

Perspectives on Co-operatives in East Africa

Country Paper on

The Co-operative Movement in Kenya

for

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Contents:

Abbreviations used in the paper

Kenya country information

Overview of the co-operative movement

Contribution and significance of Co-operative Movement

Role of Government

What should be the role of Government?

Challenges and problems faced by Co-operatives

External Support

Prospects, Opportunities

Collaboration in East Africa

List of Abbreviations

CCA	-	Canadian Co-operative Association
CCD	-	Commissioner for Co-operative Development
CIC	-	Co-operative Insurance Company
FAO	-	Food and Agriculture Organization
FES	-	Friedrich-Ebert Stiftung
GOK	-	Government of Kenya
HRD	-	Human Resources Development
ICA	-	International Co-operation Alliance
ICIMF	-	International Co-operative and Mutual Insurance Federation
ICT	-	Information Communications Technology
KNFC	-	Kenya National Federation of Co-operatives
KUSCCO	-	Kenya Union of Savings and Credit Organization
NACHU	-	National Co-operative Housing Union
MOCD	-	Ministry of Co-operative Development
SACCO	-	Savings and Credit Co-operative
SCC	-	Swedish Co-operative Centre
SINA	-	Settlements Information Network
USAID	-	United States Agency for International Development
WOCCU	-	World Council of Credit Unions

1. Kenya: Country Information

Straddling the Equator and covering an area of 583,000 Km², Kenya borders the Indian Ocean and Somalia to the East as well as Tanzania to the South, Uganda to the West, South Sudan and Ethiopia to the north. 2007 census estimates put the population at 39.6 million people. The country has largely enjoyed stable governments since independence in 1963. Kenya is a democratic republic, whereby the president is both Head of State and Head of Government in a multi-party system. When President Kibaki assumed office in January 2003, donors were highly supportive of the government. The administration initially won praise, especially in its promise to crackdown on corruption. Financial support to fight against the vice came flooding in, including huge sums from the International Monetary Fund and the World Bank. All looked rosy until mid-2004 when the scale of corruption and its deeply rooted nature was revealed to the outside world.

In December 2007, Kenya held presidential, parliamentary and local elections. The presidential elections were however marred by irregularities. Nonetheless, the electoral commission announced Kibaki and his PNU party the winner, triggering a wave of violence across the country. The explosion of tension and fighting left more than 1000 people dead, more than 600,000 homeless countrywide, and unprecedented ethnic-based suspicion.

Kofi Annan, a former UN Secretary General stepped in to mediate between the rival party heads: Mwai Kibaki and Raila Odinga of the Orange Democratic Party. The two signed a power sharing agreement, and Kenya's new grand coalition government was formed. The fragile coalition began the task of long-term reform –specifically in the constitution, judiciary and land tenure. The key to its success lies in the relationship between the two principals. It is hoped that they can steer Kenya safely into an era of political maturity and free and fair elections in 2013.

Kenya has a broad-based economy bolstered by the resilience, resourcefulness and improved confidence of the private sector. Having been largely dominated by agricultural and horticultural exports, such as tea, coffee, cut flowers and vegetables as well as tourism (the main country's exchange earnings) the economic climate is changing with the diversifying needs of the trading partners. Kenya enjoys relatively good transport and communications infrastructure as well as human capital. Following a privatization law of 2005, a number of state corporations such as KenGen (electricity generation), Kenya Railways and Telkom Kenya have been privatized. In general, despite the post-election violence witnessed after the 2007/8 elections the economy seems to have withered the political storm.

Traditional culture remains sacrosanct to many Kenyans. Respect for elders, traditional and religious beliefs and distinct gender roles within the family networks create defined moral social structures. Kenyans have an easy going approach to life as well as a great sense of humor. What's more, the emotional framework of the extended family makes for an exclusive and supportive network. Historically, the majority of Kenyans were either farmers or cattle herders within clans based in interconnected villages in rural areas.

Kenya is home to more than 39.6 million inhabitants, comprising 40 tribal groups, falling into four main ethnic groups: Cushitic, Nilotic, Nilo-cushitic and Bantu. Although most tribes have co-existed peacefully, an increased ethnocentric bias of government and civil service appointments has led to escalating unease and dissatisfaction. The hotly contested 2007 presidential elections pay testimony to this. Some analysts point out that the post election violence had more to do with economic inequality than with tribalism and insist that there are only two tribes in Kenya – the rich and the poor. Bordered by five neighbouring countries, Kenya is also subject to an increasing influx of

refugees from time to time. Minority group residents include 80,000 Asian and 30,000 of west European descent.

Variation in the climate largely depends on altitude and varies from month to month. Kenya has varied climatic conditions much of it classified as arid and semi-arid with seasonal rainfall. There are two rainy seasons: between April and July (long rains) and November and December (short rains). The Central Highlands and Rift Valley enjoy an idyllic climate with warm daytime temperatures and cool nights. Northern Kenya is mainly hot with temperatures exceeding 35°C. The Coast tends to be humid and hot with average temperatures reaching 26°C to 32°C, while Western Kenya and the Lake Victoria basin are generally warm and humid.

2. Overview of the Co-operative Movement

The co-operative movement in Kenya started through spontaneous initiatives of individual European settler farmers during colonial days. In the co-operative formative years (1908-1930s) the movement did not include African participation. It was after 1945 when African small holders were allowed to form their own co-operative societies. African participation in the co-operative was intensified after they had been allowed to grow cash crops such as coffee and pyrethrum. For any African peasant, co-operative societies became a sine quo non for his economic advancement. Because many Africans desired to grow cash crops, they joined co-operative societies and thus started the rapid mushrooming of these societies in the country. By 1963, many farmers were involved in the marketing of Agricultural crops such as coffee, maize, beans, pyrethrum, and dairy products through their co-operative societies.

However, it was not until 1970 when the Kenya government, through the publication of a government seasonal paper, officially acknowledged the important role co-operatives were playing in the national development of the country. In recognition of their role, the government created a Ministry of Co-operative Development with objectives to identify areas which co-operative expansion would involve for adequate economic development of the country. The rapid development of the movement was facilitated through technical and advisory assistance from the Kenya government, donor countries and agencies. These included the Nordic countries of Sweden, Norway, Denmark, Iceland and Finland, the International Co-operative Alliance, the International Labour Organization, the World Bank, USAID, UNDP, FES, amongst others who provided assistance spanning decades in order to establish and build a successful co-operative movement in Kenya.

In 1998, the economic survey published by the Central Bureau of Statistics reported that the contribution by co-operatives to gross farm revenue was 43.4% for coffee, 5.7% for sugarcane, 38% for pyrethrum, 47% in cotton, 85% in dairy products. In 2009 the ministry responsible for co-operative development suggested that Kenya had well over 12,000 co-operatives comprising 5268 savings and credit co-operatives, 4534 agricultural based co-operatives; 184 consumer co-operatives, 89 handicraft co-operatives, 636 housing co-operatives, 64 transport co-operatives, and a number of non-agricultural co-operatives like fisheries and those involved in farm-purchase activities.

Today, the country's co-operative policy aims at expanding the economic space for sustainable growth of co-operatives. The policy emphasizes restructuring, strengthening and transforming co-operatives into vibrant economic entities that can confront the challenges of wealth creation, employment creation and poverty reduction, while recognizing that co-operatives are private business ventures. To this end, Kenya has two pieces of legislation: The Co-operative Societies (Amendment) Act of 2004 which reinforces state regulation of the co-operative development, and

the SACCOS Societies Act of 2008 that provides for the licensing, regulation, supervision and promotion of Savings and Credit Co-operatives by the SACCO Societies Regulatory Authority.

The co-operative movement is organized at four levels. The Co-operative Alliance of Kenya is newly registered, as the national organ for all co-operatives of all types. There are, in addition, national specialized co-operative organizations, such as the Co-operative Bank of Kenya, Co-operative Insurance Company of Kenya, National Housing Co-operative Union, Kenya Planters Co-operative Union, Kenya Co-operative Creameries, Kenya Union of Savings and Credit Co-operatives, Kenya Rural Savings & Credit Cooperative Societies Union, and The Co-operative College of Kenya (recently elevated to Co-operative University College). Secondary co-operatives form District or commodity based co-operative unions. While at the primary level, individual members have formed primary co-operative societies, along geographical lines or on basis of economic activities.

The Ministry of Co-operative Development and Marketing is the current Government's official agency for coordinating co-operative development in Kenya. The main duties of the ministry include registration and liquidation of all co-operatives, b) enforcement of Co-operative Societies Act, c) Formulation of co-operative policies, d) supporting of a favorable/conducive environment for the growth of co-operatives, e) registration of co-operative audits, and f) carrying out inquiries, investigations and inspections as and when necessary.

Indeed the co-operative movement is a major player in the country's social sphere, covering almost all sectors, and all parts of Kenya, and making significant contributions to socio-economic development. There are savings and credit, agricultural, housing, banking, insurance, consumer, workers, handicrafts and transport co-operatives.

3. Contributions by Co-operatives

The significance and contribution of co-operatives to the improvement of the quality of life for millions of Kenyans have spanned decades and have been phenomenal. In this paper, we can illustrate their contribution with only a few categories of co-operatives: financial services co-operatives, housing, agricultural, and workers' co-operatives.

Agricultural co-operatives were first established in Kenya more than 70 years ago during the British colonial rule. The first dairy co-operatives appeared in the 1930s and the first coffee co-operative was established in 1950. While initially small in terms of membership, dairy co-operatives grew in size and number during the post-independence period. By 1997 there were 165 active dairy co-operatives, with 116,300 members and an aggregate turnover of KShs 2,782 million (US\$ 44.4 million). Coffee co-operatives – which generally had larger memberships than dairy co-operatives – followed a similar growth pattern. In the same year (1997) there were 192 coffee co-operatives in Kenya, serving a membership of 392,700 and having an annual turnover of KShs 6,963 million (US \$111 million).

Coffee and dairy co-operatives have over the decades provided agricultural credit and inputs to their members on terms that were (and are) reasonable and responsive to the respective conditions of the members. In most cases, the members were (are) rural-based smallholder farmers, who would have very limited access to borrowing services from banks. Up till now the marketing of agricultural produce has continued to be problematic. The problems faced by smallholder farmers include poor roads, the tendency for produce to perish quickly, long distances to markets, exploitation by middlemen, delayed payments, high rates of post-harvest losses, unfriendly pricing mechanisms and lack of market information.

Until the advent of reforms brought about during the era of structural adjustment programmes and market liberalization, all these problems were embodied in state marketing boards. Today with the devolvement of the government from state-run marketing systems, the farmer relies on his co-operative to deal with these obstacles on his behalf. Agricultural co-operatives are helping in a number of ways: constructing suitable storage facilities, organizing transportation of produce, pooling small units into viable activities, finding markets, negotiating prices, and attempting to treat all small-scale producers fairly. Co-operatives have also invested in refrigeration (coolers) and coffee factory facilities.

Access to credit enables the average Kenyan farmer to afford to purchase improved agricultural implements, seedlings, chemicals, fertilizers and the like. Improved marketing and better prices over the decades have ensured that higher returns are received from smallholding forms. Thus, agricultural co-operatives, by facilitating superior returns, increase the incomes of large segments of the population, directly contributing to poverty reduction as well as economic growth.

Nevertheless, these co-operatives have scaled down their operations due to inadequate capital. In a 1998 FAO study by John Rouse titled; Financial Economic Self-reliance and Member Participation in Farmer Organizations in Kenya, pointed out that mobilizing capital in the country's agricultural co-operatives has been and continues to be complicated by four factors: 1) a long tradition of heavy government involvement in the management and financing of co-operatives and minimal member participation in decision making; 2) capital shortages in government-supported rural credit institutions, such as the Co-operative Bank of Kenya, once an important source of subsidized credit for co-operatives; 3) the liberalization of government controlled coffee and dairy markets and increased competition from the private sector, and 4) strict adherence to the co-operative principles of "one member, one vote and "limited return on capital". One conclusion of the paper was that the success in encouraging increased member capital contributions under liberalized market conditions, is "in getting the member investor incentives right," that is, in developing new financial instruments that create expected future value for members and adequately rewarding them for their capital contributions, while at the same time protecting the co-operative character of the organization.

Provision of Financial Products and Services

Kenya has a large growing financial sub-sector. Statistics available, by the World Council of Credit Unions, suggest that Kenya tops the list in Africa in terms of membership, value of assets, volume of savings and loans to members, and outreach in the economy.

The financial sub-sector consists of the Cooperative Bank, Urban and Rural Savings and Credit Cooperative Societies and the Cooperative Insurance Company. Urban SACCOs are formed by salaried and wage earners, whose employers have agreed to effect a monthly check-off system for members' contributions and loan payments. The cooperative societies in this sector were initially promoted within government ministries, local authorities and parastatals but today they are found in all institutions both in the private and public sectors and in communities as well.

The Kenya Union of Savings and Cooperatives Union (KUSCO) is an umbrella organization of Savings and Credit Cooperatives. It supports both rural and urban cooperative societies. KUSCO was established to promote the establishment and development of viable Savings and Credit Co-operatives Societies. It does so by providing education, training and centralized accounting services among other support services.

The Kenya Rural SACCO's Societies Union (KERUSSU) has the role of mobilizing rural savings and credit cooperative societies. It acts as a link between them and other stakeholders. The objective

of KERUSSU is to harmonize and co-ordinate rural savings. Broadly, savings and credit cooperative societies provide front-office financial services to co-operators. KERUSSU also assists these SACCOs in the improvement of management through standardized operations and procedures training and educating management committee members, staff and ordinary members of societies.

The Cooperative Insurance Company of Kenya (CIC) is a specialized insurance organization founded in 1978 by the cooperative movement of Kenya. It is wholly owned by the cooperative movement and provides both general and life insurance to the cooperative movement and its members, private and general organizations, corporate bodies and the general public. It also promotes awareness among the co-operators, policyholders, potential customers and the general public. This is a basic foundation for the promotion of effective insurance business that supports the aspirations of both the insured and the insurers. CIC emphasizes the need to educate and spread insurance knowledge to rural farmers and urban employers and employees, as well as to the youth – as illustrated in another paper on Best Practices.

The Cooperative Bank of Kenya was registered in 1965 and started operations in 1968. The cooperative movement owns the bank. Its objectives are to serve the cooperative movement and the unions by providing credit mainly to the agricultural sector. Over the years, the bank has grown and now has 30 full-time branches countrywide. It also has two subsidiary companies, namely Cooperative Merchant Bank and Co-op Trust Investment Services, which handle all long-term financing and fund management for both co-operators and non-cooperators. The Co-op Bank in conjunction with other institutions has offered technical assistance and human resources development to the SACCOs. The Cooperative Bank of Kenya is the principal banker for the cooperative movement. Fast and steady growth has given the Co-op Bank the strength and capacity to serve the entire cooperative movement as well as investing considerably in community and social responsibility programmes.

In recognition of the important role played by the co-operative movement in the economy, the Co-operative Bank has set up a department that deals with the SACCOs. This department is responsible for the co-ordination, development and maintenance of all co-operative business with the bank. The department has Co-operatives Relationship Managers who are in constant touch with co-operatives throughout the country.

- Since the late 1980s, Co-op Bank has been at the forefront in the promotion and development of the Co-operative Financial Services (CFS) in Kenya. The bank has continued to undertake this task through the following ways:
- Conversion of the Union Banking Sections (UBS) to independent, separate legal entities with the sole aim of safeguarding members' funds commonly referred to as the FOSAs
- Education and Training of the Cooperative Societies, with particular emphasis to SACCOs. The objective for this activity is to build capacity to staff and also create awareness for the members. The bank has been doing this through in-house and structured courses/training for members, committee members and staff.

The bank has over the years been instrumental in the design and implementation of a new business model for SACCOs as a first step towards conversion into financial institutions offering 'quasi' banking services to their members. This has been achieved by offering consultancy services in form of writing feasibility studies and developing/designing operating systems. The bank has been instrumental in advocacy and the creation of a legal and regulatory framework for the emerging Co-operative Financial Institutions (CFIs).

Lately, the bank has embarked on the development of a framework for closer integration of the CFIs for the stability and the sustainability of the entire Co-operative Finance System (CFS). Currently, there are hundreds of SACCOs with FOSAs offering semi-banking services to their members countrywide.

The bank has a Staff Training Center equipped with modern facilities where a wide range of banking courses are offered not only to its staff but also the workers of co-operative institutions. The bank also has a training institute that co-ordinate all the co-operative training and consultancy services.

Finally, the bank, through its Co-operative Bank Foundation provides scholarships for needy but bright students admitted to various secondary schools and universities.

Contributions to education, training and awareness

Throughout their history Co-operatives have invested heavily in people. They have designed and carried out programmes to educate their members, develop their leaders, and train their personnel. Members have been made to appreciate the importance of co-operation, self-help, civility, and self-determination. Kenya has many providers of co-operative education, training and information. Apart from the Co-operative College of Kenya, all national co-operative organizations, the Co-operative Bank, the National Co-operative Housing Union, Kenya Union of Savings and Credit Co-operative Organization, KCC and all provincial co-operative unions provide organized education and training programmes. Through these, the leaders learn how to make decisions, to recognize the significance of accountability, transparency, democracy and a variety of business concepts and practices. Thus co-operatives contribute in serving as agents of economic and social change. Many employees and former employees of co-operatives have excelled as book-keepers, accountants, economists, businessmen, engineers, extension workers, educators, trainers etc. Thus co-operatives have contributed in a major way to human capability development.

In recent times the Co-operative College of Kenya has been elevated to university status, and can offer certificates, diploma and degree courses and has become active in research, and provision of consultancy services. In addition, a number of national co-operative organizations- notably CIC and CBK- routinely pay school fees and university fees for children from poor families, and orphans. The co-operative Bank of Kenya has a bursary scheme for needy students. Thus individuals benefit and have their tuition fees at university taken care of by the Bank. The Co-operative Bank Foundation gives scholarships to cover full university fees for young top performers in school examinations. The foundation was established in 2006 and has more than 1500 beneficiaries, and continues to grow.

Housing Co-operatives

Increasingly, co-operatives are making a contribution for individual/ members with low-cost shelter. Co-operatives are enabling lower income members to purchase improved houses, connected to ancillary services like water, electricity and sewerage facilities. The rapid urbanization, migration from rural to urban centres, towns and cities, means that the provision of housing, especially at low cost, has become a growth area. Slum improvement for self-help and help to self-help is especially important. The National Co-operative Housing Union is a perfect example where coop-housing is growing. NACHU is registered under the Co-operatives Societies Act and is owned by affiliated primary housing co-operatives. NACHU provides a range of services to both affiliate and non-affiliate co-operatives and other organizations including technical construction advice, management and training support. NACHU's activities include supporting registered housing co-operatives to construct housing for members in a relatively conventional way. The house rehabilitation

programme or house upgrading is a donor-funded programme targeted at low-income groups. It provides funds for rehabilitation of existing semi-permanent units built on land that is owned by a co-operative or its members. NACHU has developed considerable experience in this area with programmes to enable slum dwellers rehabilitate houses and build additional rooms to let. Elsewhere, we have used NACHU as a case study to illustrate the role it is playing in the provision of low-cost housing to ordinary Kenyans.

Contribution in Handicrafts and Transport Sectors

In the transport and handicrafts sectors, co-operatives have increasingly become the preferred method of organizing business through workers' co-operatives. In the busy and sometimes chaotic “matatu” industry, and boda-boda motorcyclist taxis, the common sense co-operative approach has been embraced. Commercial crafts co-operatives like the Wamuyu Handicrafts Co-operative and the Akamba Wood Carvers have been in business since the sixties, bringing together hundreds of artisans under one roof. Skills are learnt and perfected, while finished carvings are collectively marked. For decades, tourists visiting Kenya have represented a growing market for handicrafts. They buy baskets and wood carvings as souvenirs. Others see them as exotic African works- and expressions of art. This way, numerous Kenyans have succeeded (with help from their handcraft co-operatives) to be masters of their own destiny by hand-making artifacts, selling them through their coops, and routinely earning handsome monetary returns as well as the self-esteem, which goes with experienced craftsmen.

Thus, the few studies that have been conducted so far show that co-operatives have made a significant contribution to sustainable human development. They have increased incomes to the largest and poorest segments of the population. They create and maintain jobs as employers and as enablers of self employment. Persons previously considered as unbankable pool together funds from which they get credit. The rich, the poor, the literate, the illiterate, men and women, the able-bodied and the handicapped, mingle and congregate as equals in the eyes of the co-operative. Members and leaders have been exposed to business concepts, organizational development and democratic cover for oxen and for funeral expenses. Indeed, many co-operatives are successfully diversifying their operations, adding value to commodities and building their market muscle.

4. The Role of the Government

The Government has played a key role in the promotion of co-operatives since independence in 1963. The aim of government was to see that co-operatives grew rapidly to embrace a large section of the economy and provide opportunity for the citizenry to participate in the economic activities of the new nation. Co-operative policies were instituted to promote the development of co-operatives. In addition, administrative structures were also put in place to enable countrywide promotion and supervision of co-operatives. The Government also introduced schemes, particularly in the agricultural sector to finance the development of specific crop enterprises. Substantial technical assistance aimed mainly at strengthening the management capacity of co-operatives was also given through bi-lateral arrangements such as the Nordic-Co-operative Project. The Co-operative College of Kenya was established, initially as a Department within the Ministry of Co-operatives and later granted semi-autonomy, with the sole aim of training staff for the movement and government officers. In the past, government supported a number of cooperative organizations through office accommodation and by seconding staff. The government was also instrumental in the promotion of SACCOs and other types of co-operatives framework to develop the movement. The Ministry of Co-operative Development and Marketing is the current Government's official agency for coordinating co-operative development in Kenya. As per the current policy, the main duties of the ministry include;- a) Registration and liquidation of all co-operatives register under the Act; b) Enforcement of the Co-operative Societies Act; c) Formulation of co-operative policy; d)

Supporting development of a conducive environment for cooperative growth; e) Registration of cooperative audits; f) Carrying out of inquiries, investigations and inspections.

In the Ministry, the office of the Commissioner for Co-operative Development serves as the hub for registration and regulation of co-operatives in Kenya. The Ministry has 775 technical staff (co-operative officers and auditors) and 343 support staff. These are the staff that are expected to regulate a total of 11,968 co-operatives as of 2008) Kenya National Bureau of Statistics, 2009: 165). With regard to the technical staff, this translates to a ratio of one staff to every 15 co-operatives that are dispersed in a wide and varied geographical area. The staffing at the Ministry is clearly inadequate for the task, which partly explains why the Ministry experiences difficulties in maintaining up-to-date statistical data on the co-operative movement, notes studies on the co-operative movement in Kenya. However, to play its role efficiently, the Government of Kenya has established a number of agencies as “watchdogs”: They include an Ethics Commission, a SACCOs Regulatory Authority, and a Co-operative Tribunal, briefly profiled hereunder:

- a) **The Ethics Commission for Co-operative Societies (ECOS).** The Commission is intended to bring more stringent management of the affairs of Co-operatives and Saccos as part of the ongoing reforms in the sector. The Ethics Commission for Co-operative Societies which until recently had internal Board comprising senior staff of the ministry has added to its Board nine members who are strengthening the Board and in fighting corruption. The Commission makes it mandatory for every registered Co-operative to develop a specific Code of Conduct and Ethics for its management, staff and even members to be adopted and internalized in an effort to improving the business ethics of these organizations. The MOCD says that the Ethics Commission comprising 10 members will operate under the provisions of the Public Officers Ethics Act of 2003, the Anti-Corruption and Economic Crimes Act of 2003, the Co-operative Societies Act (amended 2004) and the Sacco Societies act of 2008 rules and regulations.
- b) **The Sacco Societies Regulatory Authority (SASRA)** is mandated to licence and supervise SACCOs. Its role is said to ensure integrity of the operations of these organizations. The Government believes that SASRA, through effective implementation of the operational regulations and prudential standards will enhance efficiency in the SACCO subsector, by reducing loan delinquency, inculcating best practices in management and hence increase savings and credit facilities for the members of SACCOs. SASRA was created by an act of Parliament in 2008 and its board contributed in 2009 SACCOs is required to apply for licence every year to ensure that they comply with laid-out financial and governance policies/ standards. And,
- c) **The Cooperative Tribunal** is a quasi-judicial body established under the Co-operative Societies Act, Number 12 of 1997. Its vision being “Fair and just settlement of cooperative disputes”. In order to qualify as a dispute for purposes of the Tribunal, the matter must concern the business of the cooperative society. Disputes can and do arise a)among members, past members and persons claiming through members, past members and deceased members b)between members, past members or deceased members; and the society, its committee or any officer of the society; or c)between a society and any other cooperative society. The Tribunal is headquartered in Nairobi, but has decentralized its services by establishing registries across the Republic, namely Mombasa, Kisumu, Nyeri, Embu, Nakuru and Kakamega. Fees for the services at the Tribunal are fair and affordable and are not supposed to exceed Kshs. 70,000 (or US \$850)

What should be the role of government?

From the above it is evident that the government continues to play a significant role in the affairs of the co-operative movement. Given the importance and contribution of co-operatives to the national development as outlined above, the focus of Government relations with the movement must be through creation of more favourable policy and legal environment, especially by reviewing existing policy and legal frameworks so that co-operatives can function as independent, autonomous and self-propelled private sector organizations. There is need for the Government to provide support and encouragement technically and financially, on the independence of the movement, because too much government control can erode the autonomy of co-operatives. Too little support might deprive the required assistance for co-operatives, particularly at the primary level in disadvantaged districts and counties.

Thus, the new role could have the following elements:-

- A new co-operative development policy that redefines the relation between the state and the co-operative movement;
- A new co-operative legislation that translate the new policy into legal rights and obligations that guarantee the autonomy of co-operatives;
- A new co-operative administration that restricts itself to regulatory functions;
- The strengthening of a vertical structure of co-operatives; and providing needed;
- A new system of support services (mainly some education and training, business advisory services and external audit) that is largely managed and financed by the co-operative movement itself.

Thus, while the governments role is crucial, the best relations in the country will only occur, when the co-operative movement itself takes the lead and responsibility for its own development, while the government supports the regulates the movement within the framework of co-operative legislation, and a liberal policy framework.

5. Challenges and Problems faced by Co-operatives in Kenya

Failures and Weaknesses at the Level of Cooperators

A major issue or problem that cooperatives have persistently faced in Kenya has been the low motivation and loyalty among the members. This has been caused mainly by two factors, both related to government policies. First of all, the government intervention in running of cooperatives has caused the members to conceive them as arms of the government used for the implementation of its policies rather than as their own institutions working for the betterment of their own standards of living. Secondly, the cooperatives have often been forced to serve the entire population in given areas. Thus where membership has not brought promised member specific benefits: this has reduced the incentives for membership, contributing to the low financing of and general participation in cooperatives. The apathy he has often occurred at the membership level in primary agricultural cooperatives, where the number of dormant societies is worrying and telling. Management of agricultural cooperatives has tended to stick to old ways and means of “marketing” and developing their products even when the environment has clearly changed. The need is great, to introduce improved marketing approaches in order to bring in better returns. Far too many cooperatives societies in Kenya remain with traditional produce and have done little in value addition through processing. They need to diversify, add value and become aggressive marketing organizations to succeed and grow in today’s competitive environments. They need to become proactive, responsive and quick in adapting to market demands nationally and internationally.

At the cooperators’ level a major weakness is ignorance about the rules governing the operations of co-operative societies. Very often the by-laws are only available in English which many members

do not understand. In Kenya and Uganda for instance most by-laws are in English. In Tanzania, they are in Kiswahili, while Rwanda, they are both in Kinyarwanda and in English.

Lack of real benefits has been a weakness in far too many societies, as members do not see any advantage accruing to them. Hence, such members hesitate to participate actively. They pay and contribute very minimal resources as share capital and are not active participants in meeting, because the cooperatives is somewhat alien to them and they do not feel that it is their society, or their village group.

In short, the cooperative movement having been introduced from outside by government, by cooperative departments and officers, is still far from a people's movement accepted and understood by the rural masses as their self-help mechanism tool. Moreover the lack of member awareness and the rampant poor leadership complement each other in bringing about a state of non-participation by members in co-operative societies everywhere. This condition constitutes a vicious circle and a huge threat. Because members are ignorant of what good leadership of their co-operative should entail, they often end up electing and placing the wrong people in leadership positions, both as board directors and as committee members. And, as a result of such poorly constituted boards, poor unqualified managers are hired to run the co-operatives. "This becomes the genesis of a plethora of ills affecting co-operatives performance" The leaders thus elected, "do not work for the members' interest(s). Some sacrifice members' democratic rights and keep them ignorant of what goes on. In many cases, elected leaders take advantage of the members' ignorance, manipulate them and invariably deny them their rights, including misappropriating their dues"

Weaknesses at the Coop Society Level

At the cooperative society level, weaknesses occurred (and still occur) mainly in organization and management. For one, the co-operative societies are too small to afford a paid professional manager. They remain small for this very reason. Moreover, the activities of cooperative societies are linked to one single crop like coffee or milk and or one single activity. Such cooperatives work as collection points or distribution outlets. In many cases they often resemble more a branch of parastatal organization than an independent enterprise. Further, instead, instead of vertical integration such cooperatives frequently work in isolation and, having a very small equity capital base, they lack credibility, accordingly cannot obtain credit from commercial banks.

Ignorance and lack of awareness

It is common knowledge that democracy in all its dignity does not thrive too easily under conditions replete with ignorance. As it happens in Kenya as in other countries in East Africa, members of co-operatives are largely illiterate and susceptible to manipulation and exploitation by the more educated managers and list non-members. This condition is rooted entirely participation and contributes heavily to their marginalization. Because of the general lack of awareness, people often find themselves joining cooperatives without knowing why they are joining, much less the meaning of co-operation, their rights, responsibilities and functions. Thus studies undertaken and contacts made with co-operative members in Kenya, (Tanzania and in Uganda) indicate that there are still numerous persons who formed or joined co-operatives because a politician or a government official promised them government or donor support. Others were literally forced into membership through legislation – advice and practice. These studies further points out that member were (are) in grossly simplistic way given the impression that "You join a co-operative in order to get bonuses and dividends". There are many cases of people joining because they are told to do so by some influential person – like the local politician or Member of Parliament – or because "it is the weak supporting organizations".

Bad leadership

Lack of member awareness and bad leadership compliment each other in bringing about a state of non-participation by members. This condition constitutes a vicious circle. Because members are ignorant of what good leadership means and what quality of people they should elect to leadership positions (e.g. board members) they often end up electing and placing the wrong people in leadership positions.

This becomes the genesis of a plethora of ills affecting co-operative performance. The leaders thus elected do not meet basic leadership criteria and, more often than not, they do not have the members' interest at heart. Some sacrifice members' democratic rights (including participation) and keep members ignorant of what is going on, manipulate them and deny them their democratic rights.

The professional people hired by the "elected leaders" to mind the technical aspect of the day-to-day work are often incompetent (because the people appointing them are not honest or knowledgeable enough to follow proper recruitment procedures). If they be qualified, they often exploit the relative ignorance of the board members in order to achieve their own nefarious ends. Sometimes they connive with board members in pursuing personal interests. In this scenario the co-operative member becomes increasingly marginalized. He is neglected to a position of anonymity- a faceless bystander whose rightful role in the affairs of the co-operative has been high jacked by the leadership he was responsible for electing. The dilemma is so complete!

Weak support Organizations at District and National level

The usual support organizations include secondary and tertiary membership organizations as well as external agencies. The membership organizations have still to undergo some basic changes to bring them in line with the new competitive environment. First, the appointed and elected leadership of these organizations has not sufficiently comprehended the implications of these changes that have occurred and what radical and major actions they need to take. Some district unions and national organizations have been gripped by despair accompanied by inaction and grumbling. Others are complacent and believe that the changes will be unsustainable and that things will revert to the old order. Just as is the case with primary level organizations they aim to support, the higher level organizations do not have the organizational capacity they need in the new environment. A few years ago, the apex co-operative organization (KNFC) was deregistered. The Kenya Planters Cooperative Union has been in difficulties and is currently under receivership. KERUSSU and the newly registered Cooperative Alliance of Kenya are limping along without capacity and or resources. Arising from these weak support apex cooperative organizations, the role of the cooperative movement has not, for example been adequately incorporated in vision 2030, the long term development plan that aims to propel Kenya into a vibrant competitive economy. An ICA (2007) Report points out that the cooperative movement is not represented in key economic forums and platforms such as the National Economic Council, the Poverty Eradication Council; the National Aids Council; and the Kenya Anti-corruption Council. The two publications warn that when co-operatives fail to lobby and advocate effectively, the cooperative movement could find itself left out in the national agenda. Furthermore, mechanisms for tracking and documenting contributions and impacts of cooperatives to socio-economic development in the country have not been established. Thus, even though it has been often claimed that cooperatives contribute 45 percent of the GDP, there have been no authentic tracking mechanisms and no appropriate linkage to such key national systems as the Central Bureau of Statistics.

The impact of the HIV/AIDS pandemic.

Another serious problem is the HIV/AIDS pandemic which has killed millions of people in Africa. In Kenya the disease is spreading at an alarming speed. Thus Cooperatives, like other organizations,

have been directly affected by the disease; they have been losing their members, their work force, and their leaders. This has in turn affected their turnover and their revenue, thus weakening their role in providing efficient services and in helping improve the living conditions of their members and those of their communities generally since Co-operatives have both the reason and the potential to participate actively in the fight against HIV/AIDS. This derives from a very elementary fact that cooperatives by their nature are about people, and not about things. It follows therefore that if they are losing people - if they are losing their members - in large numbers, there will be no people to serve, or if there be few, cooperatives will not have the economic strength to cater to their members' needs or those of the broader community. This is particularly so in the rural areas where most cooperatives are based and operate. There, amidst poverty and general ignorance, the disease is spreading at a frightening rate, leaving in its wake, devastation, despair and more misery. The various agencies engaged in HIV/AIDS prevention programmes have done their best, but for various reasons: geographical, financial and logistical, have not had the desired impact.

What is the impact of the disease on the Co-operative Movement in Kenya?

Members of co-operatives are also members of the community. Since the HIV-AIDS pandemic has affected all communities, it means that members, as well as leaders and employees of cooperatives, both in the rural and urban areas have also been affected - for the disease does not select its victims as long as people get exposed to it.

- Because co-operatives are about people, deaths of members do affect and weaken cooperatives.
- Deaths of people employed by co-operative have deprived co-operatives of services essential to the smooth running of the movement. For example, when a manager of a co-operative dies, operations suffer that is more money spent by the co-operative to train him is wasted. Likewise, the death of a co-operative leader leaves a gap that is costly to fill.
- Most individuals affected by the disease are people in the age group of 20 to 45 years. If the community is losing people in their most productive age, not only will the well being of the co-operative movement suffer, but also the economic well being of the community and the country as a whole.
- The spread of HIV/AIDS in the rural areas where most cooperatives are found becomes even more frightening when we consider that more than 80% of the population of most African countries depends on agriculture for their livelihood.
- Because of poverty, lack of awareness and the fact that rural areas where co-operatives operate are not sufficiently covered by the HIV / AIDS prevention programmes, cooperatives hopelessly watch as the disease continue to wreak untold havoc.
- Those dying while owing money to co-operative's cause harm the capacity of the co-operatives to give loans to surviving members is reduced.
- To all this must be added the valuable time lost by relatives in caring for the sick/and attending funerals.

All along however, co-operatives, as indeed many other institutions, have regarded the pandemic as a medical problem. It has not occurred to co-operative members, or their leaders that they can, or indeed, they should play an active part in the fight against the HIV / AIDS pandemic. For this is not simply a medical problem; it is in fact a problem that affects everybody. It is only logical that it should be the concern of everybody. Its prevention and control starts, quite obviously, with the individual, but also requires a concerted and coordinated effort by various agencies, with Cooperatives playing their role.

Thus, the problems/weaknesses and or threats that face cooperatives are many, complex and interrelated. One writer summarized them as follows:

“Firstly, the payout rates to farmers are low, due to high operational and overload costs. Secondly, payments to farmers is in many cases delayed either due to inadequate marketing system or through the deliberate misuse of farmers money in the cooperative marketing chain. Thirdly, high indebtedness of cooperatives due to poor credit management and supervision. Fourthly, the low capital base of crops, due to inadequate support from the members themselves and frequent operational losses fifth, weak management due to lack of business experiences and expertise amongst the managers, sixth lack of commitment and loyalty by members of cooperatives since cooperatives are seen as part of state institutions. And seventh but not the least, in efficient business operations due to inappropriate policy and legal framework, which gave the state excessive control over cooperatives and thereby stifled the development of entrepreneurship and strategic thinking in the leadership and management of cooperatives, Another researcher has pointed out that the problem of mobility member capital in agricultural cooperatives in Kenya has been complicated by four factors:

- a) A long tradition of heavy government involvement in the management and financing of farmers’ cooperatives and minimal member participation in decision making.
- b) Capital shortages in government – supported rural credit institutions such as the cooperative Bank of Kenya, once an important source of subsidized credit for cooperatives;
- c) The liberalization of government controlled coffee and dairy markets and increased competition from the private sector, and.
- d) Strict adherence to the cooperative principles of “one member, one vote” and “Limited return on capital”

6. The Influence of External Support

Since independence, the emerging co-operative sector has been supported by external agencies and stronger co-operative movements from Europe. Indeed, demonstrating solidarity and fellowship through co-operation has been an intrinsic part of the Kenyan co-operative movement, in line with the principle: co-operation among co-operatives. In this connection the Nordic countries of Sweden, Norway, Denmark, Iceland and Finland collaborated with Kenyan Government between 1967 and 1997 in a massive and long-term support arrangement. Through the Kenya/Nordic Co-operative Development Programme co-operative accounting and management systems were developed as well as support to establish institutions like co-operative college, the co-operative Bank and to strengthen KNFC, the apex co-operative organization and a co-operative insurance organization. Providers of support included the international Cooperative Alliance, the International Labour Organization, the World Bank, SCC, CCA, UNDP, USAID, ICMIF, FAO, FES, Swisscontact and WOCCU to name only a few.

These have provided organizational, technical and financial support to co-operative movement in Kenya, alongside other co-operative movements in other parts of Africa, Asia and southern America. These “donors” gave and continue to give budgetary support to government departments, national co-operative organizations and co-operative training institutions. In many cases the “donors” have also sent experts and volunteers from Europe, America and Canada to be attached to co-operative institutions and government departments. All these externally sourced support arrangements were and have been deployed largely in the design of accounting, educational, training and management systems. They have also helped apex organizations to launch and strengthen special projects and programmes in East Africa. And, to enhance good governance, integrate women and raise awareness on health and environmental issues. Lately, external support has been and is being deployed by co-operative movements in Kenya to embrace information and communications technology, to mitigate the impact of HIV/AIDS and to provide housing and shelter for low income

Kenyans in urban and peri-urban areas. The World Council of Credit Union is providing assistance to SACCOs to become sustainable and build their local technical capacity, to increase their membership and expand their outreach.

And, It is worth mentioning that over the decades since the early sixties, a number of universities and co-operative training institutions in the UK, Germany, Canada, USA, Denmark and Italy have provided scholarships and other training facilities for Kenyans to acquire specialized knowledge, skills to promote autonomous, self-reliant and successful co-operatives right across East Africa. A number of institutions outside the continent which have offered courses and training facilities for people from Africa include, but are not limited to Cordy International Institute (Canada), The Danish Agricultural College (Denmark), York University (Canada) Philipps University of Marburg (Germany), International Institute of the Histadrut – formerly Afro-Asian Institute for Labour and Co-operative Studies (Israel), International Co-operative Training Centre (United Kingdom) and the University of Wisconsin (USA).

Thus obviously the development of the country's co-operative sector is/was a result not only of indigenous efforts but was buttressed by external assistance. However, one of the lessons learnt is that external support can present risks that should be evaluated and taken into consideration before the decision to accept it is made. Today, it plays a key role at many levels, especially with regard to policy, legal reforms and capacity building. Support is welcomed into Kenya as long as it does not harm the development of autonomous and independent co-operative institutions and as long as it does not lead to a dependency syndrome.

7. Prospects for Co-operatives

The United Nations Millennium Declaration of 2000 and its goals set out issues that must be addressed (globally) if we are to strengthen the foundation of a more peaceful, prosperous and just world. These MDG Goals are the focus of the world's development agenda with multi and bilateral organizations, governments and civil society all seeking to find innovative ways to reach the goals by 2015. The role and the potential of Co-operative in relation to the eight MDGs has been a subject of discussion in many forums. The agreement/consensus has been that, if we want to enable poor people to help themselves through economic activity, that builds on their strengths and compensates for their weaknesses through people-centred businesses, each as Co-operative can have built-in advantages. In fact, one of the positive opportunities structural adjustment programmes availed to the co-operative movement was the removal of the authoritarian methods of overseeing co-operatives by the state, as well as the political interferences that had eroded democracy in the manner in which co-operative affairs were conducted. Instead, genuine measures of policy and law reform were introduced, resulting in more democratic and autonomous co-operative movements.

The role of co-operatives in reducing poverty and in contributing to the achievement of the Millennium Development Goals has been reorganized. The United Nations, the World Bank and national governments around the world have categorically acknowledged the contribution of co-operatives to the advancement of the developing countries. This is especially so in the rural areas where they are most suited. Indeed, the designation by the United Nations of the year 2012 as the International Year of Co-operatives is a conspicuous example of this recognition. It is not only a moral booster to co-operators around the world, but it reassures the masses of people amidst whom co-operatives exist and from whom they draw their members that, with proper management co-operatives are the route to prosperity.

Given that poverty reduction cannot be addressed effectively without employment creation, co-operatives have great opportunity of creating decent employment especially for young people, thus

contributing effectively to poverty reduction. Co-operatives do also have the potential for formalizing the informal economy, providing social protection and decent work to young men and women, not only in the urban areas where they can contribute significantly to agricultural value chains, food security and the protection of the natural environment-not to mention curbing the rural-urban migration

Co-operative support institutions are being strengthened: co-operative training centres being built up and up-scaled into co-operative colleges, while co-operative colleges themselves are being upgraded to co-operative universities that offer high level professional training for co-operative managers and personnel who will bring professionalism and excellence in the performance of co-operatives. More and more women are joining co-operatives in Kenya, many holding executive and technical positions, as well as leadership. Many of them are bringing into the movement grace, the honesty and ethical values inherent to that gender and which have evaded the movement for many decades because of its marginalization.

New ideas and new forms of co-operatives are emerging that are catching the imagination of people; savings and credit co-operatives are becoming important financial institutions, as are co-operative banks and various forms of group enterprises. Workers' co-operatives are being promoted, as are labour contracting co-operatives. And then there are new ideas about entrepreneurs' co-operatives that are bound to change the way people view co-operatives. Also evident among the emerging new forms of co-operatives are social services co-operatives. Here, the idea is not so much to do commercial business, but to provide a service that is badly needed in the community; one that cannot be provided individually or by the state.

Due to improvements in education, including universal primary education and increased secondary and higher education enrolments, a more enlightened society is emerging, in Kenya. This augurs well for co-operatives become more informed and broader-minded membership, leadership and management would contribute to strengthen the co-operative movement, thus creating a co-operative landscape quite different from the backward scenario of yesteryears.

The informal economy which on average employs 70% of the labour force in Kenya is on the rise. But this sector will not, and should not remain informal for ever. In their present situation, such workers are unprotected; meaning they have no social security, no voice, no organization and no legal representation whenever they require it. Co-operatives can serve as very potent option for transiting from informality to formality through such forms as savings and credit, workers' production, supplier and entrepreneurial' co-operatives. As co-operatives, they would become legal entities with powers to enter into contracts, to own or dispose of property and to sue or be sued.

The information revolution has much to offer co-operatives. It affords easy and cheap and fast communication and is handy in facilitating business contacts, price monitoring and market access. In this respect, the world has indeed become a smaller place in which business transactions can be carried out with extremely high speed and faster, greater efficiency.

Co-operation and Collaboration across East Africa

Another area of prospects is Co-operation and collaboration amongst co-operatives, departments (ministries) of co-operatives and strategic alliances with private sector based institutions is crucial for continued growth of the co-operative sector. The need for this is even more pronounced in the face of current globalization trends and regional co-operation trends like that being nurtured as the East African Community. In this regard a number of ideas have already been put forward on what

form of regional co-operation should take in Kenya, Uganda, Burundi, Tanzania, Rwanda, and southern Sudan. There are many prospects for co-operatives. To outline some of these ideas:

- a) Co-operative banks could appoint one another in the respective countries as their correspondent banks. The possibility exists for the Co-operative Bank of Kenya to open branches in other countries especially where the co-operatives in that country do not yet have a bank of their own. Later on the establishment can be taken over by the local co-operatives when feasible. Of course there is the idea of a Regional Co-operative African Development Bank.
- b) Co-operative Insurance Societies could have joint products covering more than one country. This could be very useful in regard to community cover and personal policies for members of staff and the leadership. An arrangement similar to correspondence in banking can be worked out. Co-operative insurance organizations could also explore possibilities to open foreign branches. Finally there is always the idea of reinsurance.
- c) Staff exchanges through on-job-attachment or initiatives should be broadened. This format can be more systematic, for example, by the drawing up of exhaustive collaboration contacts. Further along this line of thinking, across-border employment should be encouraged. MOUs involving Ministries like the Rwanda / Kenya MOU of 2004 (discussed elsewhere as one of the best practices) should be explored.
- d) Co-operation among co-operative training institutions can be increased. Student exchange programme, special regional programmes, tutor exchange and joint development of training material can all be better structured through protocols of collaboration. Joint research and publications can be done.
- e) Co-operatives should trade more among themselves across the region and beyond. Through targeted information, trade inquires, trade missions and similar means, co-operatives in Tanzania should be able to provide the instant coffee for the consumers' co-operatives in Mauritius. Botswana co-operatives could sell bone meal to the animal feeds plants in Kenya. The Zambian co-operatives could move some of this year's bumper maize crops to the other parts of the region where harvests were poor. Uganda co-operatives are exporting cotton lint and coffee. It should be noted that co-operative need not trade only in those wares that they need directly. The acid test is whether that trade is mutually beneficial to members in the respective countries. KCC should be able to export its products to other parts of East Africa.
- f) Joint-ventures have been much mentioned. As this can be quite complex to set up and operate, one would initially think of a looser form of trading association. The different handicraft co-operatives can put out a joint brochure of "African Arts" and promise to supply through a joint arrangement. Buyers would be saving from the hustle and bustle of dealing with many small orders. The same idea should be considered for say coffee and cotton commodities and products.

The national exporters of these commodities can jointly identify buyers, negotiate terms and arrange coordinated delivery. Likewise for imports of say agricultural inputs and chemicals. This body of ideas can be extended to include co-operatives operating under a common emblem and selected common brand names. Co-operatives should plan to take advantage of such arrangements as USA's AGOA.

What benefits will regional co-operation bring?

Since the need for and value of regional co-operation among co-operatives have been well recognized in the region, It goes beyond just the principle of co-operation among co-operatives, but should appropriately be justified by the principle. Co-operation will increase co-operative solidarity which will lead to economic, organizational and operational strength. For the ordinary member this

means better prices for supplies and for products. It means greater bargaining clout for the co-operative organization it means more possibilities to raise capital and more professional personnel.

The existing contacts and knowledge between co-operatives people and institutions can form a sound starting point to achieve even broader co-operation which the countries still find difficult to implement. So there is something in it for the countries too.

From the perspective of human resource development, management and leaders will find their horizons broadened. There will be satisfaction and reward in people of similar basic values and attitudes of working together.

Under liberalization, one policy that is common in the countries of the region is that foreign investors are given very favourable terms including tax holidays, reimbursement of personnel development costs, preferential importation and export regulations and infrastructural support. By going regional, co-operatives can benefit from these attractive packages, especially under East Africa Community arrangements.

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