

REPUBLIC OF KENYA



**MINISTRY OF INDUSTRY, TRADE AND CO-OPERATIVES**

**STATE DEPARTMENT OF CO-OPERATIVES**

**CO-OPERATIVE DEVELOPMENT POLICY**

**“Promoting Co-operative Enterprises for Industrialization”**

**JUNE 2017**

## Table of Contents

<b>ACRONYMS AND ABBREVIATIONS .....</b>	<b>iv</b>
<b>PREFACE .....</b>	<b>vii</b>
<b>FORWARD.....</b>	<b>viii</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>x</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>12</b>
1.1 Background .....	12
1.2 Justification for policy review.....	14
1.3 Challenges.....	14
1.4 Main Objective.....	16
1.5 Specific objectives .....	16
1.5 Theme of the Policy .....	16
<b>CHAPTER TWO: ROLE OF CO-OPERATIVES IN NATIONAL DEVELOPMENT ..</b>	<b>18</b>
2.1 Definition .....	18
2.2 Contributions to national development.....	18
2.3 Co-operatives and Value addition.....	19
2.4 Potential contributions of co-operatives to development.....	21
<b>CHAPTER THREE: THE STRUCTURE OF THE COOPERATIVE MOVEMENT ....</b>	<b>22</b>
3.1 Cooperative Principles .....	22
3.2 Co-operative Values.....	22
3.3 The Structure of Cooperative Movement.....	23
3.3.1 Merger of cooperative federations .....	24
3.3.2 Co-operative companies .....	24
3.3.3 Holding Co-operatives .....	25
3.3.4 Dual Registration of co-operatives.....	25
3.3.5 Emerging Cooperative Enterprises.....	25

3.3.6 Viable Co-operative entities .....	27
3.4 Policy on New Co-operative Movement Structure .....	28
3.4.1 Background .....	28
<b>CHAPTER FOUR: COOPERATIVE GOVERNANCE .....</b>	<b>30</b>
4.1 Background .....	30
4.2 Terms limit for elected Co-operative leaders .....	30
4.3 Mode of representation in Co-operatives .....	31
4.4 Infringement of Members rights .....	31
4.5 Political Neutrality .....	32
4.6 Indemnity and wealth declaration .....	32
4.7 Leadership standards .....	32
4.8 Appraisal of New Cooperative Registration Application .....	33
4.9 Stratification of Cooperatives .....	33
<b>CHAPTER FIVE: CO-OPERATIVE FINANCE AND INVESTMENTS .....</b>	<b>35</b>
5.1 Background .....	35
5.2 Savings mobilization .....	35
5.3 Financing of Investments .....	36
5.4 Remittances .....	36
5.5 Refund of deposits .....	37
5.6 Housing Cooperatives .....	37
5.7 Investment co-operatives .....	38
5.7.1 Mortgage incentives and Use of appropriate housing technology .....	38
5.7.2 Decent Shelters .....	38
5.8 Co-operative Debt Management .....	39
5.8.1 Default on Co-operative loans .....	39
5.9 Emerging Cooperative Enterprise Responses .....	40

5.9.1 Background .....	40
5.9.2 National payment system .....	40
5.9.3 Regulation for SACCOs.....	41
5.9.4 Agency banking & emerging alternative channels.....	41
5.9.5 Co-operative share trading .....	41
<b>CHAPTER SIX: COOPERATIVE EDUCATION, TRAINING AND RESEARCH .....</b>	<b>43</b>
6.1 Background .....	43
6.2 Co-operative Research and Development.....	44
6.3 Emerging opportunities.....	44
6.3.2 ICT .....	45
<b>CHAPTER SEVEN: POLICY IMPLEMENTATION .....</b>	<b>46</b>
7.1 Background .....	46
7.2 Role of Government.....	46
7.3 Role of County Governments .....	47
7.4 Role of the National Government .....	47
7.5 Role of other Government Agencies.....	47
7.5.1 SACCO Societies Regulatory Authority (SASRA) .....	47
7.5.2 Co-operative Tribunal.....	48
7.5.3 Ethics Commission for Co-operative enterprises (ECCOs).....	48
7.5.4 Co-operative University of Kenya .....	49
7.6 Role of Non-State Stakeholders.....	49
<b>CHAPTER EIGHT: CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>51</b>
8.1 Conclusions.....	51
8.1 Recommendations.....	52

## ACRONYMS AND ABBREVIATIONS

ACCOSCA	-	African Confederation of Savings and Credit Co-operative Association
AFRACA	-	African Rural & Agricultural Credit Association
ASAL	-	Arid and Semi-Arid Lands
ASDS	-	Agricultural Sector Development Strategy
ATM	-	Automated Teller Machines
CAK	-	Co-operative Alliance of Kenya
CBO	-	Community Based Organization
CCHL	-	Co-operative Communication Holdings Limited
CFSRD	-	Comprehensive Financial Sector Reform and Development
CIC	-	Co-operative Insurance Company
CIS	-	Co-operative Insurance Services
CODIC	-	Co-operative Data and Information Centre
CPPs	-	Co-operative Private Partnerships
CRB	-	Credit Reference Bureau
ECCOs	-	Ethics Commission for Co-operatives
EPC	-	Export Promotion Council
EPZ	-	Export Processing Zones
ERS	-	Economic Recovery Strategy
FOSA	-	Front Office Service Activity
GDP	-	Gross Domestic Product
HIV/AIDs	-	Human Immunodeficiency Virus/ Acquired Immune Deficiency
HRD	-	Human Resource Development

ICA	-	International Co-operative Alliance
ICT	-	Information and Communication Technology
IRU	-	Internationale Raiffeisen Union
KCC	-	Kenya Co-operative Creameries
KCCE	-	Kenya Commodity Co-operative Exporters
KERUSSU	-	Kenya Rural SACCO Enterprises' Union
KFA	-	Kenya Farmers Association
KIE	-	Kenya Industrial Estates
KIRDI	-	Kenya Industrial Research Development Institute
KNFC	-	Kenya National Federation of Co-operatives
KPCU	-	Kenya Planters Co-operative Union
KUSCCO	-	Kenya Union of Savings and Credit Co-operatives
KV2030	-	Kenya Vision 2030
Ltd	-	Limited
M&E	-	Monitoring and Evaluation
MFIs	-	Micro Finance Institutions
MSME	-	Micro, Small and Medium Enterprise
NACHU	-	National Co-operative Housing Union
NACOs	-	National Co-operative Organizations
NSE	-	Nairobi Securities Exchange
PBO	-	Public Benefits Organizations
POEA	-	Public Officers Ethics Act
SACCOs	-	Savings and Credit Co-operatives
SASRA	-	SACCO Societies Regulatory Authority
SEZs	-	Special Economic Zones
SMEs	-	Small and Medium Enterprises

TNA - Training Needs Assessment  
WOCCU - World Council of Credit Unions

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## PREFACE

Vide the executive Order No. 1/2016 of May 2016, on the Organization of the government of the Republic of Kenya, the Ministry of Industry, Trade and Cooperatives is mandated to formulate national co-operative policies, coordinate activities of the National co-operative organizations. In addition, it is mandated to carry out inquiries and investigations of co-operative enterprises, carry out registration and liquidation of co-operative societies, and enforce auditing standards and registration of co-operative audits. The Ministry is also expected to enforce good governance and ethics on co-operative societies, promote public private partnerships and joint ventures as well as enhance foreign and bilateral relations on co-operative matters.

The theme of this policy is *“Promoting cooperative Enterprises for Industrialization”* as a way of ensuring that co-operative societies participate effectively in making Kenya an industrialized country as envisaged in Kenya Vision 2030.

The policy responds to the provisions of the constitution of Kenya and in particular, the devolution of certain aspects of co-operative activities. Co-operative enterprises are important business enterprises through which faster economic growth in counties can be realized. The intent of the policy is to create the base for a conducive environment for accelerating and consolidating co-operative growth in a dynamic market economy. To accommodate the interests of all stakeholders, the policy takes into account the diversity of co-operative societies’ activities.

Implementation of the policy is intended to strengthen the productive capacity of the Co-operative sector and transform it into a vibrant and sustainable economic sector. It shall require all key stakeholders in the sector to continuously dialogue and work together to achieve the overall goal and provide solutions to the challenges facing the sector.

The preparation of this policy was subjected to an exhaustive stakeholder’s consultation process. It is envisaged that implementation of the policies will require continuous dialogue with these stakeholders

If effectively implemented, this comprehensive policy framework will guide the Co-operative sector in a competitive business environment. The contributions by stakeholders is appreciated.

**Ali Noor Ismail, CBS**

**Principal Secretary, State Department for Co-operative Development**



## FORWARD

The Government recognizes that the co-operative movement as critical player in pursuit of Kenya's national, social and economic objectives, which are rapid economic growth, equitable and sustainable development. This Policy Paper on promoting *Co-operative Enterprises* for Industrialization aims at transforming the Co-operative sector into vibrant social and commercial entities through co-operative extension services, education and training, co-operative marketing and research, external audit services, co-operative credit and banking services and promotion of good co-operate governance.

The policy identifies contemporary challenges that co-operative enterprises face and defines a policy paradigm shift towards a more proactive engagement between Government, the Co-operative sector and other stakeholders in addressing these challenges. It also seeks to rationalize the role of Government in co-operative development in line with the goals of Kenya Vision 2030 whose aim is to make Kenya efficient and globally competitive. In this respect, the Government will continue to uphold the sanctity of the co-operative principles while ensuring that the interests of the general membership are safeguarded.

The transformation of the economy since Kenya adopted the Sessional Paper No.1 of 1986 on Economic Growth for Renewed Development brought in various challenges to the cooperative sector. Among them was the liberalization process that culminated in some management challenges. Other challenges include; low domestic savings and investments, high cost of finance, inadequate market access, poor governance, low adoption of Information and Communication Technology (ICT) and value addition, highly dynamic economic environment, indebtedness, inadequate co-operative education and training, poor publicity and advocacy, HIV/AIDs and emerging lifestyle health challenges, ageing membership, inadequate policy, legal and regulatory framework, among others. Other domestic challenges facing co-operative enterprises are high dependence of the country on rain-fed agriculture as a source of raw materials; low agricultural productivity; insufficient technical skills and personnel; and socio-cultural barriers to trade. At the Regional and Global level, periodic recession in the economies of Kenyan major trading partners often adversely affect co-operative exports. In addition, the volatile international financial market causes price fluctuations on commodity prices.

Implementation of the Policy will place co-operative enterprises at the forefront in mobilizing savings, enhancing agricultural and non-agricultural productivity, fighting poverty and promoting equity. Co-operative enterprises provide avenues for mobilization of domestic savings, promotion cost-effective procurement and distribution of farm inputs, acquisition of new technologies and upgrading of production facilities. This Policy provides a framework for mobilizing financial and technical assistance for co-operative development, besides encouraging public/private partnerships between co-operative enterprises, private investors and Government towards increased value-addition and aggressive marketing of co-operative products and services.

Similarly, it will address the pressing challenges that include inadequate funding, staffing, limited staff capacity in terms of skills and low levels of staff motivation in order to successfully oversee co-operative development and attainment of three key strategic objectives: to build adequate marketing capacity within the Co-operative sector; to facilitate revitalization and continued growth of co-operative enterprises; and to build capacity to enforce the law. In implementing this Policy, the Government will promote an innovative, commercially-oriented and modern agriculture which will stimulate and promote the revival of input supply co-operative enterprises and create the necessary capacity to trade in large volumes of inputs, engage in the distribution of farm inputs while taking advantage of economies of scale.

In an effort to address the challenges, the policy recognises the critical role played by the county Governments as key centres of development through which economic growth can be realized through creation of synergies with the National Government and other Agencies. The different roles of both the national and county governments in the growth and development of co-operative enterprises are identified to ensure a structured approach for the sake of harmony in the sector.

The restructuring and strengthening of the management of the co-operative institutions will spur realization of the government's objectives of economic growth and poverty reduction. Other critical policy interventions will include ensuring a deeper penetration of co-operative financial services through innovative products and development of new co-operative enterprises in under-served areas. Emerging co-operative business models will be a major boost to the mobilization efforts being undertaken.

**Hon. Adan Mohamed, EGH**

**Cabinet Secretary, Ministry of Industry, Trade and Co-operatives**

## EXECUTIVE SUMMARY

This Policy Paper on “*Promoting Co-operative Enterprises for Industrialization*” presents a policy framework aimed at accelerating the growth of Kenya’s Co-operative sector in a dynamic and competitive global environment. It replaces Sessional Paper No. 6 of 1997, on *Co-operatives in a Liberalized Economic Environment*. The Policy highlights the historical background of the Co-operative sector worldwide and more specifically in Kenya and explains why it remains an important contributor towards industrialization and economic development in the country as expounded in Vision 2030. The Policy paper explains the four-tier structure of the Kenyan Co-operative sector, which comprises of Primary, Secondary, Federation and Apex organizations and their respective roles.

By the end of 2015, there were 19,200 registered co-operative enterprises with a total membership of 14 Million members. At the same time, SACCOs had mobilised Kshs.600 Billion as deposits and had given out Ksh.329 Billion in loans and advances. By the end of the same period, SACCOs had an asset base worth Kshs. 470 Billion.

The Policy paper expounds the various challenges faced by the Co-operative sector and goes further to provide for requisite solutions through diverse proposed interventions. This policy aims at reinforcing the catalytic role of Government in co-operatives in promoting comparative advantage of the co-operative enterprises in dealing with poverty, wealth and employment creation in Kenya. Drawing from both the National and Sectoral policies guiding co-operative enterprise development in Kenya, the policy envisages that co-operative enterprises will increasingly play a major role in the realization of flagship projects.

This Policy paper spells out the policy direction on co-operative enterprise development as provided for in the mandate of the Ministry of Industry, Trade and Cooperatives **in which the National Government shall facilitate growth and development of co-operative enterprises throughout the country while the County governments shall be responsible for co-operative enterprise development in their respective Counties**. In addition, synergies will be built with other Government Agencies and non-state stakeholders, including Development Partners.

The theme of this Co-operative Development Policy, promoting *Co-operative Enterprises for Industries*, puts co-operative enterprises in vantage position to apply modern and innovative business models to tap enormous opportunities existing in various sectors of the economy, including value addition, agro-processing and other industrial ventures. In order to complement these, financial co-operative enterprises are expected to mobilize adequate resources for purposes of funding manufacturing SMEs and other investments of capital nature. The diverse nature of co-operative enterprises will harness the country’s development agenda in virtually all sectors of the economy.

The management and development of the cooperative sector is expected to play a major role in the country’s vision towards industrialization. Towards that end, the policy aims at enhancing

the role of cooperatives in the social-economic development of Kenyan economy. It is expected that cooperatives will increasingly play a major role in industrialization of the country as the economy gradually transforms from heavy reliance from agricultural based development.

This policy is based on acknowledgement that cooperatives command a huge financial resource base capable of transforming the economy. To enhance this role, the government will continue to enhance education, Research and Development and use of Information, Communication and Technology.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background

The cooperatives movement in Kenya has grown over the years since the first cooperative society was established 1908 under the colonial government, to 18,573 cooperatives in 2016. The earlier cooperatives served the white settlers only. In 1931 the colonial Government enacted a cooperative Societies ordinance with the objective of promoting co-operatives in Kenya. This was subsequently reviewed in 1945 to allow Africans to be admitted as members of co-operative societies.

As part of the Government's efforts to harness the co-operative sector's growth potential, the Government has over the years reviewed policies and the legal framework governing co-operative operations. There have been many such reviews through Sessional Paper No. 10 of 1965, Sessional Paper No. 8 of 1970, a policy review of 1975, Sessional Paper No. 1 of 1986 and Sessional Paper No. 6 of 1997. All these policy papers and reviews ushered the movement into new historic growth phases.

At independence, the government established the basic principles that guided the country's development agenda through the Sessional Paper No. 10 of 1965 titled "African Socialism and its Application to Planning". Among others, this Sessional paper promoted "Kenyanism" in all spheres of the economy through the following principles:

- a) That Kenyans could freely participate in the development process.
- b) Kenyans encourage diversity of organizational forms and incentives to enhance effectiveness and efficiency in service delivery.
- c) The government actively participates in initiating and directing development and
- d) Kenya encourages mutual social responsibility and diffusion of resource ownership.

The Government has continued to formulate development strategies directed at achieving economic, political, social and environmental transformation aimed at changing people's lives through industrialization and sustainable utilization of resources. These strategies have supported the cooperative movement enterprises to mature from the traditional areas of agricultural production, processing and marketing to more sophisticated areas of finance, real estate, manufacturing and mining among other sectors.

The most recent policy review through Sessional Paper No. 1 of 1986 on economic management for renewed growth in Kenya and No. 6 of 1997 respectively, the government renewed the Cooperative policy to meet the needs of the Structural adjustment programs and market liberalizations. Cooperative enterprises were recognised as private business entities and the role government in cooperative management significantly reduced. As set out in the Presidential Executive Order No.1/2016 May 2016, Cooperatives are currently managed under the Ministry of Industry, Trade and Cooperatives.

The Enactment of the Cooperative Societies Act (1997 and amendments of 2004), the launch of Kenya Vision 2030 in June 2008, the enactment of Sacco Societies Act (2008), and the

promulgation of the Kenya Constitution 2010 introduced significant changes that impact the cooperative movement and cooperative enterprises development, which form the focus of this current policy review. Article 10 of the Kenya Constitution (2010) guides all state organs, state officers and public officers on the national values and principles that should be observed whenever one makes or implements public policy decisions. These values have been the cornerstone of Kenya's national development from independence, when the government opted for a pragmatic approach to development that espoused political equality, social justice and human dignity as opposed to achieving quick material gains for the country. The values and principles include;

- a) Patriotism, national unity, sharing and devolution of power, the rule of law, democracy and participation of the people.
- b) Human dignity, equity, social justice, inclusiveness, equality and protection of the marginalized;
- c) Good governance, integrity, transparency and accountability and
- d) Sustainable development.

The Government recognizes co-operative societies as important vehicles for realizing its medium and long term economic and social development objectives as they have immense potential for wealth creation, employment creation and poverty alleviation. Co-operatives continue to play a major role in the development of agriculture, financial services, trade, manufacturing, among other sectors of Kenya's economy.

The enactment of Kenya Constitution 2010 brought about fundamental changes in the management of Government affairs by creating two levels of Government, namely the National Government and the forty-seven County Governments. Under the Fourth Schedule, the Co-Operative Societies are classified as a devolved function thus necessitating a change in their governance. This significant change, as well as the legislative amendments of the cooperative sector legislative and regulatory frameworks such as Co-operative Societies Act (2004) and SASRA Act (2008), in addition to the introduction of the Kenya Vision 2030 necessitated the review of the cooperatives policy framework. These changes were necessary towards ensuring that the co-operative sub-sector continues to sustain its critical role in its contribution to the socio-economic development of both the National and County Governments.

This Cooperatives Policy revision comes in the wake of a new constitutional dispensation in Kenya. It has outlined the roles of the National and County governments in cooperative development and regulation. It also seeks to translate and cascade the broad social and economic policy interventions proposed in the Kenya Vision 2030, into the co-operative sector specific policy interventions. The Vision targets to ultimately raise gross national savings to 29% by 2030. The co-operatives movement, which currently generates 30% of national savings, is expected to play an important part in this undertaking. The Vision of this policy targets to ultimately raise gross national savings to 29% by 2030. The co-operatives movement, which currently generates approximately 20% of national savings, will play an important part in this undertaking.

## **1.2 Justification for policy review**

Successive co-operative development policy reviews have been necessitated by the changing economic environment and emerging national development priorities' and challenges. In tandem with the need to meet the dynamics of a modern economy, the Government has continuously reviewed the policy framework to guide the management and development of the Co-operative sector.

Following the promulgation of the Kenya Constitution 2010, co-operatives have found themselves operating within the old legal framework which at times contradicts the provisions of the constitution. For instance, the two key cooperative legislations, Co-operative Societies Act (2004) and the SACCO Societies Act (2008) do not provide for the functions of the devolved system of Government. This has created critical gaps in providing guidelines for the development of the cooperative movement to the detriment of the growth and development of co-operative societies. Noteworthy too is the fact that all government institutions were required to align their policies and legislation to the new political dispensation as provided under the Kenya Constitution 2010.

These new developments and the need to align cooperative enterprises activities to the Kenya Vision 2030, have necessitated review of the co-operative development policy. The main objective of this provision is to provide a platform that will help redefine the roles of both the National and County Governments in conformity with the Kenya Constitution 2010. It is expected that the revised policy will create a favourable environment for realizing improved efficiency, and profitability of the co-operatives, towards transforming commodities co-operatives into competitive manufacturing entities.

## **1.3 Challenges**

The main challenges in the entire cooperative sector, covering crop, financial and other cooperative enterprises include:

- a) The constitution of Kenya 2010 introduced devolved structure of governance, whereby functions are shared between the national government and the County government, however, the two operational legal frameworks of the Cooperative Societies Act (CSA) and the Savings and credit Societies Act (SSA) have not been amended to conform to the assignment of devolved functions;
- b) The cooperative sector has experienced incidences of dual legal incorporation of cooperative enterprises under both the Companies Act, and the CSA. e.g. the Kenya Planters Cooperative Union (KPCU). This situation complicates supervision of such entities;
- c) The prevailing low savings culture hinders the development of financial cooperatives and require policy interventions directed towards addressing these challenges;

- d) Kenya financial system has consistently maintained a high interest spread of between 7% and 13%, thereby making credit availability quite expensive. The introduction of the interest rate capping in 2016 has lowered the spread, but has had a negative effect on accessibility of lending to high risk SME and personal sectors;
- e) Most fresh produce are destroyed because of lack of quick access to markets because most members of cooperatives have farms located far from the trading centers, with undeveloped feeder roads where they face transportation challenges and high costs that affect profitability;
- f) Weak governance is an inherent challenge in cooperatives. The adoption of good governance practices is a challenge to the Cooperative sector that requires deliberate efforts to put in place governance structures and enforcement mechanism;
- g) Cooperative enterprises especially those involved in commodities and agricultural produce, have over years accumulated huge debts with financial institutions, and other government financial institutions. This has slowed the growth and development of such cooperative enterprises, discouraged members from patronizing them and caused some of them collapse;
- h) With the exception of Financial Cooperatives, most of them are still on manual (paper-based) operations. In addition, many cooperative enterprises, lack sufficient trained and experienced ICT personnel to effectively deliver ICT solutions;
- i) Most commodity based cooperative enterprises such as those involved in marketing, production or processing have been and are using obsolete equipment and machinery in bulking, milling, processing and marketing their commodities that increases the cost of processing and of the final product;
- j) Cooperative enterprises are at various stages of development; some are at the nascent stage, transition stage, while others are slowly attaining mature stage. Many cooperatives enterprises have not been able to fully cope with intense competition precipitated by economic liberalization;
- k) One of the major challenge facing cooperative enterprises is the inadequate research in emerging cooperative products and services. Additionally, there is lack of reliable sources of information and data pertaining to cooperative enterprises in Kenya;
- l) Provision of education and training in cooperative enterprises has not been regulated leading to proliferation of service providers with questionable credentials.
- m) Whereas cooperative enterprises play a critical role in the development of the Kenya economy through poverty reduction, employment and wealth creation, their significant contribution has not been given the prominence it deserves;



- n) The cooperative membership is comprised of an aging population. Majority of the members are in their late 60s and have not been able to adapt to new technology and modern business practices; and
- o) Many of the cooperative enterprises are unable to employ and retain high caliber management staff; the burden of due diligence is left to the cooperative members through the directors of the management committees, who are often have limited education on cooperative operations.

## **1.4 Main Objective**

The main objective of this policy is **“to promote a sustainable co-operative enterprises development for enhanced role in industrialization and improved social-economic development.”**

## **1.5 Specific objectives**

Specific objectives of this policy will be to:

- 1) Re-align the co-operative development policy with the constitution 2010 and Kenya Vision 2030 government development master plan for greater effectiveness of co-operative regulatory framework and participation in industrialization
- 2) Redefine the co-operative movement structure and strengthen the management of co-operative enterprises to encourage integration in the sector for enhanced service delivery;
- 3) Promote the development and integration ICT in co-operative enterprises operations and marketing, for improved market access, marketing efficiency by co-operatives;
- 4) Promote viable co-operative enterprise investments, value addition, processing and manufacturing and enhance the capacity of co-operatives to conduct research.
- 5) Encourage co-operatives to take opportunities for partnerships, and joint ventures with other local and international agencies to acquire resources and skills to enhance their strategic competitiveness and skills transfer;

## **1.5 Theme of the Policy**

In the industrialization strategy unveiled in 2015, the Government identified five pillars that will help the country to industrialize by 2030. The pillars are:

- a) Grow our global export engines;
- b) Build food processing hubs;
- c) Build local content for resource and infrastructure investments;
- d) Enhance non-industrial job creating sectors;
- e) Develop Kenyan SMEs by supporting rising stars and building capabilities with model factories.
- f) To achieve the above mentioned national policy objective, co-operatives must transit from their traditional role of production of raw materials to the next level of value addition. It is envisaged that this will be achieved through adoption of appropriate technology and innovations, and effectively improve the wealth of members. From the

foregoing, the theme of this policy is “**Promoting Co-operative Enterprises for Industrialization**”.

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## CHAPTER TWO: ROLE OF CO-OPERATIVES IN NATIONAL DEVELOPMENT

### 2.1 Definition

The International Co-operative Alliance (ICA) defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.”

### 2.2 Contributions to national development

Co-operatives are established to protect members from exploitation through provision of quality and often fair-priced goods and services. They counteract both monopolistic and oligopolistic tendencies besides helping members and communities to gain access to markets where existing structures fail to provide producers with fair returns. Co-operative enterprises provide services to consumers which would otherwise not be available especially in remote areas or where a large population is excluded due to lack of financial services.

The Co-operative movement cuts across all sectors of the Kenyan economy both formal and informal. The benefits that have accrued to Kenyans through co-operative enterprises include employment and wealth creation. Other than being engaged in the traditional areas of agricultural production, processing and marketing, the strength of co-operatives can now be felt in finance, real estate, manufacturing and mining.

The growth of the co-operative movement in this country has been phenomenal since the last policy. By the end of 2016, there were more than 18,573 registered co-operative societies (Economic Survey 2017). The total assets of SACCOS are estimated at KShs.395billion, and that of entire Cooperative sector at 1.32 trillion. In addition, the total savings mobilization is KShs.640 billion (Sacco's accounting for 272 billion)

Table 1: Cooperative Societies in Kenya

Type	1986	1990	1995	2000	2005	2010	2015
Agric	1,619	2,351	3,080	4,349	4,304	4,686	5,451
Other	377	722	896	1,378	1,885	2,200	3,034
Sacco	1,642	2,251	2,810	3,627	4,678	6,267	8,914
<b>TOTAL</b>	<b>3,638</b>	<b>5,324</b>	<b>6,786</b>	<b>9,354</b>	<b>10,867</b>	<b>13,153</b>	<b>17,399</b>

Source: Economic Survey reports (1986 – 2016)

Cooperatives play a major role in terms of domestic savings accounting for an estimated 20-30% of total domestic savings. Through implementation of this policy, cooperatives are expected to contribute more than 50% of domestic savings by year 2030 to effectively support industrialization. (To check facts against documented reports).

Table 2: Assets and Deposits (Deposit Taking SACCO's)

Year	2014	2015	2016
Assets	301,537	342,843	393,136
Deposits	205, 974	237,440	272,749
Loans and Advances	228,524	251,080	282,733

Source: Economic Survey reports (2017)

<missing progressive data on deposits in entire cooperative sector for comparative analysis>

The performance of the agricultural sector of Kenya's economy has in relative terms performed poorly in the last one decade as compared to other sectors and in particular, related to manufacturing and industrial sector. This poor performance could be attributed to climate change and decreasing international commodity prices and global un-competitiveness.

The Government acknowledges that a genuine, autonomous and economically viable cooperative movement and its membership have a vast development potential. Among them is the capacity to create and develop income-generating activities and sustainable decent employment. In addition, they can help develop their business potential, including entrepreneurial and managerial capacities. It is also acknowledged that capacity building of cooperatives could strengthen their competitiveness as well as their ability to gain access to markets and to institutional finance. From historical experience in Kenya, the cooperatives could contribute to the expansion of a viable and dynamic distinctive sector of the economy which responds to the social and economic needs of local communities. These opportunities of creating a broad-based economic empowerment are crucial in attaining Kenya's industrialization and the Vision 2030 objectives.

### 2.3 Co-operatives and Value addition

Co-operatives have traditionally been formed by small scale farmers to market agricultural commodities including livestock and fisheries. But as marketing organizations, co-operatives were separated from value adding and industrialization. In essence all traditional co-operatives are a source of raw materials for industries.

The collapse of marketing Boards, whose role was to market commodities produced through co-operatives, left a huge gap along the marketing structure. Co-operatives who were agents of

these institutions have not taken the marketing role due to financial, human and managerial constraints. Most commodity based co-operative enterprises have been using obsolete equipment and machinery in bulking, milling and processing of commodities. This increases the cost of processing and therefore the cost of the final product.

Savings and Credit Co-operatives have managed to mobilise substantial savings which have been loaned out to members. Unfortunately, these loans have been used mainly for consumption purposes as little has been directed towards industrial activities.

Investments co-operatives that have been formed in the recent past have concentrated their resources on real estate development, thus ignoring the manufacturing sector. Likewise, transport SACCOs has not been able to meet their expectations of providing rapid public transport systems in urban centres. Instead they still continue to operate low capacity vehicles which are owned by individual members with the result of congestion and poor transport service in urban centres. It is evident that no reasonable progress could be realised as a country unless co-operatives direct their enormous resources towards industrial transformation.

This policy has adopted a theme “Promoting Cooperative Enterprises for Industrialization” as a rallying call to co-operatives to take the mantle and lead in the industrialization of this country as envisaged in Kenya Vision 2030. This objective is based on the realization that there are many benefits that will accrue if co-operatives are in the fore front of the industrialization process. These benefits include: equitable distribution of wealth, job creation especially in rural areas, increased producer prices for raw materials, indigenization of the economy, growth of the export capacity, strengthening of the local currency, strengthening of Brand Kenya amongst others.

Secondly, it is appreciated that cooperatives have linkages with the socio-economic well-being of the population. In addition, most of the Kenyan Cooperatives are agricultural based, and agriculture has remained the highest single contributor to the Gross Domestic Product and employment. It is therefore important to consider subsidies and bail-outs to sustain cooperatives whenever their performance has been affected by environmental factors.

### **Policy recommendation**

The government will promote specific interventions to spur industrialization

### **Policy strategy**

To enable the co-operative sector to take up a leading role in industrialization, the Government will implement the following interventions:

- a) Establish cooperative development funds for technical assistance and capacity building for cooperatives participating in value addition
- b) Provide incentives such as special financing for adoption of appropriate technology in value addition and other manufacturing activities;
- c) Encourage co-operatives to participate in the facility for futures markets in various commodity chains.

- d) Promote franchises between co-operative and major manufacturers in provision of finished or partly finished products;
- e) Availing access to infrastructure through incubation programs
- f) Facilitate co-operatives to engage in Cooperative Public Private Partnerships (CPPP) and Business Process Out-sourcing (BPO) and;
- g) Restructure flagship farmers' institutions and Federations to play the marketing responsibilities for the co-operative sector;
- h) Transform existing transport SACCOs into Transport co-operatives and provide transport cooperative incentives to invest in modern public rapid transport system; and
- i) Facilitate the legal environment for financial co-operatives to access long terms deposits that can enable them to diversify into special loans products targeting manufacturing activities.

## **2.4 Potential contributions of co-operatives to development**

The Government acknowledges that a genuine, autonomous and economically viable cooperative movement and its membership have a vast development potential to:

- a) Create and develop income-generating activities and sustainable decent employment;
- b) Develop human resources capacities and knowledge of the values, advantages
- c) Develop their business potential, including entrepreneurial and managerial capacities;
- d) Strengthen their competitiveness as well as gain access to markets and to institutional finance;
- e) Establish and expand a viable and dynamic distinctive sector of the economy which responds to the social and economic needs of the community; and
- f) Enhance broad-based economic empowerment, thereby assisting the Government in achieving the objectives of its development master plan KV 2030

## **CHAPTER THREE: THE STRUCTURE OF THE COOPERATIVE MOVEMENT**

### **3.1 Cooperative Principles**

All co-operatives in Kenya conduct their business in accordance with the following seven principles: -

**a) Open and voluntary membership**

Membership to a co-operative is open to all persons who wish to benefit from co-operative membership and are willing to accept the corresponding responsibilities without gender, racial, social, religious or political discrimination. One is free to leave at any time.

**b) Democratic member control**

Members have an equal voice commonly referred to as “One member one vote”.

**c) Member economic participation**

Members contribute equitably to the capital of their co-operative. The economic benefits of the society are returned to the member, reinvested in the society or used to provide member services. Members control the capital of the co-operative.

**d) Autonomy and independence**

Co-operatives are autonomous, self-help organizations controlled by the owners. They enjoy political, religious, racial and tribal neutrality.

**e) Education, training and information**

Co-operatives provide education and training to the members so that they can effectively participate in the development of the society. They also inform the general public.

**f) Co-operation amongst co-operative enterprises**

Co-operatives will serve their members better if they work together among themselves at local, regional, national and international levels.

**g) Concern for the community**

The co-operatives should work towards sustainable development of their communities through policies accepted by members.

### **3.2 Co-operative Values**

The co-operative principles above are based on the following co-operative values: self-help, self-responsibility, democracy, equality, equity and solidarity.

Arising from above, all co-operatives will be expected to operate within these principles and values. Therefore, going forward, they will be required to include a statement of conformity with these principles in their annual financial statements through their audited accounts

### **3.3 The Structure of Cooperative Movement**

The co-operative movement has operated on a four-tier system where the societies are classified as either primary, secondary, national or apex. From the outset, this structure was meant to;

- a) Consist of viable economic units capable of providing the services needed by members;
- b) Facilitate proper integration and modernization of the national economy;
- c) Exploit the economies of scale to ensure the highest possible returns to the individual members;
- d) Provide each co-operative sub-sector with a national co-operative organization that will nationally coordinate the activities of its affiliates and appropriate co-operative bodies internationally;
- e) Have a strong apex organization that will lobby and articulate the concerns of the co-operative movement nationally and internationally.

At the lowest level of the structure are the primary co-operatives that are formed by individual persons usually as a single purpose or single product enterprise. However, in order to achieve improved economies of scale; the Government encouraged the formation of secondary co-operatives that operated at local or national level.

These secondary co-operatives are instrumental in the provision of specialised services and goods to different sectors of the movement. At the Apex is the Co-operative Alliance of Kenya to which the primary, secondary and national co-operatives are affiliated.

The structure as described has served the Kenyan movement well despite the many challenges that have been brought about by the changing economic environment especially during the liberalization and structural adjustment period. This period witnessed a major realignment in the agricultural Production and marketing sector leading to poor performance of many primary co-operatives dealing in cereals, cotton, sugarcane, pyrethrum and dairy.

The secondary co-operatives both at local and national level did not perform any better. Many of the district co-operative unions have collapsed, while some national co-operatives have transformed themselves into companies to survive.

Over the years there have been changes in the movement where some national co-operatives like the co-operative bank and the co-operative insurance services had to transform into companies to meet the challenges of the industries in which they operate. In recognition of the devolved nature of Kenya governance structure, there is need to differentiate between county specific co-operatives and co-operatives operating within more than one county.

It is expected that the county specific co-operatives shall be referred to as County Co-operatives while co-operatives operating in more than one county shall be termed as National co-operatives. From this definition, primary co-operative and unions will be categorised as



either county or national co-operatives but all federations and the Apex body will be national co-operatives.

Co-operatives are private organizations. As such, the structure and organization of co-operative societies should always guarantee adequate member control of the co-operative institutions be it at primary or secondary level. Affiliating co-operative societies will be expected to offer effective control of all the secondary co-operatives they form. In addition, co-operatives that form companies for whatever reason are expected to guarantee effective oversight over those companies.

### **3.3.1 Merger of cooperative federations**

It is imperative to have institutions that focus on particular segment of sectors for equity purposes. The government discourages formation of Federations performing the same role with an existing one.

#### **Policy recommendation**

The government will promote merger of cooperative federations.

#### **Policy strategy**

The Government will provide a direction on merging Federations that have similar functions and overlapping clientele.

### **3.3.2 Co-operative companies**

To meet the standards set by the regulators in different sectors, co-operative organizations have been forced to form companies that can allow them to compete effectively in the respective sectors. The companies registered so far have been able to raise share capital from the members of the public either through the initial public offering or by private placement.

It is acknowledged that co-operatives have formed companies to overcome the restrictive capital access guidelines of the CSA 2004 and thus to them attract strategic investors to grow their businesses. When such companies are formed there have been incidences where the existing cooperative board members are listed as the directors of the company in their individual capacities rather than as trustees of the cooperative and the cooperative is not included as a shareholder. In contraction, the funds invested in the company activities belong to the cooperative, thus resulting in conflict of interest. Situations have arisen where some company directors who have engaged such unlawful corporate transactions have refused to hand over the company to the newly elected co-operative board members whenever there is a change in board composition, thereby exposing the assets of the cooperative to risk of loss.

To avoid the situations where co-operatives have more than fifty (50%) percent shareholding shall be known as co-operative companies to enable exercise of oversight by the

Commissioner of Cooperatives. To safeguard the interest of members in these companies, there is need for the Government to issue guidelines on these investments. The commissioner of Cooperatives will maintain a register of all co-operative companies.

### **Policy recommendation**

The Government will issue guidelines on investments made cooperatives in companies **and other entities**

### **Policy strategy**

The government will maintain oversight over investments made by cooperatives in all companies and other entities where cooperatives hold majority controlling shares (50% and above)

### **3.3.3 Holding Co-operatives**

In the recent past some co-operatives e.g. coop bank and CIC have formed subsidiaries companies to conduct business of their core objectives/activities due to the level of market competitions and need of making decision on the fly. This has made them initiate holding co-operatives which are basically strategic investors for the companies. This is a new concept and there are number complications that can arise from such arrangements. These holding companies must change their bylaws, stipulating their main role as investors of their subsidiary companies. The government will develop guidelines and procedure to be followed in formation and operations of the holding co-operatives.

### **3.3.4 Dual Registration of co-operatives**

Situations have been observed in the past where co-operatives were registered both as both co-operatives and companies all at the same time. It is now obvious that such an arrangement is not tenable and no co-operative organization shall operate under duo registration.

It has to be recognized that the underlying principles between a company and a co-operative are basically different. While co-operatives are associations of persons, where the personal participation of the member in the business process is important, a company is an association of capital. Where it becomes necessary therefore to transform co-operatives into companies, then the co-operatives will have to wind up their operations officially.

### **3.3.5 Emerging Cooperative Enterprises**

#### **3.3.5.1 Transport Co-operatives**

The Government recognizes all existing PSV SACCOS, Tutuk SACCOS, Boda Boda SACCOS, Taxis SACCOS, Car Hire SACCOS and Transporters SACCOS (Lorries) as SACCOS to be transformed and be renamed Transport Co-operatives (TRACOs).

In order to improve the management of public transport in Kenya, there is need for the Government to transform the existing transport SACCOS into effective Transport Co-

operatives. This entails comprehensive review of the transport SACCO by-laws with a view of integrating provisions for the route management clauses as envisaged by the transport Agencies while retaining savings and credit activities and other related business ventures. It is expected that the review will transform the existing transport SACCOs into professionally managed Transport Co-operatives (TRACOs).

#### **Policy recommendation**

The government will transform transport SACCOs into Transport Cooperatives

#### **Policy strategy**

The government will issue guidelines for streamlining of transport cooperatives for compliance with NTSA and SACCO business for compliance with SASRA regulations.

##### **3.3.5.2 Diaspora Co-operatives**

Kenyans in Diaspora are increasingly looking for avenues that can assist them invest in the country. So far ten Diaspora SACCOs have been formed with others in the pipeline of registrations and many more not tapped. The government will aim at increasing savings mobilization through co-operatives for those Kenyans living in Diaspora.

#### **Policy recommendation**

The government will help stimulate Diaspora savings

#### **Policy strategy**

The government will develop a legal framework to govern how to supervise Diaspora cooperatives and money transmission

##### **3.3.5.3 Sharia compliant SACCOs**

The government recognizes the importance of Sharia cooperatives. There is therefore need to promote financial inclusivity. Co-operative Sharia compliant policy has been developed to broaden the outreach of savings mobilization for the communities whose faith was in conflict with current SACCO bylaws.

#### **Policy recommendation**

The government will promote cooperative programs that encourage financial inclusivity

#### **Policy strategy**

The government will develop policies that harness emerging issues encouraging support financial inclusivity.

##### **3.3.5.4 Mondragon Cooperative Model**

The Mondragon Corporation is based on a commitment to solidarity and on democratic methods for its organization and management. Mondragon demonstrates an alternative to the 'business as usual' mantra of shareholder-owned companies. Their mission is not to earn money but rather to create wealth within society through entrepreneurial development and job creation.

The Mondragon business model combines the equity principles of the cooperative and efficiency principle of companies and is propelled by the following six principles.

- a) Democracy leads to competitiveness; the model is rooted in assemblies of members, which proved members have access to information and a mechanism through which they are consulted;
- b) Solidarity in profit for economic growth; Mondragon reinvests significant of profits at the cooperative level and through inter cooperative fund. Workers also accumulate funds in the Mondragon which are only removed when they leave the cooperative, retire or die;
- c) Solidarity among coworkers; in hard economic times workers are reallocated between cooperatives through the mutual economic support policy;
- d) Higher egalitarian salary scale;
- e) Maximum job security; offers membership to those whose positions are need by the company, less than 20% or works force only may be temporary; and
- f) Specific advantage to members; members whose positions have been affected by recession have three options. They can continue working by being reallocated, or leave the company and receive compensation or through early retirement.

### **Policy recommendation**

The government will promote cooperative models that encourage sustainable capital growth and employment

### **Policy strategy**

The government will facilitate partnership and skills transfer for adoption of Mondragon cooperative model

#### **3.3.6 Viable Co-operative entities**

It has been observed that major cooperatives tend to split at some point. This should be discouraged to allow the existing to exploit economies of scale that come with size. Where possible the Government should encourage amalgamation of small and unviable societies. The Government should therefore aim at encouraging formation of strong and economically feasible co-operatives.

### **3.4 Policy on New Co-operative Movement Structure**

### 3.4.1 Background

Over the years, and in response to the changes in the business environment, some of the Secondary Cooperative and Tertiary cooperative entities, for example, KUSCCO and KERUSSU among others have carried out overlapping functions. There is need to streamline such conflicting roles. Some of the Secondary cooperative entities and national cooperative organizations functions have also been at crossroads. There are cases today where Tertiary cooperatives draw members from primary cooperative in competition with secondary cooperatives. There is need to streamline the emerging conflicts to achieve greater efficiency in the movement.

There are situations where some national cooperative entities have not performed the roles for which they created effectively. For example, NACHU has optimised the value it could create from Housing cooperatives as federation. On the other hand, CODIC has not supported the movement in the development of cooperative friendly software. This gap has instead attracted many businesses that have developed software that either incompatible with the needs of the sector or are expensive to maintain.

#### Policy statement

The Government will modify the existing structure with a view to addressing the above shortcomings, promote cooperation among cooperatives, achieve greater specialization and to support joint ventures especially in mega industrial activities.

#### Policy Strategy

The above policy on new cooperative movement structures will be implemented through the following strategies:

- a) At the bottom will be primary co-operative societies drawing membership from individuals;
- b) At the second level will be Secondary co-operative whose membership shall be restricted to primary co-operatives;
- c) At the third level will be federations whose membership shall be primary and secondary co-operatives dealing with a specific activity, commodity or drawn from a particular sector. The existing national co-operatives like **NACHU**, **KPCU** and **KUSCCO/KERUSSU** will be restructured and strengthened as necessary to take on their new roles effectively as federations. Federations in other sectors will be identified and promoted as found necessary;
- d) At the top will be the Apex co-operative whose membership shall be restricted to federations. The role of the Apex will be advocacy, lobbying, training and research, international linkages and internal regulation of co-operative movement.

## **CHAPTER FOUR: COOPERATIVE GOVERNANCE**

### **4.1 Background**

Governance is the system of rules, practices and processes by which an organization is directed and controlled. Governance essentially involves balancing the interests of a co-operative's many stakeholders such as members, board, management, customers, suppliers, financiers, Government and the community. Since governance also provides the framework for attaining co-operative objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

It is expected that bad governance can cast doubt on a co-operative's reliability, integrity or obligation to members. Similarly, Good governance creates a transparent set of rules and controls in which members, directors and management have aligned responsibilities and incentives.

Co-operatives have in the past experienced governance challenges which have led to misapplication of property leading to loss of confidence by members. Non-clarity of roles between various co-operative organs, ignorance by members, poor succession planning and dishonesty by co-operative leadership are some of the factors that have contributed to poor governance in many co-operatives. It is therefore necessary that the Government continues to intervene in co-operatives management whenever cases of impropriety are reported.

In managing the affairs of cooperatives, the board and management committees are expected to exercise due care and diligence. The production of budgets, keeping of proper books of accounts and production of annual accounts will continue to be mandatory. To enhance accountability to the members, all co-operative societies will continue to publicise their budgets and annual accounts to their members prior to convening general meetings intended to approve them.

#### **Policy Statement**

The national and county government will enhance cooperative governance.

#### **Policy strategy**

To improve governance in the co-operative sector, the Government will introduce the following measures:

### **4.2 Terms limit for elected Co-operative leaders**

#### **Policy recommendation**

To conform to the spirit of the constitution which has limited term of office for leaders in various institutions, the Government will legislate for introduction of two term limits in line with the provisions of the Kenya constitution 2010.

### **4.3 Mode of representation in Co-operatives**

Co-operative societies are member based organizations. The participation of members in the decision making and management of the affairs of their societies is cardinal in championing the democratic control of the societies. In the early 1990s the Government allowed societies with more than 1000 members to decide whether they wanted to practice direct participation of the members in general meetings or they wanted to adopt delegates representation. For practical reasons, many co-operatives with membership spread throughout the country opted to adopt delegate system. While the delegate system has worked well in some societies, it has been an impediment in others where the management committees have taken advantage of the system to run down the co-operative society. For examples, the absence of local area members resolutions on issues have created room for delegates to present their personal opinions at the delegates meeting. There is need to enforce the need for delegates to obtain local cell embers resolutions and which they will present at the delegates meeting.

#### **Policy recommendation**

The Government will review the delegate system of representation.

#### **Policy strategy**

This policy will be achieved through appropriate legislation that entrench the delegates system in law and ensures that members retain the overall authority over the management of their societies and have recourse in case delegates act beyond the powers delegated to them.

### **4.4 Infringement of Members rights**

Traditionally co-operative Societies were formed by groups of people who came from one locality, did the same business or were under the same employer. However, as competition grew, co-operatives were forced to recruit members beyond their common bond to beat competition. However, to preserve their original identity, many co-operatives classified the new members differently from the original members in a manner that deny then the right to vote. This situation is contrary to co-operative principles on democratic control and co-operative values on democracy, equality and equity.

#### **Policy recommendation**

The government will enforce the adoption of cooperative principles by all cooperatives

#### **Policy strategy**

Legislation will be put in place to prohibit classification of co-operative members as all members have the same rights.

#### **4.5 Political Neutrality**

Co-operative principles require that co-operatives be independent and autonomous. In this regard co-operatives are expected not to subscribe to any political, religious or ethnic affiliations. To maintain this independence, co-operative leaders will not openly propagate an agenda of any political, religious or ethnical organizations. Co-operative funds shall not be used to propagate ideals of any political, religious or ethnic organizations. From the foregoing, any person elected to hold political office should not qualify to be elected as a co-operative leader.

##### **Policy recommendation**

Cooperative management will maintain political neutrality in cooperative management.

##### **Policy strategy**

The government will introduce legislative reforms that target the political neutrality objectives.

#### **4.6 Indemnity and wealth declaration**

It has been a requirement for co-operative officers to provide indemnity to the society in case of mismanagement, and to declare their wealth upon elections into office. This was necessary to discourage misuse of co-operative resources and hence building trust between members and their leaders. However, the legislations on these requirements were inadequate in enforcing these provisions in cases of mismanagement.

##### **Policy Recommendation**

The government will enhance the process of filing of indemnity and wealth declaration by the management of cooperatives.

##### **Policy Strategy**

The Government will strengthen legislations on indemnity and wealth declaration with a view of providing mechanism of enforcement in case of mismanagement.



#### **4.7 Leadership standards**

National values in article ten (10) of the constitution enforce good governance, integrity, transparency, accountability and gender inclusion among others. Traditionally members intending to present themselves for election have done so on the day of election.

To facilitate the co-operative leaders' electoral process, the Government will come up with appropriate legislation to set minimum qualifications for co-operative leadership in areas of integrity and competence.

##### **Policy recommendation**

The government will recommend the minimum professional qualifications for key managers, integrity requirements and diversity of skills required in boards of cooperatives.

##### **Policy Strategy**

- 1) The government will set the minimum integrity requirements for cooperative leaders and key managers
- 2) The Government will require that all co-operative managers be members of a professional body of co-operative practitioners. Any person who is not a member or is black listed by this body shall not be allowed to work for any co-operative in Kenya.

#### **4.8 Appraisal of New Cooperative Registration Application**

The image of co-operatives was dented during the upsurge of pyramid scheme some of which at the tail end converted themselves to co-operatives. In the recent past there have been instances when registered co-operatives have exhibited tendencies of pyramid like characteristics by opening their common bonds without amending their bylaws, operating using the co-operative name before registration process is complete. These weaknesses have been attributed to an inadequate appraisal for new cooperatives registration application given the changing business environment. This if unchecked will completely dent the image of co-operative movement which in the past had significant contribution to the economy.

##### **Policy recommendation**

The government will review and enforce registration requirements from time to time to meet emerging issues

##### **Policy strategy**

The Government will:

- 1) The government will determine new registration requirements to match emerging issues in the sector.
- 2) All information on registered co-operatives will be put online showing their areas of operation for the public to make informed decisions.

## 4.9 Stratification of Cooperatives

It is expected that Cooperatives will always be at varying stages of development, thereby requiring differentiated levels of support to grow. Some are at nascent stage, transition stage while others will be attaining maturity stage. It is therefore apparent that they require varying levels of regulations to support their growth as they move through the stages towards maturity.

### ***Policy recommendation***

*The government will stratify cooperatives for differentiated support and regulations*

### ***Policy strategy***

*The Government will develop legislation for cooperative stratification*

## **CHAPTER FIVE: CO-OPERATIVE FINANCE AND INVESTMENTS**

### **5.1 Background**

Accessing finance for investments and meeting daily needs or during emergencies has been a challenge for many Kenyans. To address this, Kenyans have formed financial co-operatives through which they save jointly in a common pool from which they in turn access funds to meet their short and long-term investments needs. The most common financial co-operatives in Kenya include Savings and Credit Co-operatives (SACCOs), Housing Co-operatives, Insurance Co-operatives and Investments Co-operatives.

The role of SACCOs has been critical in savings mobilization in Kenya, accounting for over 48% of national Savings (IMF World Economic Outlook, April 2014). The Financial Sector Reform and Development Strategy, and the Government Vision 2030 emphasize the need for improving financial service delivery in the sector through the support for SACCOs in order to ensure attainment of financial access and inclusion.

### **5.2 Savings mobilization**

Despite concerted efforts, Kenya has not been able to achieve the desired levels of savings as envisaged in the KV2030 which is considered sufficient to finance desired levels of investments. Savings, as a percentage of GDP, declined from 14.4% in 2008 to a low of 11.9% in 2012, against the targeted 16.2% and 27.7% respectively. On the other hand, the share of investments of the nation's GDP has stagnated at around 20%, against the targeted 23.2% and 32.6% over the same period respectively. This low savings culture has contributed significantly to the low capital base of many co-operative enterprises in Kenya.

#### **Policy recommendation**

The government will create a supportive environment to enhance savings mobilization.

#### **Policy strategy**

To mitigate the challenge of poor growth in savings mobilization, SACCOs will be encouraged to:

- a) Carry out a sustained deposit mobilization programmes by creating incentives to attract increased savings;
- b) Create and use of relevant insurance programmes that cover members' FOSA savings and loans
- c) Improve outreach in all areas of the country and beyond to expand markets to un reached populations with relevant savings products;
- d) The deposit guarantee fund for deposit taking SACCOs will be operationalized.

### **5.3 Financing of Investments**

Financing investments, especially for long gestation projects, requires huge upfront expenditure outlays, operational and working capital before these projects can start yielding returns. This poses a major challenge to many investors on account of limited access to long term financing instruments; stringent bureaucracies and collateral requirements especially for small and medium co-operative enterprises; and high interest rates relative to returns on investments.

### **Policy recommendation**

The government will introduce reforms that improve the credit rating small cooperatives ease access to investment finance

### **Policy strategy**

The following strategies will be undertaken;

- a) Co-operatives will be encouraged to improve their management and governance practises to enable them to engage with strategic partnerships or franchise with an existing business brands;
- b) The Government will channel special purpose funds through the existing co-operative structures;
- c) The highly liquid Co-operatives will be encouraged to develop products that meet the needs of the investing institutions.
- d) Develop an inter-lending framework between SACCOs where the highly liquid SACCOs can lend cash to deficient Co-operatives.

## **5.4 Remittances**

The smooth operations of co-operatives are sometimes disrupted whenever marketing agents and employers deduct members' proceeds but do not remit such proceeds to the respective co-operatives on time. Non-remittance issues still persist despite the Government efforts to recover through statutory agencies.

### **Policy recommendation**

The government will legislate on timely remittances in the cooperative sector.

### **Policy strategy**

- a) The Government will enhance legal provision to make such delayed actions on remittances an economic crime punishable under the co-operative laws and the Criminal Procedure Code; and
- b) Cooperatives will report such defaulting employers to Credit Refuse Bureau or similar institutions to instil market discipline.

## **5.5 Refund of deposits**

Members' complaints on the failure of co-operatives to refund their deposits after following the right channels on exit have been on the increase. This is a grave concern as it will dent the image of the co-operatives as well as reduce members' saving mobilization rate. Currently there is no clause in law that can be enforced to compel co-operatives to refund deposits as stated in their bylaws.

### **Policy recommendation**

The government will institute regulations that help reduce delays in refunds.

### **Policy strategy**

The Government will introduce appropriate legislative measure that aims at introducing penalties for failure or delays in refunds to member's deposits within stipulated time.

## **5.6 Housing Cooperatives**

Housing co-operatives are increasingly buying land and subdividing it in a bid to fulfil their members' home ownership dreams. The success of this has resulted in the proliferation of the number of housing co-operatives being registered. Although most of them are subdividing land in less than two years, others are taking far too long to subdivide with others demanding for more top up of deposits towards the project causing mistrust and conflicts between members and the office bearers.

In a bid to remedy this, it is expected that all housing co-operatives will consolidate all the costs required to allocate given plot size with the supporting infrastructure clearly spelt out for members to make informed decision. In addition, the timeframe that one expects to acquire the title of the land should be indicated. The intention is to deter co-operatives without the capacity to venture into this activity and improve efficiencies and conclusion of land buying co-operatives and companies which have traditionally taken too long to finalize.

The housing co-operatives should also be encouraged to factor all the costs of land/houses before releasing the cost of the project to the members. To avoid the crisis that is currently being experienced by housing co-operatives and companies, the Government will provide guidelines for the time to be taken by a land project/housing before being transferred to the members.

### **Policy recommendation**

The government will streamline housing and investment cooperatives activities

### **Policy strategy**

- a) The government will develop legislations to streamline, housing and investment cooperatives activities
- b) Issue regulations to streamline land buying process on behalf of members

## **5.7 Investment co-operatives**

Cooperative societies have recently set up investment cooperatives to enable members meet investment objectives by engaging in investment activities in other areas of the economy such as business, buying tangible assets other than land for personal housing needs. These investments require unique sets of skills for efficient management. Some of the skills required may not exist in the Sacco, and may be expensive to acquire and retain. For example, investing in the stock market, mining, management of property portfolio etc which new risks and require unique skills.

### **Policy recommendation**

The government will streamline the operations and activities of investment cooperatives

### **Policy strategy**

The government will develop legislations to streamline investment cooperatives activities

### **5.7.1 Mortgage incentives and Use of appropriate housing technology**

There is an acute shortage of housing in Kenya, especially among the low-income urban population; a prime opportunity for housing ventures. As at 2013, there were 1,132 registered housing co-operative enterprises. However, their housing programmes stagnated due to lack of affordable mortgage facilities and long-term lending facilities by financial institutions. Besides, poor urban planning, high cost of construction and building materials and the complex land administration systems discourage investors from committing borrowed funds to housing projects.

Since 2003, the Kenya Government committed itself to roll out 150,000 housing units annually and co-operative enterprises are expected to meet certain targets. This is intended to alleviate the housing shortage in Kenya, estimated at three million urban dwellers with inadequate shelter.

### **Policy recommendation**

The government will promote housing and mortgage incentives and use of appropriate technology for increased housing.

### **Policy strategy**

The government will provide tax incentives for housing funded through housing cooperatives

### **5.7.2 Decent Shelters**

The role of co-operative enterprises in the provision of decent shelter will take different forms. Apart from the traditional approach of buying land for members, co-operative enterprises will be expected to adopt other innovative approaches of providing affordable shelter such as;

mobilization of resources, issuing of mortgages, provision of readily constructed houses and other basic housing infrastructure.

The Government will undertake a comprehensive review of the sectors' participation in the housing sector through provision of necessary incentives, in full cognizance of the challenges posed by a rapidly changing and volatile financial sector. The incentive should include recognising Co-operative Loans for acquisition of houses as Mortgages and hence be provided with a tax incentive just like bank mortgages. In addition, co-operatives should be encouraged collaborate with strategic partners and adopt appropriate building technology to reduce cost of building and therefore making houses affordable.

### **Policy recommendations**

The government will promote the development provision of decent shelter

### **Policy strategy**

- a) The government will provide appropriate incentives that promote construction of decent shelter.
- b) Promote development of Housing cooperatives competitive advantage through partnerships with local and international partners involved in housing development

## **5.8 Co-operative Debt Management**

The indebtedness of marketing co-operatives such as those dealing in coffee, cotton, cashew nuts, sugarcane, rice and fish is a challenge to their survival and growth. Some of these debt were acquired without proper authorization by boards beyond the borrowing powers of the cooperative. On the other hand, some of the debt was a direct incentive from the government, but which could not be paid due to crop failure resulting from environment situations like unfavourable weather. This situation slows the growth and development of marketing co-operatives since the debts have rendered them un-credit worthy and discouraged farmers from patronizing them.

### **Policy recommendations**

The government will institute measures that reduce indebtedness.

### **Policy strategy**

To avoid future re-occurrence of the problem;

- a) a feasibility study will be done on affected marketing societies with a view of restructuring or liquidating them; and
- b) issue guidelines that restrain cooperatives to borrow within authorised borrowing limits.

### **5.8.1 Default on Co-operative loans**

There are cases of high default rate occasioned by the increased trend of SACCOs opening up their common bond and dealing with high risk groups while applying in appropriate methods

in loan management. This therefore has implications on available funds for loans to members and the long term financial health of the cooperative society.

**Policy recommendation**

The government will guidelines aimed at reducing number of loan defaults.

**Policy strategy**

- a) SACCOs will be encouraged to join the Credit Reference Bureau to share information on defaulters with other financiers and improve their risk profiling of potential clientele; and
- b) Government will issue regulations on credit risk management guiding Sacco's that desire to establish Individual lending and micro lending business

## **5.9 Emerging Cooperative Enterprise Responses**

### **5.9.1 Background**

The Cooperative sector has continued to experience local and global level competition and changes in tastes and preferences of members as paradigms shift in the market place. Financial cooperatives have found themselves in the middle of steep competition from commercial banks following the legal changes (amendments of banking Act and enactment of Micro Finance Act) that opened their space and improvement in the economy that led to reduction of market interest rates and widespread introduction of personal loans to low income earners. Low income earners were historically their primary target market for Sacco's then due to exclusion by the banking system in terms of access to credit. Sacco's now need to access a wider market like banks for greater economies; however, this is currently constrained by structural, legal and regulatory hurdles. The recent introduction of sharia compliant banking services has generated interest for sharia compliant cooperative products. There is need, to continuously keep in touch with the changing trends in the market place to keep the movement relevant.

### **5.9.2 National payment system**

The Government recognizes SACCOs as financial institutions alongside banks and other Micro-Finance Institutions (MFIs). As a result, an appropriate legal framework will be put in place to allow SACCOs to participate in the National Payment System. There is need therefore for the government to constitute policy measures that encourage the establishment of a Central Liquidity Fund, where SACCOs will have a platform to actively participate in the national payment system at minimal costs to boost their deposit mobilization capacity and to increase their range of financial service provision to their membership in line with the Comprehensive Financial Sector Reform and Development (CFSRD) Strategy.

**Policy recommendation**

The government will facilitate the establishment of a lender of last resort for Sacco's



### **Policy Strategy**

- a) The government will facilitate establishment of a central liquidity fund for Sacco's; and
- b) Government will reform the national payment system to accommodate SACCOs.

### **5.9.3 Regulation for SACCOs**

SACCOs are always at varying stages of development. Some are at nascent stage, transition stage while others will be attaining maturity stage. It is therefore apparent that they require varying levels of regulations to support their growth.

### **Policy recommendations**

The government will enhance regulation for all SACCOs.

### **Policy strategy**

The government will classify Sacco's and issue differentiated prudential standards for different classes.

### **5.9.4 Agency banking & emerging alternative channels**

Efficiencies and access to services are the main determinants of today's business leaders. Driving costs down and passing the risks to other partners at a given commission is the trend in Kenya. The Sacco movement is constrained by limited access to market partly due to continued use of branch network to reach their markets.

### **Policy recommendation**

Government will promote the use of alternative emerging channels

### **Policy Strategy**

Co-operatives will be encouraged to venture in agency banking and other alternative channels.

### **5.9.5 Co-operative share trading**

Shares in the context of co-operatives are not refundable but are transferable at rates agreed between the members. When the new member buys these shares they get to enjoy the benefits of the society that have accrued over time after buying the shares at similar or slightly better rates of say 30 years ago. This is solely due to lack of price determining mechanism making the exiting member get a very raw deal. This free rider syndrome has made many members contribute only the mandatory shares towards the society despite the dividends that are occasionally given to members. The resultant effect is that the co-operatives do not get enough capital to develop and end up borrowing at higher rates from local markets. The Government is in the process of developing a share trading platform that will operate at the Nairobi Securities Exchange (NSE) on an Over-the-Counter platform (OTC). It is expected that this will provide a shares market for members of registered co-operatives, enable the registered co-operative to source cheap capital through platform and mostly improve the governance of participating co-operative.

**Policy recommendation**

Promote liquidity for cooperative society's shares

**Policy strategy**

The government will institute legislation aimed at introducing cooperative shares trading at the NSE.

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## **CHAPTER SIX: COOPERATIVE EDUCATION, TRAINING AND RESEARCH**

### **6.1 Background**

Co-operative information, education and training is an internationally accepted co-operative principle whose objective is to provide members, management and employees of the Co-operative sector, together with the general public with adequate knowledge and technical skills to enable them carry out their respective roles effectively.

Funding of co-operative education, training and information continues to be the responsibility of the sector and to a certain extent that of the Government and other partners. Provision of education and training in co-operative enterprises has not been regulated leading to proliferation of service providers with questionable credentials. This situation has not helped in professionalising the management of co-operative enterprises. In addition, co-operative courses offered in colleges and universities are not standard leading to production of graduates with same qualification but different education skills.

#### **Policy recommendation**

The government will enhance cooperative information, education and training.

#### **Policy strategy**

To overcome challenges experienced in co-operative education and training, the Government will:

- a) Expand co-operative education and training by encouraging establishment of co-operative sector-driven institutions of learning wholly owned by co-operative enterprises;
- b) Develop standards to guide institutions and individuals that undertake co-operative training;
- c) Facilitate formation of a professional body for co-operative managers and practitioners.
- d) Promote local programmes and courses and in addition to relevant training opportunities abroad.
- e) Encourage local Colleges to develop capacity for training co-operators to self-sufficiency in revenue generation, and enable them to play a greater role in funding training programmes on innovation and value addition
- f) Create, promote and strengthen County and sub-County co-operative education committees.
- g) Facilitate the review of the Co-operative Development Fund to assist the co-operative enterprises in education, research and training

### **6.2 Co-operative Research and Development**

One of the major challenges facing co-operatives is inadequate research in emerging products and services. Lack of research and development functions make most of the co-operatives to lag behind their competitors in terms of innovations. In addition, there is lack of reliable

source of information pertaining to co-operatives. Cooperative Research and Development will offer a primary response to the pressures of local and international competition, to meet the short and long term needs for assets to implement new approaches for coping with intensifying competition of market demand for quality products.

### **Policy recommendation**

The government will promote Research and Development in the cooperative sector.

### **Policy strategy**

To address the above challenges, the Government will:

- a) Facilitate collection of information which will be package and disseminated to all stakeholders.
- b) Support co-operative research through funding and forging of strategic alliances with other stakeholders; and
- c) Establish a Co-operative Information and Research Centre.

## **6.3 Emerging opportunities**

New initiatives and innovative ventures are required for co-operative enterprises to expand into emerging high growth areas and partnerships. The Co-operative sector will be supported to reach a greater number of people. The traditional areas in which the co-operative movement has always performed have been outlined in previous chapters in this document. However, opportunities for growth and sustainability of the co-operative movement will be further realised by leveraging on the following growth areas: Youth and women, special interest groups, environment, health and ICT.

### **6.3.1 Youth**

The youth of Kenya represent over two thirds of the country's population according to the 2009 census at 65% of the population. They are educated and ICT savvy with one of the highest adoption rates of ICT integration in Africa and the world. The youth unemployment rate stands at 80% proportion of the 35% unemployed Kenyans today. A key contribution to the unemployment is lack of practical skills for undertaking entrepreneurship. There is an opportunity to harness this large number of unutilised energy through directed entrepreneurship skills apprenticeship programs backed by funding through cooperatives. The having been absorbed in such programs can be organised in Mondragon type cooperatives to provide both employment and capital to grow.

### **Policy recommendation**

The government will take deliberate efforts to attract the youth into cooperative movement

### **Policy strategy**

- a) Sensitizing the youth on the need to form co-operative enterprises and encourage them to participate in the leadership of existing co-operative enterprises;

- b) Promote youth employment through cooperative effort

### **6.3.2 ICT**

Information, Communications and Technology is key driver for growth of cooperative business by expanding markets through increased reach, and by providing the platform for increased efficiency in carrying out the business operations. The training and research pillar of the Sacco will in future be delivered more through modern technology as the old and young generations converge in skills. The cooperative movement and in particular, the financial cooperatives should take deliberate steps to develop economic customer centric software that can enhance their service delivery, expand their market reach and provide convenience.

#### **Policy recommendation**

**The Government will encourage enhanced use of appropriate ICT in cooperatives**

#### **Policy strategy**

The government will provide appropriate guidelines for appropriate technologies in co-operatives including ICT.

## **CHAPTER SEVEN: POLICY IMPLEMENTATION**

### **7.1 Background**

The enactment of Kenya Constitution 2010 brought about fundamental changes in the management of Government affairs by creating two levels of Government: The National Government and the County Governments. This change in the national governance structure further occasioned a change in the way the Government will involve itself in the management of co-operatives by making co-operative societies a devolved function.

Following the enactment of the Kenya Constitution 2010, it became necessary to review all Government policies and legislations to align them with the constitutional dispensation. The review thus provides for new institutional framework in the cooperative sector.

This policy has classified co-operatives in a four-tier structure. Within the structure there will be co-operatives that are defined as county based while others are national co-operatives. In line with this classification and pursuant to the constitution, the national Government will collaborate closely with the devolved Governments to facilitate the growth and development of co-operative movement in the country. This commitment is cognisant of the fact that cooperatives are devolved functions under the Fourth Schedule of the Kenya Constitution. Role of national government is to promote management and development as cooperative. The Government wishes to reiterate its commitment to the understanding that co-operatives are private organizations and the role of Government shall remain facilitative.

It is expected that after registration, the co-operative will to a large extent be left to the board of directors to manage in accordance with their bylaws and other existing legislation. However, given the importance of the co-operative movement to the nation and to avoid any conflicts brought about in the affairs of the co-operatives by individuals for personal interests, the Government may intervene where necessary in the management of the co-operatives.

### **7.2 Role of Government**

It is envisaged that co-operatives whose activities are within a county shall for all intent and purposes fall within jurisdiction of the devolved Government in oversight, growth and development. The National Government on the other hand shall be responsible for registration of all co-operatives, oversight, growth and development of national and Diaspora co-operatives. The National Government will keep the register for all co-operatives within the country.

### **7.3 Role of County Governments**

The Role of County Governments in management and administration of Co-operatives will be to:

- a) Formulate county specific co-operative policies in line with national goals and policies;
- b) Promote registration of co-operatives;
- c) Carry out impromptu inspections into the affairs of county co-operatives;
- d) Provision of audit services and enforcement of audit requirements and standards
- e) Promote value addition and adoption of appropriate technology by co-operatives;
- f) Establish and maintain county co-operative information centres;
- g) Enforce compliance with co-operative legislation;
- h) Facilitate collaboration and linkages with various stakeholders for the benefit of the movement;
- i) Enforce good governance in the management of the co-operative societies within their jurisdiction; and
- j) Undertake co-operative education and training.

### **7.4 Role of the National Government**

The main role of National Government in the management and administration of co-operatives shall be to:

- a) Formulate policy and legal framework for the development and growth of all co-operatives in keeping with the overall national development policies and priorities;
- b) Register and liquidate all co-operatives;
- c) Carry out inquiries and inspections into the affairs of co-operatives.
- d) Regulation of cooperative audit services including social and value for money audits
- e) Formulate co-operative education and training standards;
- f) Carry out capacity building to the county Governments;
- g) Promote and coordinate regional and international co-operative relations; and
- h) Establish and maintain National co-operative information and research centre.

### **7.5 Role of other Government Agencies**

#### **7.5.1 SACCO Societies Regulatory Authority (SASRA)**

The role of SASRA is as defined by the SACCO Act 2008. SASRA shall regulate all SACCOs operating front office savings activities (FOSA) in Kenya. Their line of focus is prudential management of Sacco's offering front office operations. While most these Sacco's are trans-county and national in operations, many of them have operations with certain counties only.

Currently SASRA is regulating about 186 (164 full licenses and 12 restricted licenses) out of about 10,000 SACCOs. In current policy period, we hope that this could be increased to 1000 Sacco's. This policy has considered the position that while some Sacco's that do not currently provide FOSA services (and therefore are not automatically included under SASRA, they should be included under the prudential management by SASRA due to the risk exposure on

their loan books, following introduction of open bonds and individual / micro lending products.

To improve efficiency and effectiveness to regulate SACCOS, the Government will support SASRA to build its capacity to regulate Sacco's without FOSA's to forestall the growing bad debt situation.

#### **Policy recommendation**

The government will strengthen SASRA to undertake its prudential role effectively and expand SACCO's coverage.

#### **Policy strategy**

- a) The government will provide financial resources to SASRA to expand capacity;
- b) SASRA will develop sub-sector specific policy to guide the activities of Sacco's under its prudential management;
- c) Government to issue regulations requiring Sacco's to automatically join SASRA administration upon reaching a certain assets threshold; and
- d) Government will stratify Sacco's to facilitate development of differentiated prudential guidelines.

### **7.5.2 Co-operative Tribunal**

Dispute settlement continues to be an important contributor to the growth and development of the co-operative movement in this country.

The Co-operative Tribunal has since been merged with other courts under the judiciary.

#### **Policy recommendation**

The government will strengthen the cooperative Tribunal to make it a sector specific court

#### **Policy Strategy**

The Government will build the capacity of the judiciary Tribunal to settle cooperative sector disputes expeditiously

### **7.5.3 Ethics Commission for Co-operative enterprises (ECCOs)**

The current role of ECCOs is to enforce the Public Officers Ethics Act (POEA), 2003. Since its formation, the ECCOs is responsible for:

- a) Administration and enforcement of the Co-operative Societies General Code of conduct;
- b) Coordination of the receipt, analysis and recommendations of Wealth declarations;
- c) Conducting training programs aimed at integrating good governance and Ethical principles in the management of co-operative societies;
- d) Awareness creation to the sector on the provisions and requirements of both the Public Officer Ethics Act and other relevant anti-graft Laws; and
- e) Development of policy on corruption prevention in the Co-operative movement.



The commission has not been very effective for lack of clarity as to whether it is operating within the confines of the Integrity Act 2014 or the Co-operative Societies Act 2004. Since its formation, the commissions' capacity has been very low.

**Policy recommendation**

The government will strengthen the Ethics Commission for Co-operative enterprises (ECCOs)

**Policy Strategy**

The Government will strengthen the operations of the commission by reviewing the relevant legislation with a view of expanding its scope to cover all types of investigations, enquiries and inspections within the co-operative movement.

**7.5.4 Co-operative University of Kenya**

The Co-operative University of Kenya was initially established as middle level college offering training to co-operative movement in Kenya. It has since transformed to a university.

**Policy recommendation**

The government will collaborate with the university Co-operative University of Kenya for co-operative training standards and research.

**Policy strategy**

The government will enhance collaboration with the Cooperative University of Kenya.

**7.6 Role of Non-State Stakeholders**

The various non-state stakeholders involved in co-operative development can be categorized as; private sector, research institutions, learning institutions, Public Benefits Organizations (PBOs), Development Partners, Community-Based Organizations (CBOs), professional associations, co-operative enterprises and consumer organizations, among others. Through partnerships and collaborations, these stakeholders provide a platform upon which the sector players pool resources and efforts to maximize their returns. They also provide the necessary value chain engagement that facilitates efficiency in service provision through access to inputs, credit, markets, market information, extension services, production, education, information and advocacy for their members. The government ensures that collaboration between co-operatives and non-state stakeholders should be within the provisions of the co-operative laws and regulations.

**Policy recommendation**

The government will strengthen the capacity of non-state stakeholders in the cooperative sector

**Policy strategy**

The government will undertake capacity building on non-state stakeholders through training.

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## **CHAPTER EIGHT: CONCLUSIONS AND RECOMMENDATIONS**

### **8.1 Conclusions**

Successive cooperative development policy reviews have been undertaken in response to changes in the economic environment. Following the promulgation of the constitution 2010, the co-operative enterprises have found themselves operating within the old legal framework which at times contradicts the provisions of the constitution. The Co-operative Societies Act and the SACCO Societies Act do not provide for the functions of the devolved system of Government, thereby leaving critical gaps to the detriment of the growth and development of co-operative societies. This policy review has been informed by the need to enhance the legal framework, and align the policy to government master plan to promote industrialization through cooperatives.

Cooperative continues to play a key role in the economy. Specific benefits that have accrued to Kenyans through co-operative enterprises include employment and wealth creation. The impact of cooperatives is gradually increasing from the traditional areas of agricultural production, processing and marketing into finance, real estate, manufacturing and mining.

The cooperative movement in Kenya adopted the cooperative principles and values from the onset. The cooperative movement structure has been a four-tier system made up of primary cooperative enterprises at the bottom, secondary and tertiary cooperative entities in the middle and an apex cooperative entity at the top. The policy has proposed reorganization within this structure for greater specialization. Secondary cooperatives will draw their members from primary cooperatives only. Federations at the tertiary level will draw membership from primary and secondary cooperatives, while the apex organization will only draw members from federations. This will result in a more robust movement capable of enhanced self-regulation through efficient federations and the apex organization.

Governance has been and remains a key issue in cooperative enterprises at all levels. This policy has proposed key changes regarding the skills of key managers and board members, the creation of legal backing for the role of delegates and restitution of members supreme role in cooperative decision. It has provided policy guidelines for emerging cooperative entities like holding cooperatives, cooperative companies and transport cooperatives.

Finance and investments in the context of cooperative movement is key consideration for success in all types of cooperatives. This policy has addressed the key role of savings mobilization by all cooperative and a host of other considerations such financing investments, marketability of cooperative shares, the management of cooperative debt among others.

The implementation of this policy and subsequent legislations will be through various sub policies, strategies and guidelines that will be formulated. Key among them will be revision of the CSA and SASRA acts to entrench the new roles of national and county governments in

cooperative affairs within the devolved systems of governance. It has also sought to expand the role of SASRA and other state and non-state actors in the movement.

## **8.1 Recommendations**

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