous Kenyans could participate. At the time however, co-operatives were faced with a number of problems, which included: lack of integrity on the part of some union/society committee members and employees; misappropriation and misapplication of funds; excessive costs in handling of members produce; and, general inefficiency in the business operations of the movement. The main causes of these problems were: lack of basic understanding among the co-operatives about the purpose and functions of the movement; lack of technical and managerial skills; and lack of knowledge and experience on the part of employees.

3.1.3 Arising out of the foregoing, and the fact that Government's acceptance of the co-operative movement as an extremely important institutional frame-work with a great role to play particularly in the small-scale farming areas, Government was categorical that it will continue to give every encouragement to the movement. This view of the Government was formalized and expounded in the first three Development Plans, mainly 1970 - 1974 and that of 1974 - 1978. The aim was to ensure that public and co-operative sectors grew rapidly to embrace a large section of the economy.

Co-operative policies were therefore instituted to: enable co-operatives to improve their performance; enjoy marketing monopolies; and consolidate the movement in those areas where it was active.

3.1.4 In order to enable the movement to take-off, the Government strengthened and intensified its supporting machinery for guiding and controlling the movement for the purpose of curbing malpractices. Consequently, the 1945 Co-operative Ordinance was revised and gave way to the present Co-operative Societies Act Cap. 490 of the Laws of Kenya, in 1966. With the new Act, Government was able to be involved and therefore influence the day-to-day activities of societies. More importantly, the Government was able to inject massive assistance to the movement. The support to the movement was both in form of finance and technical expertise. In order to marshal this support to the movement, Government entered into agreements with a number of donors who included the World Bank, United States, Germany and the Nordic countries, who assisted in technical expertise, finance as loans and grants to needy societies. Thus, since independence, the Government adopted pragmatic policies for development of the co-operative movement. This benevolence of the Government and the pragmatic policies adopted, have served the movement well, and today, Kenya has some of the well-developed co-operative societies in this region.

3.1.5 The extensive Government assistance, enabled the role of co-operatives in the Kenya's agricultural sector to be wide and varied. Members of agricultural co-operatives are among the smallholder producers in the country numbering about 3 million holdings, 80% of which are less than two hectares. Their combined production account for over 75% of total agricultural production in the country and over 50% of the marketed production. Most of the production and marketing within the small-scale holdings is organised through co-operative societies. Official statistics from 1995 Economic Survey show that as at 1994, the Co-operative Movement in Kenya comprised of 6,276 registered societies of which 1,047 were dormant and 122 were in the process of being liquidated. Active societies were therefore 5,107 of which 1,737 were agricultural co-operatives with a total membership of 1,261,928 (44 per cent), out of the 2,886,117 co-operative members in the country. Of the total co-operative turnover in 1994 of KShs.9.976 Billion, the agricultural co-operatives accounted for KShs.7.451 Billion, or 75 per cent. For certain crops, co-operatives account for substantial percentage of gross farm revenue. For example, according to

Economic Survey of 1995, in 1994, co-operatives accounted for 65 per cent of gross farm revenue from coffee; 67 per cent in the case of pyrethrum; 22 percent in the case of dairy and cotton, 75 per cent. Co-operative system is therefore an important framework for production and marketing of agricultural products in Kenya.

3.1.6 Government support to agricultural sector through co-operatives was used to finance development of specific crop enterprises. Under the Co-operative Production Credit Scheme, coffee, the then highest earner of foreign exchange, was developed through seed-money from the Government and later through Co-operative Bank before the programme was taken over by Union Banking Sections. Currently, coffee is being assisted through Smallholder Coffee Improvement Programme(SCIP). SCIP I, involving KShs.291.6 Million was used to construct coffee factories, farm inputs and training. SCIP II, with a larger sum of KShs. 1,020.6 Million has expanded its scope to include consultancy on factory design. For dairy development, most Government support has been passed through Kenya Co-operative Creameries(KCC). Currently, there is a loan balance of KShs.490 Million which is repayable with a subsidised interest rate of three percent. Other dairy co-operative beneficiaries of Government support include, Meru Dairy, which received a loan of KShs.260 Million and KShs.15 Million Government grant plus technical assistance; and Kitinda Dairy, which received a grant to put up the factory, and technical assistance amounting to KSh.32 Million. Dairy co-operatives also received grants for the acquisition of milk-coolers. Cotton development received KShs.16.4 Million for renovation of ginneries, development of marketing systems and training; in addition to KShs.615,400 for cotton production. Further there was KShs.52 Million which was directed to co-operatives in marginal areas for cotton production, transportation, construction of cotton stores and offices, and purchase of equipment. The Government's assistance through co-operatives for food production to date amounts to KShs.230.99 Million. Other funds passed to co-operatives as grants availed by different donors amount to KShs.147.6 Million.

3.1.7 Management of co-operatives has been one of the biggest problems within the movement. In this area, Government has persistently injected different types of assistance, although it still remains one of the main concerns. Through the Nordic Co-operative Project, substantial technical assistance has been availed to the movement, for the development of management and accounting systems, in addition to seconding management

experts in co-operative societies. The government-ran Co-operative College of Kenya trains both officers of the movement and Government. Currently there are two projects, one financed by UNDP and the other by DANIDA, both addressing the management improvement in the co-operatives. In the past, the Government arranged office accommodation for new co-operatives and seconded Government officers to manage societies before they could recruit their own managers. Due to continued persistence of management problems in co-operatives despite intensified assistance, this policy is proposing a new management approach, which has been tested in the rest of the private sector.

3.1.8 One of the indicators of the influence the Government has had on the development of co-operatives is the extent to which they have been involved in the industrial development. There is no co-operative industry where the Government was not a prime mover, in advising, guiding and ensuring that the society concerned is given every encouragement. Currently, co-operatives are involved in the processing, sometime to the final products like in the case of milk, of nearly all the agricultural products that they market for their members. In the case of coffee, all Coffee Societies pulp members' cherry in their own pulperies. The second stage of processing is carried out by Kenya Planters Co-operative Union(KPCU), which mills both pulped coffee and the mbuni into clean green beans, mostly for the export market. Further, the Union processes the resultant husks into charcoal for fuel. Milk processing in Kenya is dominated by the Kenya Co-operative Creameries (KCC), which in 1994, processed 219 Million litres of milk. The other co-operative milk processors licensed by the Kenya Dairy Board(KDB) are Kitinda Dairy in Bungoma and the Meru Dairy which is one of the most modern dairy factories in the country with a maximum capacity of 100 thousand liters of milk per day. Cotton co-operatives have played a major role in the processing of cotton. About half of cotton ginneries are owned and operated by co-operatives. These are Malaba Malakisi Ginnery in Bungoma, which also processes other by-products like seed into edible oil and soap; Kendu Bay and Homa Bay ginneries in South Nyanza; Luanda ginnery in Busia; and Ndere Ginnery in Siaya District.

3.1.9 In the case of cereals, co-operative processing is not yet widespread. The existing co-operative cereals processing is limited to maize mills located at Meru, Machakos and Muranga, which specialises more in animal feeds. The processing activities outside agro-industries include the Kenya National

Co-operative Union (KNFC), printing press which is one of the paper converters in the country, supplying stationery to the Co-operative Movement and the Nithi Timber situated in east Mt. Kenya forest. It is recognised that industrialisation will be the fastest growing sectors in the Kenya's economy in future. Thus, the co-operative Movement, especially the Unions, will be expected to take the steering of industrial development within the co-operative movement, and thereby play a major role in the development of agro-industries in the country.

3.1.10 In Building and construction sector, Government developed detailed policies that enabled the many small co-operative savers to jointly own large office blocks in Nairobi and many other towns in the country. The Government has nurtured the National Co-operative Housing Union (NACHU), with grants and secondment of managers, to enable it provide technical advice required in the sector by the co-operative movement. Examples of the office blocks in Nairobi include, Harambee Plaza, Wakulima House, Posta Plaza, Magereza House, Tembo House, Co-operative House, Imenti House, Afya House etc. In addition there are many buildings in many district headquarters which houses various regional unions such as Meru Central, Embu, Nyeri, Muranga, Bungoma, Machakos, as well as various societies such as Limuru Dairy. Other unions that are country wide also own large office blocks and stores. These include KPCU, KCC, KGGCU, KNFC, and the Co-operative Bank. Co-operative societies are encouraged to invest in these areas but are advised to concentrate on their primary activities first. In doing so, however, these being long-term investments, they are advised to include in their by-laws, modalities of ensuring equality among past and present members.

3.1.11 One of the areas in which co-operatives have not yet taken root although there has been plenty of Government assistance through grants and design and printing of operating manuals, is the consumer co-operatives. This is despite the fact that, the initial co-operatives started by the founders of the co-operative movement were consumer societies. Part of this trade and distributive sector where co-operatives have had an impact is in the area of farm inputs. Notable success stories in this area include, the Kenya Grain Growers Co-operative Union (KGGCU), which distributes all different kinds of farm inputs and implements through its many outlets around the country. The other co-operative distributors are the District unions which operate Union Stores for Resale. Many agricultural societies are also involved in this

activity. The success in this area is attributable to the Co-operative Production Credit Scheme, that, mainly operates in the coffee growing co-operatives. The scheme was started with a grant from the Government. There is also the Co-operative Merchandise Services, started with DANIDA assistance, whose main role is to be a wholesaler for the co-operative movement's retail out-lets. Recently, there has emerged co-operative consumer stores that are very encouraging. The notable example is the Co-operative self-service store in both Koinange and Tom Mboya streets in Nairobi owned and operated by Kenya Union of Savings and Credit Organisations (KUSCO). All able co-operative unions and societies will be encouraged to enter into this business for the benefit of their members.

3.1.12 Partly, as a result of Government promotion of SACCOs, co-operatives are now playing a very significant role in finance and banking sector, where they are involved in the mobilisation of savings from a large number of small savers for various types of investments. This co-operative involvement is led by the Co-operative Bank which is one of the largest banks in the country. The other actors in this sector are the Savings and Credit Co-operative Societies commonly known as SACCOs that currently number 2,643. These excludes the newly-registered Rural SACCOs and the existing Union Banking Sections (UBSs), currently transforming themselves into rural SACCOs. The importance of co-operatives in the finance and banking sector is phenomenal. Recent studies have shown that in 1994, of the 11 Billion Shillings advanced as credit to agriculture, 7.5 Billion or 68% was through the co-operative system, and all of it to the smallscale farmers who are the backbone of the Kenya's agriculture. This excludes the myriad loans advanced to members for other investments outside agriculture. The policy is to consolidate the operations of all the co-operative actors in this area, especially on efficiency and effectiveness for the benefit of co-operative members and the country at large.

3.1.13 Government has promoted co-operatives in various sectors of the economy with varying degrees of success. Thus, co-operatives will be found in activities such as handicrafts, Jua Kali, transport and hotel business. Co-operatives as an institutional framework of carrying out business will be encouraged to venture into all kinds of income earning opportunities for the benefit of their members. They will be particularly encouraged to invest in the businesses that the Government will be divesting from, so that the benefits accruing can be enjoyed by a large number of the population.

3.1.14 After independence, Government promoted land buying co-operatives through a special arm of the Ministry of Co-operative Development and administered by an Assistant Commissioner, Settlement. This office enabled many co-operatives to acquire land for their members. When the job was done, the land buying co-operatives were transformed into marketing societies and the co-operative Settlement office was reorganised and absorbed within the other functions of the Ministry of Co-operative Development. A co-operative as a convenient vehicle for carrying out certain special one-time functions, is used to organise, implement and achieve specific objectives and then dissolve itself once the objectives have been achieved. Achievements of co-operatives in these types of ventures can only be retrieved from records as there are no going concerns for their testimony.

Other types of co-operative activities that are amenable to this terminating co-operatives, include housing, where the management and maintenance reverts to the individual owners.

3.1.15 By recognition of co-operatives by Government as an essential economic institutional system, and giving the movement every encouragement through both technical and financial support, has not only enabled members to acquire wealth and alleviate poverty, but has also created employment, and thereby, a livelihood for a large section of the population. Employment in co-operatives can be classified into direct and indirect employees. Direct employees include all those salaried staff, wage earners, as well as the casuals who are employed by the societies and unions. These currently are estimated to number 100,000. Indirect employees are all those members who by joining co-operatives, are able to engage themselves in farming or as artisans from where they earn an income on a regular basis. These are by far the largest of the co-operative employees, and include; all those small and medium scale farmers who currently number over 2.3 Million and artisans involved in handicrafts, Jua Kali, and music. In order to increase employment within the co-operative system, the policy will be to encourage the farming community, especially, the smallscale farmers and graduates of various vocational institutions to form co-operatives through which they can be gainfully employed.

3.1.16 From the foregoing, it is clear that Government has played a major role in the growth and development of the Kenyan co-operative movement. The movement has now reached a stage of development which it should now shoulder its own responsibilities. It is also clear that, the past nurturing of the

co-operative movement, and extensive benevolence of the Government is no longer justified or sustainable. Further, a continually supported movement is not likely to be self-sustaining in the longrun, because of the dependency syndrome. It is therefore, the policy of the Government, to liberalise the Co-operative sector in order to professionalize and democratize the management of co-operatives and make them self-reliant, self-controlled and commercially viable organisations.

CHAPTER FOUR

4.1 The future Role of Government in Co-operative Development and management

4.1.1 The rapid growth in co-operatives since independence was fuelled by heavy government support through direct assistance and subsidized services. This Government assistance, though well-intentioned and, has indeed produced positive results has also created many other problems related to dependency that now require to be seriously addressed. Some of these problems can be summarised as follows:-

4.1.1.1 Direct intervention of Government in the day to day management of co-operatives in Kenya has highly compromised the universally-accepted co-operative principles and values.

4.1.1.2 Within the agricultural sector, although this has lately changed, the 60% rule compelled producers within the society area of operation to sell their produce through the society. This created co-operative monopolies which were not faced by competition and therefore had no incentives for initiative, efficiency and effectiveness as they were assured of their income since they normally take the first charge on crop proceeds.

4.1.1.3 Heavy Government involvement, has hindered emergence of member-controlled and member-managed co-operatives as members have come to rely on the Government to safeguard their interest through curbing mismanagement of funds and other resources. This has compromised co-operative values that include self-help, self-responsibility, democracy, equality, equity and solidarity, within which is embedded mutual trust and social control systems.

4.1.1.4 As a result of continued Government involvement in co-operative in form of free technical and financial assistance as well as development of management and financial systems, the movement has come to be almost wholly dependent on the government. This has hindered the consolidation of the co-operative values of self-responsibility, self-reliance and self-control.

4.1.1.5 Voluntary association is what renders co-operatives into a movement. Heavy government involvement has hindered development of cooperation between co-operatives. The existing cooperation between societies within the present co-operative structure ends at a business transaction. Co-operative societies have not developed strong horizontal linkages between themselves. The current vertical linkages tend to end at union level with only specific activity unions at national level. Societies therefore do not benefit from the synergy that such a well-linked cooperation among co-operatives can generate.

4.1.2 Arising out of the foregoing, there is therefore a dire need for the Government involvement in co-operatives to be substantially reduced and re-oriented in order to democratise and professionalize the management of co-operatives, but largely, 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. It is also clear that the movement has reached a stage of development in which future growth and development of co-operatives will come from a self-induced development, independent of government involvement, especially on the day to day management of their affairs. Further, with liberalisation that emphasises free market economy, and the divesting of government from its involvement in business enterprises, the current level of free technical and financial assistance to the movement can no longer be sustained. The policy is therefore to liberalise the Kenyan co-operative movement in line with the current national liberalisation policy and enable it to more efficient and effective in the service to their members.

4.1.3 Liberalisation in the co-operative sector will involve the revision of the Co-operative Societies Act, Cap 490 of the Laws of Kenya. With the revision of the Act, the Ministry of Co-operative Development will be restructured to conform and be able to effectively address the newly-emerging needs of the liberalised movement. Currently, the Ministry of Co-operative Development carries out the following functions:

- (i) Co-operative Policy and implementation;
- (ii) Co-operative Registration and Extension Services;
- (iii) Accounting and Auditing for Co-operative Societies;
- (iv) Co-operative Education and Training;
- (v) Co-operative Credit and Finance; and

(Vi) Co-operative Bank.

4.1.4 The above functions have entailed involvement of the Ministry in the following duties and responsibilities:

- (a) Registration of Societies;
- (b) Enforcement of the Co-operative Societies Act;
- (c) Policy Formulation and implementation;
- (d) Advisory Management Services;
- (e) Audit Supervision;
- (f) Inspection, Inquiries and Investigations;
- (g) Liquidation of societies;
- (h) Education and Training;
- (i) Auditing, Accounting and Management Systems;
- (j) Co-operative Credit and Finance;
- (k) Co-operative Bank;
- (l) Amalgamation and sub-division of Societies;
- (m) Approval of Budgets, Capital Expenditure and Allowances;
- (n) Hiring and Dismissal of Graded Staff;
- (o) Removal and Election of Management Committees, after Inquiry;
- (p) Inspections and Investigations; and,
- (q) Settlement of Disputes and Institution of Charges.

4.1.5 In order to professionalise and democratise the management of the co-operatives and enable them to be member-based and member-controlled self-reliant organisations that will be in a position to compete more effectively with the rest of the private sector, the Government involvement in the day to day management of co-operatives will be reduced substantially. Therefore, the following functions and duties currently performed by the Ministry of Co-operative Development will be gradually transferred from the Ministry to the Co-operative movement:

- (a) Education and Training;
- (b) Auditing, Accounting and Management systems;
- (c) Co-operative Credit and Finance;
- (d) Co-operative Bank;

- (e) Approval of Budgets, Capital Expenditure and Allowances;
- (f) Hiring and Dismissal of graded Staff;
- (g) Removal and election of Management Committees after inquiry; inspections and investigations; and,
- (h) Settlement of Disputes.

4.1.6 Once the above duties and responsibilities have been transferred, the role of the Ministry will be largely regulatory and facilitative in nature, aimed at creating a conducive environment for development of an autonomous and self-sustained co-operative movement. Thus, the main duties and responsibilities of the Ministry will be as follows:

- (a) Registration and Liquidation of Co-operative societies;
- (b) Enforcement of the Co-operative Societies Act;
- (c) Formulation of Co-operative Policy;
- (d) Advisory and creation of conducive environment for co-operative growth and development;
- (e) Registration of Co-operative Audits; and,
- (f) Carrying out of Inquiries, Investigations and Inspections.

4.1.7 This policy is a departure from the earlier policies. It is creating a new relationship between the Government and the Co-operative movement. The consequence of this restructuring is expected to make co-operatives, autonomous, self-reliant, self-controlled and commercially viable institutions. Whereas the Government will be interested in a healthy growth and development of co-operatives, it will no longer be involved in their day to day management as has hitherto been the case. Co-operatives will henceforth manage their own affairs in accordance with the universally accepted co-operative values and principles. Government will however be concerned that all stakeholders in co-operatives including members and creditors are adequately protected. The Ministry of Co-operative Development will in line with this policy re-orient its approach in dealing with co-operatives as they become autonomous organisations.

4.1.8 The major activity in the implementation of this Co-operative policy, will be the revision of the Co-operative Societies Act, Chapter 490 of the laws of Kenya. The revision of the Act will be carried out in such a way that the revised Act, will essentially capture the spirit of this policy and will mainly remove all those clauses that allow government involvement in the day-to-day management of co-operatives. It will also incorporate other clauses that clearly define the Co-operative Principles and values and those that safeguard the interests of all stakeholders including members and creditors. The enactment of the revised Bill will be the culmination of the restructuring of the Ministry of Co-operative Development. The essence of new Act will be therefore to allow for autonomy in the Co-operative movement in Kenya. With this impetus, the movement will be expected to take full advantage of the resultant enabling environment and serve their members even better. Further, the co-operative legal framework will be designed in such a way as to actively support autonomy in co-operatives. Thus, co-operatives will be free from government involvement in their day-to-day affairs. However, the movement will be expected to carry out their affairs pragmatically and for the socio-economic development of their members and in line with the principle of concern for community within their area of operation and the country at large.

4.1.9 **External Assistance:** In its effort to provide enabling environment for growth and development of co-operatives, the Government will continue to facilitate procurement of external donor assistance under the Government's normal laid down procedures and regulations. Such external support will be aimed at creating capacity for self-help oriented growth. It will be inform of seed money, venture capital or any other form of development-oriented investments for the enhancement of the society's capacity to serve its members. Such assistance aid will be commercial in nature and the benefiting society will be required to make full repayment like any other members of the private sector. Experience shows that co-operatives that were self-reliant, were capable of thriving successfully on their own after withdrawal of external support, whereas, those that were not self-reliant continued to be dependent on external financing. This notwithstanding, co-operatives will welcome grants from well wishers be they external or internal. To take advantage of the benefits that accrue from co-operation between co-operatives either local or international, movement-to-movement linkages, co-operatives will be encouraged to make their own arrangements, whether financial or technical. They can also borrow external loans like the rest of the private

sector in accordance with the provisions of their by-laws. In doing so, however, the movement will be expected to observe the principles of transparency and accountability.

CHAPTER FIVE

5.1 Structural Framework of the Co-operative Movement

5.1.1 Co-operatives in Kenya are mainly organised around a specific activity and are registered under the Co-operative Societies Act. Although this seems to be the rule, there are other societies that are organised around several different activities and are referred to as multi-purpose co-operative Societies. The District Unions are area-based and their membership includes societies within their area of operation and could be dealing with different types of activities. This activity-based Co-operative system also manifests itself at national level through country-wide Co-operative Unions based on specific types of activities such as coffee or dairy, and the membership includes primary societies, secondary societies, co-operative unions and individuals. Thus, the co-operative Movement at national level is organised into a four tier system consisting of: primary societies; secondary societies; national co-operative organisations; and the apex organisation. Currently, the apex organisation is the Kenya National Federation of Co-operatives (KNFC), through which the Kenyan movement is linked to the rest of the world co-operatives.

5.1.2 Linking Co-operative societies horizontally and vertically is in line with the Co-operative principle of co-operation among co-operatives. Its main advantages is that it promotes solidarity, economic strength and enables members to create a broad base for action. Within this principle, the policy will be to encourage the movement to intensify its co-operation in order to economically provide certain services that would be too expensive for small societies. These services may include: computer time; internal audits; development of management systems; and the evolvement of a strong voice through KNFC to continually lobby for a conducive environment for co-operative growth.

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5.1.3 Depending on their felt need, members will be free to form or join primary secondary and national cooperative organisations including the apex body. The structure that will eventually emerge will be the one that best serves the interests of the members. The current four-tier structure will only survive if it satisfies the needs of the members. In this regard, co-operatives will be encouraged to re-define their roles more specifically and develop

optimal organisation structures that are cost-effective and efficient in delivery of services. When a co-operative is effective, it is able to add value to the economic activities of its members and to compete with the rest of the private sector.

5.1.4 The country-wide co-operatives will officially be known as National Co-operative Organisations (NACOs). The role of such organisations will be to foster dynamic growth of the co-operative movement by enhancing and facilitating greater Co-ordination and provision of services. NACOs are already specialized organisations dealing at national level with particular types of activities. This trend will be encouraged as it is through this type of specialisation that technical and specialized services can be developed and made available to individual members and primary societies. As the economy goes through restructuring and liberalisation, NACOs will be encouraged to utilize the opportunity and take over some of the functions and services currently being divested from the Government Ministries and parastatals. Such opportunities are largely within the agricultural sector where the co-operative movement is already an effective player.

5.1.5 Kenya National Federation of Co-operatives (KNFC) is the apex Co-operative body in Kenya. It is the mouthpiece for the Kenyan Co-operatives both in the country and abroad to preserve and propagate the Co-operative principles and values on which the movement was founded. It is the policy of the Government to facilitate the growth and development of KNFC. A strong KNFC is one of the required institutions for future co-operative growth and development. Towards this end, the National Co-operative Organisations (NACOs) and specific area unions will be encouraged to meet as Co-operative leaders and define the type of an apex body that they need and therefore chart out a course for strengthening KNFC. One of the prerequisites of strengthening KNFC is by enhancing the membership so that KNFC speaks for the co-operative societies and unions in the country and to be seen to offer tangible benefits to the movement.

5.1.6 As the Government divests itself from certain functions and duties and, transfers them to the movement, KNFC will be expected to take over a large number of those functions. Hitherto, co-operatives have been assisted by the Government on various management and administrative duties. The conduct of the co-operative movement in future will be defined and articulated by co-operatives themselves in their By-laws. Such codes of

conduct will define various approaches to management including accounting procedures and policies, terms and conditions of service for professional staff, movement credit policy, types of allowances and the overall approaches to co-operative management.

5.1.7 The role of KNFC is first and foremost the mouth-piece for the co-operative movement. As an apex body it is best placed to speak and articulate the interests of the movement at both national and international forums. At this time of liberalisation, KNFC should be at the forefront interpreting its meaning and how it would affect co-operatives. The second function of KNFC is to facilitate growth and development of co-operatives through provision of various services to the movement. At management level, KNFC may provide consultancy services such as: development of accounting systems; preparation of terms and conditions of service for society employees; organisational structures for various types of societies and unions; development of corporate policy for unions; investment appraisal and feasibility studies; financial sourcing and personnel recruitment. KNFC should do only advisory business with the movement and ensure that it does not compete directly with any particular society. In addition and in line with Kenya's policy of export-oriented growth, KNFC can lead the movement into export markets through sponsoring export expertise for the co-operative movement. By using the international movement-to-movement linkage, KNFC can initiate exports to various co-operatives in the rest of the World. In order to venture into this type of international business, KNFC should have a high level market specialist team, who can ably collect and analyze international market data and advise exporting co-operatives accordingly.

5.1.8 On Co-operative development, especially for those areas where Co-operatives are weak or have not yet emerged, it will be the duty of KNFC to educate possible members about the benefits of a co-operative and assist the willing members to form co-operatives. This function has hitherto been carried out by MOCD, and is now being divested to the movement.

5.1.9 As a mouth-piece for the country's co-operatives, KNFC will be expected to serve, promote and be the custodian of the co-operative values and principles. Towards this end, KNFC 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

movement. A strong KNFC is one of the prerequisites for improved enabling environment for the future co-operative growth and development.

5.1.10 Membership and affiliates to the various types of co-operative societies will be voluntary and open to all individuals who have common interest.

5.1.11 By-laws of co-operative societies may provide for associate members who are persons below the age of the majority. This will integrate the youth in the membership of societies.

5.1.12 In order to educate the youth on the benefits of co-operatives and introduce them into the techniques of operating and managing co-operatives as future co-operators, schools will be encouraged to form student's co-operative clubs in which the officials of nearby co-operatives can be elected as patrons.

5.1.13 The Government recognizes that the back-bone of co-operative movement consists of a strong and economically viable primary co-operative societies which are initiated by the members themselves and at all times seen to be member-owned and member-controlled. Therefore, in determining a suitable structure for the co-operative movement, the structural evolution of the co-operative movement will need to take into account the following factors:

- (i) Seek for registration of only well-prepared and economically viable co-operative proposals that must be seen to be based on the bottom-up initiatives and are member-based and member-controlled;
- (ii) That a proposed society is striving to tap economies of scale to ensure maximum payment and returns to its members; and
- (iii) That societies are being encouraged to join and share services and benefits which they cannot provide as individual societies so long as such services are for the benefit of their members.

5.1.14 A Co-operative Society will be registered by the Government on the basis of an economic survey and the by-laws both prepared by the proposed

society. Societies that will be registered will be those that are evaluated and seen to be viable economic units, member-based and without government, political or any other external patronage or influence.

5.1.15 There will be no restrictions on type and size of a co-operative society, so long as it conforms with the co-operative Societies Act, the Rules and the society By-laws. Depending on their felt-needs, members are free to form, promote and apply for registration of any type of an economically viable co-operative society whose aim is to improve the welfare of the members. Such an application will be made to the Government and the Government will deal with it as specified in paragraph 4.13 above.

5.1.16 For the purposes of business operations, no maximum or minimum size of a society shall be prescribed since size depends on various factors such as crop type, local initiative, economies of scale and the conditions and objectives under which the society is initiated. The minimum number of individuals to form a co-operative society will be determined by the nature of business and its economic viability. However, preferably the number should be equal to or more than ten.

5.1.17 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 and may sub-divide itself accordingly and seek registration of new societies. In the same vein, where societies wish to strengthen their economic base and tap the economies of scale, they may decide to merge into one society. In registering societies arising out of sub-divisions or mergers, Government will follow the policy specified in paragraph 4.13 above and the criteria for registration will be that resultant units are evaluated and found to be economically viable.

6.1 Co-operative Banking and Finance

6.1.1 The epitome of co-operative banking and finance is the Co-operative Bank of Kenya. The Bank was created with a special purpose of serving the co-operative movement. It is the main channel through which savings within the co-operative sector are mobilized and passed for investment to the movement. As a banker for co-operatives, the Bank receives all co-operative financial inflows and makes various payments on behalf of the movement as well as offering all other banking services such as safe custody of society-money, receiving deposits and making payments to members. The Bank is the link between the co-operative movement and the Kenyan money market. With the liberalisation of the money market and the role of the Bank as a specialized Bank for the co-operative movement, it will be expected to provide all the co-operative financial needs, and thus create the enabling financial environment that the co-operative movement needs for future growth and development.

6.1.2 In line with this role, and as the main bank to the co-operative movement, the Mission of the Bank is to mobilise financial resources from the co-operative movement, the general public and other sources with a view to providing financial services, technical know-how, and a range of other banking services of high quality to the co-operative sector, through competent and highly motivated personnel to the satisfaction of all stakeholders.

6.1.3 As a prime mover in the co-operative development, the Bank will be actively involved not only in banking but also in assisting societies by appraising new projects, financing them and monitoring and evaluating their implementation, thereby ensuring proper utilization of funds. This means that the bank will combine the role of banking with that of development banking and merchant banking for co-operatives. With its present arm of long term finance, the bank will be expected to mobilize long term finance including share capital from the movement and elsewhere to ensure that it is able to serve the movement.

6.1.4 The Co-operative Bank is a specialised bank for the co-operative movement. Its strength to serve the movement will depend on its ability to

mobilise savings and deposits from all and sundry, including the non co-operative sector. Further, its capital base must be adequate and within the statutory requirements. It therefore must be competitive in the banking industry both domestically and internationally, and be able to meet the banking statutory requirements at all times. The Bank must therefore be stable and flexible enough to be able to mobilise financial and human resources from all markets for the benefit of the movement.

6.1.5 Within the current liberalised market economy, the co-operative financial institutions, like the rest of the private sector must strive to be efficient and be able to provide competitive services in order to attract and retain their members. Part of the institutional effectiveness will be their ability to source for new ways of increasing their revenues through diversified services. Within this policy, co-operatives through the Co-operative Bank of Kenya will be encouraged to participate in the Stock Market as this will facilitate transferability and market acceptability of co-operative shares. As members accumulate more of their savings in the form of contributions with the growth of SACCO societies, the desire to have some of these savings being convertible into liquid cash will grow. Through this arrangement, deposits can earn competitive rates of interest while the borrowing can be pegged on the members' shares.

6.1.6 In any organisation, there is a need to have well-articulated financial objectives and policies. As business oriented institutions operating in a market economy, co-operatives are expected to formulate their financial policies aimed at achieving both short and long-term goals as desired by the members. Such financial policies should aim at maintaining a prudent debt equity ratio and a firm capital base to ensure corporate survival both in short and long run and, the independence of the co-operative for the benefit of its members. The pricing policies and the budget of all co-operatives should reflect and be consistent with their spelt-out financial policies.

6.1.7 The financial policies of marketing cooperative societies should primarily aim at paying the members the highest possible proportion of the price their produce fetches in the market. The essence of high payment is to maintain competitiveness, confidence and loyalty to the marketing co-operatives. Ideally, co-operatives should pay higher returns to farmers as they retain what would otherwise be the middleman's margin.

6.1.8 In order to enhance competitiveness in a liberalized economy, marketing co-operatives will have to strive to minimise their operating costs and maximize returns to their members. In order to survive, cooperatives as business entities will aim at generating income with minimum costs and cut a competitive edge over the other forms of business organisations. Their financial management will therefore have to be prudent, cost-effective and devoid of waste and misuse of financial and other resources.

6.1.9 Financial policies for Savings and Credit Co-operative Societies (SACCOs), should aim at mobilizing as much savings as possible from the members. This will increase the amount of loanable funds to finance as many loan requests as possible from the members, and thereby maintain the member-incentives to save and borrow from their cooperatives. In order to practically educate the young people and instil the spirit and values of cooperation, school children will be encouraged to open Deposit Accounts with SACCO societies for purposes of saving through their parents/guardians who are members of these SACCO societies. As an additional type of service, SACCO societies will explore possibilities of providing mortgages and hire purchase facilities to their members.

6.1.10 Like the urban SACCOs, it is now the policy of Government to encourage development of Rural SACCOs so that the present benefits of urban SACCOs can also accrue to the rural areas. Within this policy, the present Union Banking Sections (UBSs) which are activities of co-operative unions, will transform themselves to rural SACCOs. This additional loaning-system will increase loanable funds for rural development.

6.1.11 The loans policy shall be determined by the members. Members shall be determining from time to time, the terms and conditions of lending and borrowing as well as interest rates on deposits and loans. The sitting allowances and honoraria of committee members, including bonus to staff, shall also be determined by members. The actual mechanism of carrying out this function shall be defined in each society's by-laws. KUSCCO as the national umbrella organisation will be expected to work with the SACCO societies in order to develop a well-articulated loans policy.

6.1.12 Kenya Union of Savings and Credit Co-operatives (KUSCCO) is the national organisation for urban SACCO Societies. The Union will continue to promote the growth and development of the SACCO movement through

various mandates given to it by the members. It will also spearhead the diversification of services in member societies as outlined by their loans and deposit schemes.

6.1.13 Part of prudent financial and other resources management includes risk management through insurance. In view of the current liberalisation programmes, societies are at liberty to seek insurance cover on loans, members savings or any other property from the Co-operative Insurance Services Limited (C.I.S) and the Risk Management Programme operated by KUSCCO or any other competitive insurance companies. Co-operatives are however expected to continue utilising the services of CIS which is a specialised co-operative insurance institution. In line with this expectation, the corporate mission of CIS is to provide financial security in order to sustain socio-economic welfare of customers, shareholders and the community at large. This is achieved by availing relevant, affordable, competitive and quality insurance services. It is also achieved through the promotion of loss prevention measures and extension of insurance awareness. CIS is committed to uphold co-operative values as are applicable to insurance business and the support of constructive relations among co-operatives. Part of the mission of CIS is the pursuit of viable and progressive co-operative insurance development and nurturing of a business culture and practices that create and instil confidence and satisfaction among policyholders, shareholders, employees and the insurance industry. The CIS philosophy is based on the ideals of co-operative insurers worldwide. Thus, the objective of CIS is to provide insurance services, mobilisation of funds and dissemination of insurance knowledge and risk management. Societies are therefore, encouraged to approach CIS to take up various insurance covers including: group life insurance for employees; protection against accidents and sickness; and provision for education of children. It is therefore in the interest of CIS to manage its affairs effectively and efficiently in order to be competitive within the liberalized insurance industry.

6.1.14 Whereas Co-operatives are encouraged to seek insurance cover as described in para 6.14 above, there are certain SACCO societies which decline the alternatives available. Instead, the management of such societies opts for internal insurance arrangements commonly referred to as sinking fund. This is where a society sets aside a pre-determined amount of money on regular basis and the money is intended to be used to off-set loan balances in the event of a member's death. With this arrangement, the next of kin or

nominee is refunded only the nominal savings as opposed to other insurance programmes where the savings are doubled. Experience has shown that sinking funds are more often than not applied for other purposes, other than what they are actually established for. Sinking funds created by SACCO societies will therefore be discouraged. Not only do they militate against the maximum interests to beneficiaries, but they also endanger the liquidity of the society in case of calamity and are seriously prone to abuse by unscrupulous management.

6.1.15 In the spirit of co-operation among co-operatives, co-operative organisations will be encouraged to co-operate financially through a system of inter-lending funds among themselves on terms and conditions mutually agreed between the parties involved. KUSCCO is already undertaking this venture through the central finance fund and will endeavour to improve and expand these facilities. Using the KUSCCO experience, other types of co-operative unions will be encouraged to find various ways on which co-operatives can cooperate among themselves, and thereby spearhead the local movement-to-movement linkages.

6.1.16 Co-operatives are free to invest in various types of projects including real estate or financial investments. While doing so, however, they will be encouraged to give priority to the pursuit of their original goals and objectives through their core activities. Investments in secondary activities will be expected to supplement the achievement of original objectives of co-operative societies. The exception will however be in cases where certain members through the society wish to invest in certain ventures. In such cases, the society will provide an institutional framework for doing so without mixing the activity with the normal functions of the society. Investments are risk-taking ventures and require detailed evaluation to determine their economic viability, before the normally large amounts involved can be committed. For this reason, all investment proposals must be approved by the members.

6.1.17 Members of every co-operative society are entitled to know the financial performance of their societies. It is therefore, important that books of account of every society are properly written and audited annually by a duly qualified and competent auditor. The appointment of such an auditor shall be the responsibility of the Annual General Meeting (AGM). Audited accounts must be presented to the members in an Annual General Meeting for

discussion and adoption. Six months after the closure of the financial year, societies shall submit to the Commissioner for Co-operative Development annual returns together with the certified true copy of the audited accounts and the Balance sheet.

6.1.18 Government shall reduce the current percentage of the Statutory Reserve Fund created out of the surplus of a society in order to avail more funds to the members. The balance of the net surplus may be distributed as dividends, honoraria, bonus or for community development and charitable purposes or as may be determined by the members during the Annual General Meeting.

6.1.19 A co-operative is a body corporate and therefore a taxable person in law. Tax is however on the income accruing to the person and is determined in accordance with the tax laws. During the societies operations, the income that is society-specific has to be distinguished from the incomes of individual members that pass through the society as these are two different people in tax law. The taxation in co-operatives will therefore be kept in constant review to ensure that a clear distinction is made between incomes of individual members and those of the society so as to avoid double taxation upon the members as individuals.

CHAPTER SEVEN

7.1 Sectoral Dimension of Co-operatives

7.1.1 A Co-operative, like a company or a partnership is an institutional framework for carrying out economic activities. Naturally, therefore, a co-operative can be formed to do business in any type of economic activity. The main difference between a co-operative and other forms of business organisations is that while a co-operative is essentially an association of persons other forms of business such as companies are basically an association of capital. Thus co-operatives are formed by people with a common bond which becomes the basis for their association and co-operation. Common bond will therefore continue to form the basis for formation of co-operatives in the country in any sector of the economy.

7.1.2 Activity profiles of Kenyan co-operatives cut across all sectors of the economy that include finance, agriculture, livestock, manufacturing and distributive trade. Concentration of co-operative activities are however within the agricultural sector and finance. In the agricultural sector, co-operatives are largely involved in the marketing of agricultural produce, while most of the co-operative involvement in manufacturing are confined to primary processing of the agricultural produce.

7.1.3 The agricultural marketing has been such that co-operatives pass over the collected farmers produce to state marketing Boards. The present Government policy is to divest from and de-monopolize these marketing Boards. The ultimate aim is to liberalise and deregulate pricing, processing, marketing and provision of production and support services in the agricultural sector. Co-operatives will be encouraged to enter into these lucrative businesses for the purpose of generating more income for their own members. In view of this, cooperatives are free to trade and handle services being privatised by either buying shares in those parastatals or by forming new National Co-operative Organisations (NACOs) depending on the members' felt needs and economic viability of the parastatals they invest in.

7.1.4 In the finance sector the main activities include the Co-operative Bank of Kenya, the Savings and Credit Co-operative Organisations (SACCOs) and the Union Banking Sections (UBS). The Co-operative movement through the

Co-operative Bank will be encouraged to raise long term capital through the Nairobi Stock Exchange (NSE). The introduction of the mobility of co-operative shares will enable a society to retain its share capital as members retire out of the society. Thus, the involvement of the Bank in the finer finance issues, will enable the movement to participate more effectively in export/import trade.

7.1.5 Co-operative mode of business arrangement has also spread to the informal sector. There already exists some Jua Kali co-operative societies. The present Government policy is to make the general environment more positive in order to encourage Kenyans to continue to start up informal small scale enterprises. In cases where Kenyans choose a co-operative as their mode of business form in this industrial sub-sector, such co-operatives will be provided with some assistance through policy measures which will enable this sub-sector of the co-operative movement to grow stronger.

7.1.6 For continued co-operative diversification into various sectors of the economy and expansion of existing types of co-operatives in various parts of the country as well as consolidating of the existing societies, the Government will work closely with the relevant arms of the movement in identifying, advising and facilitating the formation and improving management of co-operatives by creating the required conducive environment for co-operative growth and development through relevant policy measures.

7.1.7 Each co-operative has a core activity for which it was formed. Some of the co-operatives have diversified into other activities. Such diversification is normally justified by indirect benefits that accrue through profits to be generated by such activities. Experience has shown that such diversification has overburdened the society management and in a large number of cases, has resulted into businesses inefficiency. As a policy, diversification should be justifiable if it can be proved that it directly benefits the members through their core activities. However, before such activities are implemented, there must be a detailed feasibility study of: management capability; political, social and institutional acceptability; in addition to, economic, technical, commercial and financial viability. This policy will enable consolidation of society management and thereby improve business efficiency especially at the primary societies level which is the back-bone of the co-operative movement.

CHAPTER EIGHT

8.1 Co-operative Education and Training

8.1.1 Co-operative Education and Training is one of the principles of co-operatives. Its objective is to foster understanding for members, leaders and employees in carrying out their respective roles and ensuring that the general public is informed about the nature of co-operative movement. Thus in line with this goal, the co-operative education policy aims at:

- (i) Developing an enlightened and responsible leadership capable of directing and effectively controlling co-operative enterprises for the benefit of members, thereby upholding the ideals and values of co-operation for continued prosperity of the co-operative movement and the nation.
- (ii) Imparting relevant management knowledge, business and entrepreneurial skills needed by the employees and committee members to enhance efficiency and effectiveness in the services rendered by co-operatives.
- (iii) Creating awareness to the general public about the nature of co-operatives and the benefits that accrue to members of co-operatives.

8.1.2 Co-operative education will focus on specific target groups with clearly-defined objectives and goals. At the membership level, education programmes will aim at developing an informed and loyal membership. The emphasis will therefore be on the nature of co-operatives, duties and responsibilities of members and the benefits that accrue from co-operative membership. The need for members to elect honest, responsible and informed individuals as members of the committee will be given particular emphasis.

8.1.3 Education at the committee level will focus on: the co-operative organisation; the business it is in or its mission; effective and efficient service delivery to members; the co-operative environment; leadership and entrepreneurial skills; and professionalism in recruitment of all cadre of staff.

The need to instil management discipline and to demand results from the employees will be given particular emphasis.

8.1.4 At the employees level, it is expected that a society management will initially recruit from the market and only carry out on-the-job training and other skills that are intended to enhance an employee's ability to perform more effectively. Such courses will therefore be short in duration and will be seen to address specific areas of management relevant to the co-operative movement. However, where a special need for a long term training is identified, this might be given special consideration. The policy is therefore to enhance utilisation of applied and viable technology to improve efficiency in co-operative management.

8.1.5 Education to the members of the public will aim at informing them about co-operatives. It will focus on: a co-operative as a business organisation; its operations; benefits that accrue to members; and the special co-operative values and attributes such as equality and equity and co-operation for mutual benefits. There will therefore be a need to produce on a continuous basis, booklets, pamphlets, periodicals and discussion programmes through the public media.

8.1.6 Training Programmes will be designed in such a way that they achieve the set objective of improving overall management skills within the co-operative movement. Special effort will be made to identify educational and training needs of the co-operative sector and thereafter design training programmes to address them. Training institutions such as the Co-operative College of Kenya, will be expected to continually design and develop relevant curriculum and training packages that achieve the overall training goals and objectives of inculcating the needed skills of the leaders, employees and members of the co-operative organisations, to ensure a constant flow of trained personnel at the movement's managerial level. In line with this policy, educational programmes, seminars and courses will be organised at both grass roots and national levels. In addition to those local programmes and courses, available, relevant training opportunities abroad, will also be pursued.

8.1.7 Funding of Co-operative Education and Training is the responsibility of the co-operative movement. Each society will be expected to meet the cost of training and educating their general members, members of the committee

and staff. However, where education is for the common good of the whole movement such as is the case with public education, each society will be required to contribute in accordance with the normal principles of equity, where the mechanism is to be mutually agreed within the movement. Within this general framework, co-operative societies may raise funds for training and education in various ways that may include:-

- (i) Education and training fees through annual provision of adequate budgetary allocation;
- (ii) Payment of a training levy for co-operative education and training at the Co-operative College of Kenya; and,
- (iii) Grants and donations from well wishers, so long as this source does not create dependency or compromise the co-operative ideals of self-help.

8.1.8 With liberalisation, the institutional framework for carrying out co-operative education and training will need to be substantially restructured. The main area of restructuring will involve divesting the Government role in the Co-operative College of Kenya to pave the way to a movement-controlled educational institutional framework as one of the future enabling environment for Co-operative growth and development.

8.1.9 Presently, the Co-operative College is wholly owned and managed by the Kenya Government through the Ministry of Co-operative Development. The College however trains both for the government and the movement. The College conducts two certificate courses and one diploma course. It also runs other special programmes such as: tailor-made programmes for Co-operative society officials and employees; seminars and workshops for Co-operative Personnel; and, has a Distant Education Section which has a capacity to handle 6,000 students who train in basic co-operative bookkeeping, management and co-operative philosophy. The college has residential capacity and other infrastructure suitable for mounting various intensive courses.

8.1.10 The main objective of liberalising the college will be to make it a College for the movement which is managed, financed and controlled by the

movement. The policy is therefore to make the college an autonomous organisation that is self-sustaining. A detailed study will therefore be carried out and strategies developed on how the College can be commercialized and be ran as a business concern for the benefit of the movement. When it is fully operational, the College will be the focal point for the Co-operative education and training in the country.

8.1.11 The College will be financed by contributions from societies by way of a training levy to provide the required Co-operative education and training to the society members, members of management committees, employees and general information to the members of the public.

8.1.12 One of the virtues of such a College is that it will be able to generally decide co-operative education and training priorities. With liberalisation, one such priority is member education and the operations of free and true cooperatives without assured assistance on administration and management as has hitherto been the case. It will therefore require intensified and widespread co-operative member education with emphasis on their rights and duties for them to appreciate their changed position, roles and the concept of liberalisation.

8.1.13 From the College, the educational and training institutional framework will include various levels of the co-operative structure. KNFC will be expected to play a special role in this area: it will continue to coordinate the decentralized cooperative education and training programmes; play a leading role in identifying the training and priority needs for each type of a co-operative in conjunction with the co-operative societies concerned; as the mouth-piece of the co-operative movement in the country and abroad, it will continuously work with the College to design effective co-operative public education and the production of public co-operative education materials; and finally, will establish an education unit, manned with adult education specialists as well as management specialists to identify the needs of the movement and then liaise with the College to design appropriate courses.

9.1 Leadership and Management in Co-operative Organisations

9.1.1 Co-operative management policies and practices are generally subsumed within the co-operative principles. The principle of democratic control requires that the affairs of a co-operative society be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Thus in directing and managing the affairs of the unions and societies, the management committees are holding positions of trust and, as such, are expected to account for all the funds and other resources at their care by keeping accurate records and accounts susceptible to independent scrutiny. Consequently, successful business development of co-operative enterprises will depend on strong, enlightened and committed leadership that is capable of applying in co-operatives modern management and business practices based on transparency and accountability to all its stakeholders. With liberalisation and the consequent competitive economy, coupled with divestiture of the Government management and administrative support, the main management policy will be intensification of member education on the importance of electing enlightened and committed leaders, and recruitment of qualified staff.

9.1.2 The principle of democratic control applied in the literal sense may not necessarily guarantee election of enlightened and committed leaders. It can even be argued that one-member-one vote is only applicable in economic terms to membership with economic equality, (just like the Rochdale Pioneers were in their poverty.) This guideline becomes even more difficult to apply when membership is large, and individual members do not even know each other and cannot determine who are likely to be committed leaders. Further, some of the co-operative business activities are diverse and highly technical and require the application of modern business management concepts and approach for their success. Arising out of the foregoing, and depending on the level and complexity of business activities of each society or union, co-operatives will need to provide in their By-laws: appropriate standard guidelines; code of conduct; other requirements such as the minimum literacy level; relevant business entrepreneurship; and management experience for their leaders.

9.1.3 In a competitive market economy, it is only the more effective organisations that survive. One of the tenets of effectiveness is specialisation as it breeds efficiency. The other is sufficient capital with which to run business. Competitive economic systems calls for co-operatives to improve their own capital base and to be more efficient in the delivery of services to members. Co-operative organisations will however be expected to operate within the competitive economy, in a manner that does not compromise the co-operative values and principle of concern for community.

9.1.4 Management efficiency and effectiveness of any business organisation depend on, among other attributes, the vision of the chief executive, quality of staff and the management teamwork. Towards this end, co-operative leaders will be expected to employ members of staff who have entrepreneurial talents and capable of translating their society's visions into economic and social benefits. The movement presently needs individuals with high level management capability to facilitate high level standards in the management of co-operatives. It is through this type of management that the movement can have the necessary confidence required to penetrate more complex and competitive business ventures. Towards this end, the movement will continue to give particular attention to human resource development, alongside the government.

9.1.5 In order to attract and retain high calibre personnel, the movement will develop and institute terms and conditions of service that are attractive and competitive and those that properly address the issues of an employee's career growth and development. The co-operative movement will encourage its managers to set up associations to enable them to establish codes of professional ethics and conduct, and to harmonize terms and conditions of service within the co-operative sector. KNFC will be expected to play a key role in the development of professional management within the co-operative movement. Thus, societies will need to recruit effective employees, while the Co-operative College will continue to improve their working skills and the KNFC will disseminate information to co-operatives on comparable human resource market rates. This will ensure that the co-operative movement is able to recruit and retain the high caliber staff within the context of a competitive labour market.

9.1.6 Currently, the management committees carry out the day to day management of a society to such an extent that the Chief Executive's role,

who is a professional is not that prominent. This is more so in smaller societies than in Unions. This type of management structure requires the committee to meet very often. Where quick decisions are supposed to be made, the members of the executive committee have to be sought to attend to them. The members of the executive committee find themselves around the premises of the society offices more often than should otherwise be the case. Whereas there is nothing intrinsically wrong with this, for instance, when a problem arises or when something goes wrong, like when mismanagement occurs, the blame is usually general rather than specific to an individual. Most remedies to such mismanagement have been the removal of the committee either by popular vote or through an order as provided for in the Co-operative Societies Act. This is not a sufficient remedy as it does not fully embrace the principles of responsibility and accountability. It is therefore, necessary to state in very clear terms, specific duties of elected officials and employees.

9.1.7 Another noticeable feature is the role of an internal Auditor in the co-operative movement, which is not clearly defined. With the present management structure where the committee is involved in actual management, the internal auditor would have nobody to report to when the executive committee is involved in the mismanagement. Thus, the normal business internal control procedures are rendered inoperative. With liberalisation, and in order to democratise and professionalize the management of Co-operatives, and allow for a free flow of accountability and responsibility, co-operative management will need to be enhanced by instituting a detailed system of checks and balances.

9.1.8 In the enhanced management system, the present Management Committee will be renamed Co-operative Committee or Board, and hence change its character from management to directing and guiding. It will however, be overall responsible for the growth and development of the society. Its major function will be to make the society policies and supervise their implementation. The Chief Executive, who is an employee of the society, will be in charge of articulating the policy and interpreting the committee's vision into economic and social benefits for the members. He\she will be responsible for the day to day management of the society within the parameters set by the management committee through the society budget. He\she will therefore be required to report in the management committee meetings, the following: the progress of the society's activities

through monthly accounts, clearly explaining variances from the budget and outline the future plans and activities for the society for the approval of the committee. The success of a society as measured against the manager's reports and accounts will be the main criteria of evaluating the manager's performance. Co-operative societies will therefore, include in their By-laws this management approach, as one of the ways of improving management efficiency and effectiveness in co-operatives.

9.1.9 There will be created the position of the Internal Auditor who will be in charge of evaluating on a continuous basis, the implementation of the societies management and financial policies. He will be reporting to the Supervisory Committee. Where the manager is involved in misapplication or mismanagement, or where the manager and the committee are both involved, it will now be possible to take corrective action. On the same note, the role of the supervising committees will be enhanced. The Committee will work with the internal auditors in order to provide proper checks on the management and financial systems. Such committees shall report directly to the members in a special general meeting, which will decide on the appropriate corrective action. This enhanced internal control system, will instal accountability in the co-operative movement.

9.1.10 This management system, that embraces clarity of duties and responsibilities, coupled with enhanced internal control procedures, will create the required checks and balances. It will also transfer accountability on a day to day basis to a specific individual, rather than an amorphous committee. It will further, enable quick decisions to be made in response to the characteristic demands of a competitive economic system. In cases where a society is too small to afford this system of separation of duties and responsibilities, it will be encouraged to join a union from where a pool of such services can be centred. KNFC will be encouraged to provide such services from appropriate central points, where unions do not exist.

9.1.11 As part of a general system of controlling the management of societies, society members will be encouraged to be involved and be more interested in the management of their society. This general membership concern, will naturally invoke the mechanisms of social control on any elected member, who seems to condone the mismanagement of their society's finances and other resources. Towards this end, members will be educated and encouraged to demand restitution from and punishment to the individuals

involved in mismanagement including thefts and negligence. Thus, the General Meetings called by the supervising Committees will be of special importance to the members, as this, will be the forum where major management decisions will be made.

10.1.1 This Co-operative Policy specifies the mode of co-operative liberalisation in accordance with the current national policy of structural adjustments. It substantially limits the involvement of the Government in the day to day management of the movement. From now on the role of the Government will be to create adequate legislation and to provide the enabling environment the movement requires for its growth and development, which will include technical advice as well as financial and other support to the movement as partners in development. The main objective of the policy is to consolidate the past achievements in this sector so that the Kenyan public can continue to benefit from this form of business enterprise.

10.1.2 The policy has been prepared at a time when it had also become necessary to revise the co-operative principles on which co-operatives are based. Thus, the policy embraces the latest co-operative principles as agreed in the International Co-operative Alliance (ICA), meeting held at Manchester, United Kingdom in September, 1995. The new principles emphasize democratic member control, member economic participation, autonomy and independence, education, training and information, and concern for community.

10.1.3 This policy reaffirms the continued recognition of co-operatives by the Government as essential business institutions in the country for increased agricultural production and marketing, and for mobilisation of savings. Towards this end, the Co-operative Bank together with the rest of the co-operative movement will agree on the modalities of creating Local Boards to manage the branches of the bank in order to decentralise decision-making.

10.1.4 Management of co-operatives continues to be one of the major problems of co-operatives. In order to address this problem, co-operatives will include in their By-laws clear separation of the duties and responsibilities of the committees and the professional managers. The existing management committees will be renamed Co-operative Committees/Boards in order to capture their new role of guiding, directing and policy-making. There will also be created an independent position of an internal auditor who will be reporting to the Supervisory Committee, who in turn will be reporting to the general meeting. This new management approach is expected to instal responsibility and accountability in co-operatives.

10.1.5 The implementation of this policy will involve the revision of the Co-operative Societies Act, Chapter 490 of the laws of Kenya and the restructuring of the Ministry of Co-operative Development in order to make it responsive to the increased demand of the now autonomous movement. Part of this restructuring is already under way, whereby, the Bill to transform the Co-operative College into an autonomous institution has already been published. When liberalisation in co-operatives is completed, the running and management of co-operatives will be in accordance with the internationally-accepted co-operative principles, thereby making Kenyan co-operatives self-controlled, self-reliant and commercially viable.