THE IMPACT OF LIBERALIZATION ON THE COOPERATIVE MOVEMENT IN KENYA

By

Fredrick O. Wanyama, Ph.D.
Senior Lecturer in Political Science,
School of Development and Strategic Studies,
Maseno University,
P. O. Box 333 – 40105 Maseno,
KENYA.
Fax: +254-057-351221
Tel: +254-722-233479
E-mail: fwanyama@hotmail.com or
fwanyama@maseno.ac.ke

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ABSTRACT

State control over the cooperative movement ended in 1997 following the introduction of liberalization measures with a view to create commercially autonomous member-based cooperatives that would be democratically and professionally managed; self-controlled; and self-reliant. Very little is, however, known about the impact of liberalization on the development of cooperatives in the country. The purpose of this paper is to highlight the current trends on the status, structural organization and performance of cooperatives in Kenya. Field data show that cooperatives in Kenya have survived the market forces and continued to grow in number and membership. The market forces have, however, triggered a structural transformation that has seen the fading away of inefficient federative and apex cooperative organizations as cooperative societies seek better service provision. Similarly, cooperatives are increasingly diversifying their activities in order to respond to their members' needs. The well-adapted cooperatives are subsequently recording better performance than they did in the era of state control.

INTRODUCTION[1]

Cooperative development in Africa has generally traversed two main eras: the era of state control and that of liberalization. The first era saw the origin and substantial growth of cooperatives on the continent under state direction. Originating from government policy and directives rather than people's common interests and own motivation, these organizations were conditioned to emerge as dependent agents and/or clients of the state and other semi-public agencies in many countries, particularly the Anglophone ones like Kenya. By serving as instruments for implementing government socio-economic policies, cooperatives in many countries more or less served the interests of the state than the ordinary members and the general public. These institutions were subsequently engulfed into state politics to the extent that the failures of state policies found expression in the cooperative movement. This partly explains why reports on the failure of cooperatives,

[1] A more detailed version of this paper is forthcoming under the title "The Qualitative and Quantitative Growth of the Cooperative Movement in Kenya", in P. Develtere, I. Pollet and F. Wanyama (eds.), *Cooperating out of Poverty: The Renaissance of the African Cooperative Movement*, Geneva: ILO and Washington: The World Bank Institute.

just like the state, to meet their developmental expectations during this era abound in the literature.

It is such failures that partly triggered calls for a change in cooperative development in the early 1990s. Two authoritative World Bank studies on cooperatives in Africa (Hussi et al, 1993; Porvali, 1993), for example, acknowledged the potential role that cooperatives could play in the development process, but only if they were restructured and disentangled from the state so as to be run on business principles. The implication, therefore, was that state control was stifling the performance of cooperatives and their potential contribution to development could only be realized if they operated according to market principles. This thinking during the liberalization of the economy in most African countries saw cooperative development enter the second era. Consistent with the new economic environment that was sweeping across Africa in the 1990s, many countries introduced new policies and legislations ostensibly to liberalize the cooperative sector as well. The main content of the resultant framework was to facilitate the creation of commercially autonomous and member-based cooperative organizations that would be democratically and professionally managed, self-controlled and self-reliant.

Whereas cooperative development in Africa during the first era is well documented in the existing literature, the second era of cooperative development seems not to have been adequately researched. It is about a decade since the introduction of liberalization measures in African cooperatives, yet very little is known about their impact on cooperative development despite the continuing debate in favor of cooperatives as the most suitable form of organization for poverty alleviation (Birchall, 2003; 2004). There are only a few studies in some countries that focus on disparate sectors of the cooperative movement rather than providing comprehensive accounts that inform the current status and functioning of the cooperatives since the liberalization of the sector. In Kenya, the few said studies have only focused on savings and credit (Evans, 2002); agriculture (ICA, 2002); and dairy production (Delgado et al, 1997; Staal et al, 1997; Owango et al, 1998). In the circumstances, a number of pertinent questions have gone unanswered since the mid 1990s. For instance, have cooperatives survived the fierce competition of the market or they have withered away? What has been the organizational response of cooperatives to the new economic environment that they suddenly plunged into? Are the cooperatives performing better than they did in the first era?

The purpose of this paper, therefore, is to respond to these questions by highlighting the impact of liberalization measures on the status, structural organization and performance of cooperatives in Kenya. It is based on field data that were collected between November 2005 and January 2006 under the *Essential Research for a Cooperative Facility for Africa* study. This study was initiated by the Cooperative Branch of the International Labor Office (ILO); funded by the Department for International Development (DfID) of the United Kingdom; and coordinated by the Higher Institute for Labor Studies at the Katholieke University of Leuven in Belgium[2]. Being a qualitative rapid assessment study,

[2] The purpose of the said study was to obtain qualitative insights into the strengths and weaknesses of the cooperative movement in African countries with a view to assessing the real and potential impact of cooperatives on reduction of poverty through creation of employment; generation of economic activities; enhancement of social protection; and improvement of the voice and representation of vulnerable groups in society. The researchers, one in each of the eleven countries that were sampled, first of all used qualitative rapid assessment methodology to collect data at the national level using semi-structured interviews with key informants in the cooperative sector. This was followed by in-depth interviews with leaders and

data were collected using unstructured interviews with key informants in the co-operative sector at the national and society levels.

At the national level, interviews were held in Nairobi with respondents from the office of the Commissioner of Co-operative Development in the Ministry of Co-operative Development and Marketing; the Kenya National Federation of Co-operatives (KNFC); the Co-operative College of Kenya; the Co-operative Bank of Kenya; the Co-operative Insurance Company of Kenya (CIC); the Kenya Union of Savings and Credit Co-operatives (KUSCCO); and the Kenya Planters Co-operative Union (KPCU). Officers from the International Co-operative Alliance (ICA), Regional Office for Africa in Nairobi were also interviewed. At the society level, two co-operative societies were visited for in-depth interviews with leaders and members. These were Githunguri Dairy Farmers Co-operative Society in Kiambu district and Kamukunji Jua Kali Savings and Credit Co-operative Society in Nairobi. These primary data were supplemented with secondary data from official records and reports of co-operative organizations and published books and articles.

It is evident in the paper that though the initial implementation of liberalization measures resulted into undesirable consequences for cooperatives in the country largely due to the poor or inadequate preparation of these organizations for the competitive market, liberalization seem to have served well the interests of cooperative development in Kenya. This is evidenced by the fact that those cooperative structures that have been

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members in selected cooperative societies at the local level with a view to generating case studies to illuminate on the findings from the national level. The eleven countries are Ethiopia, Egypt, Kenya, Uganda, Rwanda, South Africa, Nigeria, Ghana, Niger, Senegal and Cape Verde.

redundant due to their inability to address the interests of the members are increasingly being abandoned, while the old cooperatives that have adapted to the new environment have come out stronger than they were before the liberalization of the sector. To put these changes in perspective, it would be informative to briefly sketch the organization and functioning of cooperatives in Kenya before the introduction of liberalization measures.

THE COOPERATIVE MOVEMENT IN KENYA

Co-operatives in Kenya are broadly classified into two main categories namely, agricultural and non-agricultural. Agricultural co-operatives are mainly involved in the marketing of produce, an activity that has seen some of them get into the manufacturing sector through primary processing of produce before they are marketed. These co-operatives are further organized along the crop or produce that they handle; the key ones being coffee, cotton, pyrethrum, sugarcane and dairy. In addition to these, there are also fishery, farm purchase and multi-produce co-operatives in the agricultural sector. Whereas fishery co-operatives play the role of marketing members' fish, farm purchase co-operatives mobilize resources to purchase land for the members.

In the non-agricultural domain, co-operative activities are found in the financial, housing, insurance, consumer, crafts and transport sectors. In the financial sector, savings and credit are the predominant activities of co-operatives while co-operatives in the housing sector have the provision of affordable shelter as their key activity. Consumer and craft co-operatives market respective commodities for a profit while co-operatives in the transport sector engage in savings and credit activities. It is important to note here that co-operatives are also spreading into the informal sector. There already exist some *Jua Kali* (Kiswahili for "hot sun", in reference to the open air environment of informal enterprises) co-operative societies that are confined to savings and credit activities.

The co-operative movement in Kenya is further organized into a four-tier vertical structure that links up co-operative societies at the local level to the national level. The structure consists of primary societies, co-operative unions, national co-operative organizations and one apex co-operative organization. Currently, the apex organization is the Kenya National Federation of Co-operatives (KNFC), whose membership includes national co-operative organizations as well as some co-operative unions. It is through KNFC that the Kenyan co-operative movement is expected to be linked to the world co-operatives movement.

That Kenya has an activity-based co-operative system finds expression in the organization of national co-operative organizations (NACOs) that are based on specific types of activities such as banking, insurance, dairy, savings and credit, housing, and coffee, among others. Currently, NACOs include KUSCCO, CIC, KPCU, the Co-operative Bank of Kenya, Kenya Co-operative Creameries (KCC), National Co-operative Housing Union (NACHU), and Kenya Rural Savings and Credit Societies Union (KERUSSU). Members of these organizations are mainly co-operative unions, but not to the exclusion of co-operative societies.

Co-operative societies are affiliated to co-operative unions, once again along the activities or agricultural produce marketed. Consequently, in the agricultural sector, there are produce-oriented co-operative unions that collect produce from societies for primary processing and marketing. These unions also provide to the societies other centralized services like farm input supply, administration of production credit, accounting, staff training and member education. In addition to these activity-based unions, there are also District Co-operative Unions. These are area-based co-operative unions that bring together societies dealing with different types of activities within a geographical area, which is an administrative district in this case (Republic of Kenya, 1997a: 13). Most of these unions are agriculturally based and their role is to provide a range of support services to their members, which would have otherwise been provided by activity-based unions.

STATE-CONTROLLED COOPERATIVE DEVELOPMENT IN KENYA

Up to the mid 1990s, a fundamental character of the Kenyan co-operative movement was its close association with the state to the point of developing a dependent relationship. This was partly due to the historical evolution of these organizations in the country. It should be noted that the first co-operatives in Kenya were founded in 1908 during the colonial era and were molded by the colonial government to serve the interests of the white settlers who were agitating for more agricultural services from the government. The colonial government, therefore, allowed the formation of cooperatives as its instruments for providing services to the white farmers and went on to bar Africans from participating in these enterprises through strict legislation (Co-operative Bank of Kenya, 1993: 3).

At independence, the new government also viewed cooperatives as mechanisms for achieving its ends rather than those of the members. This time round, the state sought to use co-operatives as instruments for promoting economic development in the country, especially in the rural areas. It had, therefore, to ensure the emergence of strong, viable and efficient co-operatives by directing the formation and management of these organizations from above. This state-controlled promotion of co-operative development was formalized by the introduction of a single legal framework for all types of co-operatives in 1966 via The Co-operative Societies Act, Cap. 490.

As per the intensions of the government, the main content of this legal framework was strict supervision of co-operatives by the state. With the formulation of the Co-operative Societies Rules in 1969 that stipulated the operational procedures for all co-operatives, the law gave the Commissioner for Co-operative Development overbearing powers in the registration and management of co-operatives. Besides giving the Commissioner power to register, amalgamate and deregister co-operatives, he/she had to approve annual budgets of co-operatives; authorize borrowing and expenditure; audit their accounts; monitor financial performance; and could even replace elected co-operative societies' officials by management commissions at his/her pleasure (Manyara, 2003: 17). All employment issues in co-operatives fell within the mandate of the Commissioner as he/she had to approve remuneration, salary or other payments to staff or members as well as approve the hiring and dismissal of graded staff. Even labor matters in co-operatives were subject to the discretion of the Commissioner as the Trade Union Act was expressly excluded from applying to co-operatives.

Such state control was enhanced by international donors to the cooperative movement who preferred to work through the government. In the 1966 “Cooperatives (Developing Countries) Recommendation No. 127”, the ILO called for governments to develop a comprehensive and planned cooperative development strategy in which one central body would be the instrument for implementing a policy of aid and encouragement to cooperatives. Subsequently, donors to the cooperative movement in Kenya, like the Nordic cooperative movements as well as the American and Canadian credit union movements, linked up with the cooperative sector through the government’s ministry of cooperative development.

The evolving partnership between the state and cooperatives saw these organizations given special privileges and advantages that bordered on monopolistic positions in economic activities. Though the government set up statutory marketing boards to manage the marketing of cash crops like coffee, cotton and pyrethrum, the state made cooperatives the sole agents of these boards. Cooperatives were to buy the produce from farmers and process it for delivery to the boards before the latter could export it. Such a monopolistic position saw cooperative leaders ignore the membership as it became the responsibility of the farmers to join cooperatives if they were to sell their produce. Moreover, state- and donor-sponsored agricultural credit schemes were also administered through cooperatives, which became another incentive for farmers to join cooperatives.

Though this partnership between the state and cooperatives resulted into tremendous growth of the sector in terms of membership and number of cooperatives, the movement lost its voluntary and bottom-up character that would have put the members in charge of their organizations. Cooperatives ceased to reach out to the members as it was up to the members to join the organizations. In return, member' morale to participate in the management of cooperatives declined, with some of them considering cooperatives not to be their organizations but part of the government. It, therefore, became necessary that the government enhances supervision over the activities of cooperatives if they were to be managed prudently and serve the interests of the state. Nevertheless, the rapid expansion of the sector far outstripped the capacity of government cooperative officers to effectively manage the supervisory work. The then practice of cooperatives being guided by illiterate committee members did not help either, for the supervision of technical operations was beyond their capabilities. In that way, floodgates for nepotism, corruption, patronage, mismanagement and financial indiscipline were opened (Hussi et al., 1993).

This state of affairs did not help to improve the financial status of cooperatives. As government agents, these organizations were always subject to administratively imposed price controls to the extent that they could not realize sufficient returns or profits from their operations. In the meantime, the subsidies that cooperatives received from the state and other donors saw their members and leaders develop a highly opportunistic and passive attitude that compromised their financial contributions to the cooperatives. Their share capital or membership fee payments were minimal or completely nonexistent. This led to undercapitalization of the cooperatives, with a dependence on external funding. Political patronage further eroded the autonomy and economic rationale of the cooperatives (Holmen, 1990). This, together with the profit constraints, led to widespread inefficiencies, mismanagement and irregularities in the sector.

By the end of the 1980s, cooperative development in Kenya had been effectively arrested by the state, such that these organizations could hardly survive without state and donor support. A member-based, member-controlled and self-reliant co-operative movement guided by internationally acclaimed cooperative principles and ideals had disappeared. Members' participation and control had significantly reduced (Republic of Kenya, 1997a: 10). Administrative regulations imposed by the Co-operative Societies Rules impaired the flexibility required for running co-operatives as business enterprises (Hussi et al, 1993: 35). As the country plunged into the era of economic liberalization in the early 1990s, many observers and analysts feared that cooperatives would not withstand the market competition as then constituted (Hussi et al, 1993; Porvali, 1993; Birgegaard & Genberg, 1994). To understand such fears, it is necessary that we look into the content of the liberalization measures that were introduced in the cooperative movement.

LIBERALIZATION OF THE COOPERATIVE MOVEMENT IN KENYA

Economic liberalization that followed the implementation of Structural Adjustment Programs (SAPs) from the mid 1980s heralded a new economic environment by the early 1990s, which required government withdrawal from the co-operative sector. To this end, the government published Sessional Paper No. 6 of 1997 on "Co-operatives in a Liberalized Economic Environment" to provide the new policy framework for the necessary reforms. The role of the government was redefined from control to regulatory and facilitative in nature. The main duties of the Ministry of Co-operative Development were confined to (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 (Republic of Kenya, 1997a: 11). The aim of this new policy outlook was to make co-operatives autonomous, self-reliant, self-controlled and commercially viable institutions. The monopoly of co-operatives in the agricultural sector was to be reduced, with the result that co-operatives were now to compete with other private enterprises on the market. The ICA co-operative principles of voluntary and open membership; democratic member control; member-economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community were formally incorporated in the policy.

This new policy obviously required significant changes in the legal framework of co-operative development. Consequently, the 1966 Co-operative Societies Act was repealed and replaced by the Co-operative Societies Act, No. 12 of 1997. Like Sessional Paper No. 6 of 1997, the new Co-operative Societies Act served to reduce the involvement of the government in the day-to-day management of co-operatives. A very liberal law, it granted co-operatives "internal self-rule" from the previous state controls by transferring the management duties in co-operatives from the Commissioner for Co-operative Development to the members through their duly elected management committees (Manyara, 2004: 37). Co-operatives were no longer required to seek the permission of the Commissioner to invest, spend or borrow. They were now free to borrow against part or the whole of their properties if their by-laws allowed, provided the annual general meeting approved such borrowing. Like other business entities, co-operatives were mandated to hire and fire graded staff without the Commissioner's consent (Republic of Kenya, 1997b).

Though this reform was a welcome move in the development of an autonomous, self-managed and sustainable co-operative movement, many are the co-operatives that had not been adequately prepared for the new era. The sector was left without a regulatory mechanism to play the role that the government had previously played. Consequently, the immediate impact on most co-operatives was mainly negative. The newly acquired freedom was dangerously abused by elected leaders to the detriment of many co-operative societies. Cases of corruption; gross mismanagement by officials; theft of co-operative resources; split of viable co-operatives into small uneconomic units; failure by employers to surrender members' deposits to co-operatives (particularly SACCOs); failure to hold elections in co-operatives; favoritism in hiring and dismissal of staff; refusal by co-operative officials to vacate office after being duly voted out; conflict of interest among co-operative officials; endless litigations; unauthorized co-operative investments; and illegal payments to the management committees were increasingly reported in many co-operatives (Manyara, 2004: 42-43).

However, there were some exceptions to this trend. Some of the co-operatives made commendable gains from the liberalization. For instance, Githunguri Dairy Farmers Co-operative Society in Kiambu district benefited from a focused and well-intentioned management committee that took office in 1999 to use the new freedom to turn around the performance of the Society. With the power to hire and fire staff, the committee hired professional staff to steer the day-to-day management of the co-operative. It also used the power to borrow and charge the society's property to get a loan of about 70 million Kenya shillings (about US$. 1,000,000) from OIKO Credit of the Netherlands to put up a dairy processing plant in 2003, which saw a tremendous turn around in the fortunes of the co-operative. This could not have been easily done under the previous state control. A similar pattern was also reported in Limuru Dairy Farmers Co-operative Society in the same district.

Nevertheless, the general negative immediate impact of liberalization on the majority of the co-operatives compelled the government to intervene with a new legal framework. The Co-operative Societies Act of 1997 was amended through the Co-operative Societies (Amendment) Act of 2004. The main content of the amended Act was to enforce state regulation of the co-operative movement through the Commissioner for Co-operative Development. The power of the Commissioner over co-operatives was significantly increased relative to what was provided in the 1997 Act. For instance, the Commissioner got power to approve a list of auditors from which co-operatives could appoint their auditors at the annual general meeting; he/she could convene a special general meeting of a co-operative as well as chair and direct the matters to be discussed; the Commissioner could suspend from duty any management committee member charged in a court of law with an offence involving fraud or dishonesty pending the determination of the matter; he/she could dissolve the management committee of a co-operative that, in his/her opinion, is not performing its duties properly and appoint an interim committee for a period not exceeding ninety days; the Commissioner could call for elections in any c-operative society; he/she could attend meetings of co-operatives and require every co-operative to send to him/her, at a proper time, notice and agenda of every meeting and all minutes and communications of the meeting; and the Commissioner could also require that co-operatives update their by-laws (Republic of Kenya, 2004a).

Most of these provisions should, however, be understood in the context of the mismanagement of some co-operatives that followed the liberalization of the movement. Furthermore, the intention of the 2004 Amendment Act was to make provisions for ILO's Recommendation 193 of 2002. The recommendation required the government to play the role of creating policy and legal framework for the development of co-operatives; improving the growth and development of co-operatives by providing the requisite services for their organization, registration, operation, advancement and dissolution; and developing partnership in the co-operative sector through consultation with co-operators on policies, legislation and regulation. Thus, the recommendation required that the government be brought back in cooperative development.

Nevertheless, registration of co-operatives continues to be the main role of the Commissioner for Co-operative Development in the new era. The requirements and procedure for registering co-operatives have been spelt out in the revised Co-operative Societies Rules of 2004, which also outlines the operational procedures of all co-operative societies in the country. The question that we should now turn to is the impact of these measures on the cooperative movement in Kenya.

THE IMPACT OF LIBERALIZATION ON THE COOPERATIVE MOVEMENT

The liberalization of the cooperative movement saw many observers and analysts fear that the monopolistic tendencies that had been embedded in the cooperative movement over the years would not enable cooperatives to withstand the competitive market. However, these fears seem to have been disapproved by some cooperatives over the last decade of the new era of cooperative development.

Growth in Cooperative Number and Membership

Since its inception, the cooperative movement in Kenya has always recorded an increase in number and membership over the years. This trend seems not to have changed following the liberalization of the sector in 1997. By 2004, the total number of co-operatives in Kenya stood at 10, 642. Whereas agricultural co-operatives were the predominant type up to the early 1990s, non-agricultural co-operatives have since surpassed the number of agricultural co-operatives. Savings and credit co-operatives (SACCOs) constitute over 70 per cent of the non-agricultural co-operatives and they have been more than all agricultural co-operatives since 2003. Table 1 on the next page illustrates this point by providing a summary of the number of co-operatives in Kenya by type between 1997 and 2004.

TABLE 1: NUMBER OF SOCIETIES AND UNIONS BY TYPE, 1997-2004

	1997	1998	1999	2000	2001	2002	2003	2004
Type of Society								
Agricultural								
Coffee	279	308	335	366	462	474	487	498
Cotton	78	78	86	86	71	71	59	59
Pyrethrum	65	66	71	73	152	152	140	142
Sugarcane	98	99	108	112	112	112	149	149
Dairy	313	323	331	337	332	332	239	241
Multi-produce	1,342	1,446	1,504	1,560	1,593	1,608	1,794	1,798
Farm purchase	677	698	717	731	624	624	109	109
Fisheries	72	74	79	82	82	84	64	65
Other agricultural	860	915	968	1,002	944	956	1,125	1,154
Total Agricultural	**3,784**	**4,007**	**4,199**	**4,349**	**4,372**	**4,414**	**4,166**	**4,215**
Non-Agricultural								
SACCOs	3,169	3,305	3,538	3,627	3,925	4,020	4,200	4,474
Consumer	-	189	194	197	206	208	180	180
Housing	-	424	440	468	442	440	229	495
Craftsmen	-	73	91	104	102	102	85	86
Transport	-	35	36	36	32	32	28	28
Other non-agric.	1,276	551	564	572	600	712	1,316	1,068
Total Non-agric.	**4,445**	**4,577**	**4,863**	**5,004**	**5,307**	**5,514**	**6,038**	**6,331**
UNIONS	83	85	89	89	89	89	93	96
GRAND TOTAL	**8,312**	**8669**	**9,151**	**9442**	**9,768**	**10,017**	**10,297**	**10,642**

SOURCE: Ministry of Co-operative Development and Marketing, Statistics Unit.

Table 1 shows a general pattern of growth in the number of co-operatives since the liberalization of the sector, but it ought to be noted that these are cumulative figures that exist in the register, with some of the co-operatives being dormant. Active co-operatives were estimated at about 7,000. It was not possible to establish the exact number of active and dormant co-operatives because the registers in the Ministry are not maintained in that order. Nevertheless, some crude indicators could serve to illustrate the level of dormancy. One example is in the cotton sub-sector of the agricultural sector. All cotton co-operatives, particularly in western Kenya that is the main cotton producing area, have remained dormant since the virtual collapse of cotton production in the early 1990s, partly due to the low producer prices and the poor marketing chain that left farmers not paid for their produce over long periods of time (Wanyama, 1993). Still in the same sector, ICA's study of marketing cooperative societies in 2001 indicates that 31 per cent of these societies were dormant (ICA, 2002: 7). On the other hand, the government's annual returns for the same year indicate that 3, 173 agricultural co-operatives were active and 1, 075 (representing 25 per cent) were dormant (Republic of Kenya, 2002: 147). With regard to SACCOs, KUSCCO records indicate that 2,600 out of the total number of 4,474 were active as at 31st December, 2004, implying that 1874 (42 per cent of the) SACCOs were dormant. If these figures are correct, it can be estimated that about 30 per cent of the cooperatives could be dormant.

With regard to membership, some of our respondents estimated it at about 5 million. However, statistics at the Ministry of Co-operative Development and Marketing indicate that co-operatives in Kenya had a total membership of 3,377,000 at the end of 2004, 72 per cent of whom belonged to non-agricultural co-operatives. Once again, SACCOs had the largest membership among the non-agricultural co-operatives. Out of 2, 453, 000 members of these co-operatives, about 2 million were SACCO members. These figures, however, include dormant members, whose exact number we could not establish. Nevertheless, the magnitude can be illustrated by Githunguri Dairy Farmers Co-operative Society. Out of the cumulative figure of about 12, 000 members that are in the register, only 6, 000 were reported to be active. The implication is that about 50 per cent of the members of agricultural co-operatives could be dormant.

The data nevertheless shows a general decline in the growth of co-operative membership, particularly in the agricultural sector. For instance, whereas the membership of agricultural co-operatives was 1, 554, 000 in 2000, it had fallen to 924, 000 in 2004. SACCOs also suffered a similar fate, though at a lower magnitude. Their membership of 2, 670, 000 in 2000 had fallen to 1, 575, 000 in 2004. Whereas the decline in membership in agricultural co-operatives could be attributed to the general recession in the agricultural sector, public and private sector reforms after the liberalization of the economy that led to the retrenchment of employees saw SACCOs loose their members.

Despite such variations in the slight decline of membership, the overall trend is an increase in cooperative membership over the years, particularly among SACCOs that are steadily increasing in number. Indeed, new SACCOs are being formed even among the self-employed persons in the informal (*Jua Kali*) and agricultural sectors, which is a complete departure from the past where these co-operatives were only formed among the employed persons in the urban areas who could make their share contributions through a payroll check-off system. To this extent, it can be said that cooperatives have survived the liberalization measures and are quite alive in Kenya.

The Structural Transformation of the Cooperative Movement

As it may be apparent, vertical integration has been a feature of the co-operative movement since its inception. Co-operative societies have always been affiliated to activity-based and district co-operative unions. The latter are then affiliated to national co-operative organizations, which are members of the apex co-operative organization.

This vertical structure has seen the evolution of a vibrant co-operative movement over the years. Nevertheless, the liberalization of the cooperative movement has triggered a transformation in this structural organization. The inefficient cooperative unions are increasingly loosing their members, for cooperative societies now have the freedom to seek better service provision from other organizations or make provision for such services on their own.

Agricultural co-operative unions have particularly been affected in this regard. For instance, in the dairy sub-sector, co-operative societies were affiliated to the Kenya Co-operative Creameries (KCC) that monopolized the processing and marketing of milk up to the early 1990s. However, KCC's poor financial performance in the late 1980s and early 1990s forced it to pay co-operatives, and subsequently the producers, lower milk prices than the cost of production. This was due to inefficiency in KCC's collection and processing operations as well as the political directives regarding prices at which KCC could sell milk to consumers. The problem of low prices to producers was compounded by delayed payments by KCC to co-operatives for milk supplied, sometimes taking several months. This forced producers to shift more sales to the informal raw milk market, thereby drastically reducing supplies to KCC (Staal et al, 1997: 785; Owango et al, 1998:174). The persistent poor performance of KCC saw it sold to politically-connected private investors in 2000 after it failed to pay Kshs. 220 million (about US$. 3,142,857) owed to its employees and a bank loan of Kshs. 400 million (about US$. 5,714,285). Since the mid 1990s, dairy co-operative societies have been functioning independently without a union. It is in these circumstances that some of them like

Githunguri and Limuru dairy co-operative societies have put up their own milk processing plants. Thus, vertical integration of cooperatives in the dairy sector has virtually collapsed as cooperative societies now have the freedom to sell their produce to any willing buyer rather than KCC and some of the societies have put up their own milk processing plants to offer the services previously provided by KCC.

The coffee sub-sector is also sliding into a similar fate given the poor performance of the Kenya Planters Co-operative Union (KPCU). Whereas part of the problems in KPCU can be attributed to the liberalization of the coffee sub-sector in the early 1990s that introduced new coffee millers and marketing agents to compete with the union as well as the new coffee central auction system that is long and characterized by delayed payments, it is poor management that seems to be the key problem. For instance, KPCU is owed Kshs. 2 billion (about US$. 28,571,428) by politicians, businessmen and large plantation owners - some of whom are the main competitors to the union. This debt has seen KPCU unable to pay farmers promptly for their produce. It is this delayed payment that is triggering some co-operatives affiliated to the union to market their coffee through private agents, thereby denying the union income and vibrancy. The situation for KPCU is likely to worsen when the proposed direct marketing system is introduced, for more players will enter the market to pay farmers cash on delivery of their produce. Co-operative societies are likely to start operating outside KPCU, as some of them are already doing, thereby destabilizing the vertical integration of cooperatives in the coffee sub-sector.

It should also be pointed out, at least for the record, that some cooperative unions in the agricultural sector have simply faded away on account of farmers abandoning the production of certain crops mainly due to the poor marketing chain. Without the said produce, agricultural marketing cooperative societies and unions would subsequently have no business. The point has already been made in this regard that the decline in the production of cotton in the late 1980s has seen most of the co-operative societies in this sector remain dormant. The unions have had no option but to fade away. For instance, Luanda Cotton Farmers Co-operative Union in Busia district had to close down its ginnery that had just been rehabilitated in 1992 following the collapse of cotton production, thereby breaking down the vertical integration of cooperatives in the cotton sub-sector.

Nevertheless, non-agricultural co-operative unions have remained vibrant, particularly those in the financial sector, and have subsequently maintained the vertical structure of the cooperative movement. For instance, KUSCCO brings together 2,600 active SACCO societies with a membership of over two million while KERUSSU has 45 active rural SACCO societies with a membership of 1,430,390. These unions serve as the mouth-pieces of the respective SACCOs in the country; a role that continue to see these unions attract rather than loose membership. KUSCCO also provides common shared services like education and training; business development, consultancy and research; risk management; and the inter-lending program for SACCOs called Central Finance Program. It is these services that have attracted SACCOs to remain loyal members of KUSCCO, making it the largest SACCO movement in Sub-Saharan Africa (Evans, 2002:

13). The implication of vertical integration in the SACCO movement as compared to the evidence from the agricultural sector is that cooperative societies are only maintaining their membership in the cooperative unions that provide the services that the societies yearn for. This is largely happening due to the freedom that liberalization has afforded cooperative societies relative to the era of state control.

Vertical integration of cooperatives at the apex level also seems to be disintegrating, partly due to the liberalization of the movement. KNFC was formed in 1964 to promote co-operative development; unite the co-operative movement; and represent co-operative interests on all matters of policy and legislation. Its over-riding role was to be the spokesman of the co-operative movement in Kenya. However, poor management over the years saw it deviate from its core business into other activities like education and training as well as research and consultancy that were already being performed by some of its members. The liberalization of the co-operative sector worsened matters for the falling giant as cooperative unions had the opportunity to seek services like printing stationary, auditing, education and training that KNFC used to provide from alternative private organizations that are more efficient.

In the meantime, corruption and ethnicity became the main driving forces in the election of the board of directors at KNFC. Such a board would then appoint incompetent chief executives with the intension of looting the organization. Cooperative unions and other members were obviously dissatisfied with this turn of events and opted out of the apex federation. The Minister for Co-operative Development and Marketing responded to the situation in May 2005 by dissolving KNFC's board of directors following an inquiry report that implicated the executive director in corruption and gross mismanagement. By that time, its membership had shrunk from over 8,000 to just over 600. The institution was bankrupt and could not pay its workers. Property and printing equipment worth millions of shillings had been vandalized and others stolen. The organization had even failed to pay its membership fees to ICA.

Currently, most of the cooperative organizations are functioning without reference to the apex organization. The role of spokesperson and representative of the cooperative movement is increasingly being played by national cooperative organizations and cooperative unions. For instance, KUSCCO now stands out as the mouth-piece and advocate of SACCOs in all matters that affect the development and growth of these cooperatives. In the recent past, it was vocal in opposing the retrenchment of employees as that would affect the membership of SACCOs. Even more significantly, KUSCCO was recently involved in the formulation of the yet to be debated and enacted SACCO Act that sets out to make special provisions for the registration and licensing of SACCOs; prudential requirements; standard forms of accounts; co-operate governance; amalgamations, divisions and liquidations; establishment of a SACCO Regulatory Authority; savings protection insurance; and setting up a Central Liquidity Fund, among others. In the circumstances, the collapse of the vertical organization of the cooperative movement in the country is increasingly becoming evident.

Though the horizontal integration of the co-operative movement has not been as pronounced as vertical integration, it has also been affected by the liberalization of the sector. This form of integration has found expression through NCOs, which carry out specialized and investment functions for the entire co-operative movement. One example is the Co-operative Insurance Company. Initially started as an insurance agency to secure insurance cover for co-operatives in 1972, it was formally licensed as a composite company in 1980 to provide risk protection to co-operative properties like vehicles, factories and buildings as well as SACCO savings in the event of deceased loanees. With the liberalization of the sector, CIC now offers its services not only to cooperatives, but also to private organizations and individuals. Though it is currently wholly owned by 1,495 co-operative organizations, which have put in more than Kshs. 200 million (about US$. 2,857,142) as share capital, the likelihood is that other private actors may become shareholders in the near future.

The other example of horizontal integration is the Co-operative Bank of Kenya. Started in 1968 for purposes of mobilizing savings to offer banking services and affordable credit to the co-operative movement, the bank initially restricted shareholding to co-operatives only. However, with the liberalization of the economy, the bank opened shareholding to individual members of co-operative societies duly recommended by their societies in 1996. It has, however, retained its association with the co-operative movement by restricting 70 per cent of the shares to co-operatives while individual members of societies hold only 30 per cent of the shares and are not entitled to attend the annual general meeting of the bank. This has helped to keep out private shareholders who might have bought out the bank as has been the case in other African countries. Nevertheless, since the liberalization of the co-operative movement, the bank has been striving to modernize its services to effectively compete with other banks and financial institutions in order to increase its profitability. For instance, in 2004 the bank made a pre-tax profit of Kshs.365 million (about US$. 5,214,285), up from Kshs.183.4 million (about US$. 2,620,000) in 2003. By September 2005, the bank had recorded a commendable pre-tax profit of Kshs.608 million (about US$. 8,685,714) – the highest profit ever since its establishment. This drive for profitability in the competitive financial market may see the bank offer more shares to individuals and private companies, which may completely transform its structural organization.

The Performance of the Cooperative Movement

There are variations with regard to the performance of co-operatives in the country since the liberalization of the sector. Whereas the performance of agricultural co-operatives has generally been on the decline since 2000, that of non-agricultural co-operatives, especially SACCOs, has been on the rise. Using turnover (income) as an indicator of co-operative performance, Table 2 below illustrates this point.

TABLE 2: TOTAL TURNOVER OF SOCIETIES AND UNIONS, 1998-2004
(Kenya Shillings, Millions; 1 US$ = 70 Kshs)

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Co-operative Type							
Coffee	7,188	7,661	7,741	6,928	2,976	2,538	2,492
Cotton	5	5	5	3.8	3.2	1.0	1.0
Pyrethrum	128	129	129	122	122	114	102
Sugarcane	332	340	345	344	341	218	209
Dairy	1,501	1,530	1,529	1,268	1,325	1,290	1,400
Multi-produce	126	128	129	225	226	83	84
Farm purchase	58	59	60	60	60	0.5	5
Fisheries	5	6	7	7	6	522	339
Other Agricultural	288	288	292	296	296	239	256
Total Agricultural	**9,631**	**10,146**	**10,237**	**9,254**	**5,355**	**5,005**	**4,888**
SACCOs	3,381	3,386	3,389	4,882	4,886	8,261	8,359
Consumer	8	9	9	8	8	2	4
Housing	7	8	8	8	10	54	47
Craftsmen	40	42	43	42	43	158	144
Transport	25	26	26	25	24	2	3
Other Non-agric.	52	54	56	56	57	27	32
Total Non-agric.	**3,515**	**3,527**	**3,533**	**5,023**	**5,030**	**8,504**	**8,589**
UNIONS	197	198	269	389	389	963	983
GRAND TOTAL	**13,343**	**13,871**	**14,039**	**14,666**	**10,774**	**13,509**	**13,477**

SOURCE: Ministry of Co-operative Development and Marketing, Statistics Unit.

Table 2 shows that the performance of agricultural co-operatives, with the exception of dairy co-operatives, has generally shrunk to the extent that the turnover of SACCOs in 2004 almost doubled the combined income of all agricultural co-operatives. That SACCOs are the prime movers of the co-operative sector is illustrated by the fact that their turnover in 2004 constituted 62 per cent of the total turnover of all co-operatives in the country. This is partly due to the mushrooming of SACCOs in the formal wage employment sector, which stands out as the most vibrant in the country rather than the agricultural marketing co-operatives that were dominant up to the end of the 1980s. Data in Table 3 of the ten leading SACCOs (in terms of annual turnover) in 2005 serve to demonstrate their vibrancy.

TABLE 3: TOP TEN SACCOs IN ANNUAL TURNOVER, 2005

Name of SACCO	Membership	Number of Staff	Annual Turnover (in Kshs; 1 US$ = 70 Kshs)
Mwalimu SACCO Ltd.	44, 400	219	711, 562, 812
Harambee SACCO Ltd.	84, 920	235	514, 276, 669
Afya SACCO Ltd.	44, 879	283	483, 599, 495
Ukulima SACCO Ltd.	35, 048	138	284, 707, 899
Kenya Bankers SACCO Ltd.	14, 800	54	246, 000, 000
Stima SACCO Ltd.	14, 789	38	235, 500, 000
Gusii Mwalimu SACCO Ltd.	13, 042	48	219, 506, 484
Kenya Police SACCO Ltd.	6, 575	74	156, 790, 546
UNEP SACCO Ltd.	2, 501	7	148, 790, 782
Teleposta SACCO Ltd.	16, 319	58	146, 638, 556

SOURCE: Annual Reports of the SACCOs

The vibrancy of SACCOs is further illustrated by the fact that their financial strength has enabled them to replace agricultural marketing co-operatives as the leading shareholders in the Co-operative Bank of Kenya – the fourth largest bank in Kenya. With proper management and leadership integrity, SACCOs stand a higher chance of sustainability for two reasons that have dogged agricultural co-operatives. First, they largely rely on their own financial resources to transact their activities; thereby avoiding the pitfall of dependency. Secondly, being in the financial sector, their services will always remain on demand unlike agricultural co-operatives that are dependent on the performance of the agricultural sector. Indeed, the increasing decline of agricultural co-operatives has to do with the recession in the said sector since the late 1980s, which has seen a sharp drop in the production of certain crops like cotton, pyrethrum and to some extent coffee.

Nevertheless, the relative poor performance of agricultural cooperatives could also be attributed to the liberalization of the co-operative sector without adequately preparing the co-operatives. The relative better performance of Githunguri Dairy Farmers Cooperative Society may validate this point. This cooperative was formed in 1961, with a membership of 31, through state initiatives to help milk producers market their produce. Like other dairy cooperatives, its initial activity was to collect milk from members and sell to KCC. The problems that bedeviled KCC in the era of state control, which we have already referred to, affected the performance of this cooperative to the extent that some of the members abandoned dairy farming altogether. However, the liberalization of the sector turned around the fortunes of Githunguri Dairy Farmers Cooperative Society. With the freedom to sell its milk to any willing buyer, it started exploring alternative markets to KCC. The resultant increased profitability encouraged officials to explore the possibility of constructing its own milk processing plant. In 2003, the management committee used the power to borrow and charge the society's property to get a loan of about 70 million Kenya shillings (about US$. 1,000,000) from OIKO Credit of the Netherlands to put up a modern dairy processing plant, which was completed in 2004.

Since then, the cooperative collects and processes about 80,000 liters of milk daily, up from 25,000 liters in 1999. It has eighteen vehicles for transporting milk from 41 collection centers in Githunguri Division of Kiambu district to its plant in Githunguri town. The plant produces four main branded products that are sold in Nairobi namely, packed fresh milk, yoghurt, ghee and butter. Besides this activity, the co-operative also provides productive services to its members. These include artificial insemination; extension services; and animal feeds in its 31 stores that straddle its area of operation. These services are availed to members on credit that is recovered from the sale of their milk. These activities have seen tremendous improvement in milk production by members, to which the co-operative has responded by offering competitive prices and promptly paying for members' produce to further motivate them. The turnover of the co-operative in 2005 was over one billion Kenya shillings (about US$. 14,285,714), with a share capital of over 100 million Kenya shillings (about US$. 1,428,571).

The expansive activities of the co-operative are taken care of by a staff of about 300 employees that are recruited on the basis of an employment policy. Whereas the lower cadre staff is recruited from within the Division, management staff is sought nationally and appointed on the basis of professional qualifications. It is significant that unionisable employees have formed a trade union, which has entered a collective bargaining agreement (CBA) with the co-operative. This is increasingly enabling the co-operative to attract and retain staff relative to the era of state control when there was no employment policy, but the discretion of the Commissioner of Co-operative Development. The cooperative is now well-adapted to the competitive market and is performing better than it did during the era of state control.

Clearly, liberalization only benefited this cooperative because it had a focused management committee that prepared the cooperative for the competitive market by acquiring the modern milk processing plant, without which the cooperative might have disintegrated with the sale of KCC as many other dairy cooperatives did. The key lesson that we learn from this cooperative is that liberalization in itself is not bad for the cooperative movement, but it requires that cooperatives be prepared by equipping them with the facilities that would enable them to effectively compete with private actors in the market.

CONCLUSION

It has been the purpose in this discussion to highlight the impact of liberalization measures on the status, structural organization and performance of cooperatives in Kenya. Evidence from the field suggests that cooperatives have indeed survived the market forces and continued to grow in number and membership, with non-agricultural cooperatives recording higher growth in this regard than the agricultural ones. The market forces have, however, triggered a transformation in the structural organization of cooperatives in the country. Due to their inability to provide members with competitive services, state-imposed federative and apex cooperative organizations are increasingly fading away. To reclaim the services that were previously provided by such federative and apex organizations, cooperative societies and unions are steadily making their own arrangements to provide the services to their members. Thus, the indication is that liberalization has given cooperatives the impetus to re-examine their organizational formations with a view to reorganizing in their best interest rather than that of the state as had been the case in the era of state control. It is in this regard that cooperatives are increasingly diversifying their activities in order to respond to the challenges of the market as they endeavor to satisfy the interests and demands of their members. Those cooperatives that have managed to adapt to the new market system are recording better performance than they did in the past era of state control. Such cooperatives seem to have reinvented the business wheel that they had lost in the past era when they were prematurely “arrested” by the state. Whereas the future of cooperative development in a liberalized economic environment seems to be bright, the challenge is how to inculcate the business virtues in the less-adapted cooperatives in order to spread the benefits of the “new” mode of cooperation to a wider population in the country.

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