Euricse

European Research Institute on Cooperative and Social Enterprises

Identifying Processes and Policies Conducive to Cooperative Development in Africa

Kenya Country Report

International Cooperative Research Group

OCDC US Overseas Cooperative Development Council

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This country report is one of the outputs of the research project "Identifying Processes and Policies Conducive to Cooperative Development in Africa", an exploratory study conducted by Euricse in partnership with the International Cooperative Research Group, a division of the US Overseas Cooperative Development Council (OCDC).
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Outline

1. National context and the agrarian policies

The agricultural production system in Kenya is characterized by the existence of numerous smallholders alongside a few large-scale farmers. Average smallholder farm size is two hectares; they produce around 70% of all agricultural outputs but contribute only 30% of the marketed production. Large-scale farmers (greater than 20 hectares of land on average) account for about 70% of marketed output (Nzuma, 2013). Maize is Kenya's main staple food.

Kenya became independent from British colonization in 1963. The first two administrations under Jomo Kenyatta (1963–78) and Daniel Arap Moi (1978–2002) gave a centralized direction to the economy. After an attempted coup in 1982, President Moi concentrated state authority; the first multi-party elections were held in 1992.

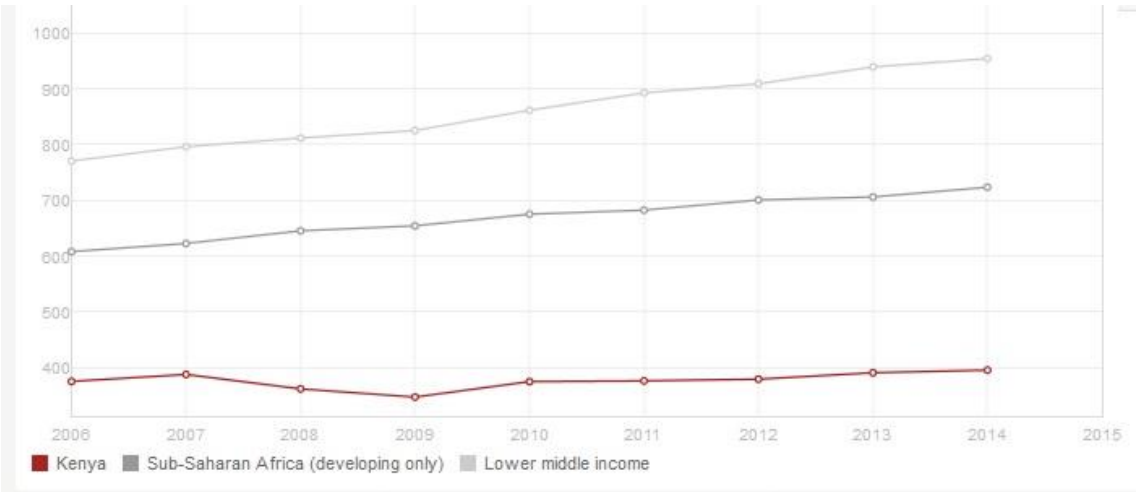
In colonial times, European settlers' economic activities were protected by the colonial government through the provision of exclusive rights to land alienated from Africans, control of labor supply, and so on. Africans were restricted from occupying particular areas and from growing particular crops and were forced to live in specific settlement schemes. Several production and marketing boards were formed to organize production and marketing (coffee, pyrethrum, dairy production, etc.). A big push was given in the 1950s, when most of the cooperative development occurred, but it was still exclusively for settlers. After independence, a first phase of agrarian policies was marked by direct government control and participation (1963–1980), after which government participation was reduced in favor of liberalization policies. The immediate concern of the independent government was the "Africanization" of land ownership and the resettlement of the landless (Nzuma, 2013). The main commodities had state boards. Smallholder production was organized in cooperatives to assist in the procurement of inputs and in the marketing of produce, and price controls were in place. Market liberalization policies started from the 1980s under the structural adjustment programs of the World Bank and the International Monetary Fund (most price controls had to be removed as a World Bank condition in 1982). The first multi-party elections were held in 1992, but the government investment in agriculture was quite low until the early 2000s (Nzuma, 2013). The Strategy for Revitalization of Agriculture (SRA, 2004) was the product of a renewed interest in agriculture. Its focus was on raising productivity, providing public goods, developing the private sector development, and democratizing policy making. These reforms opened the way to a decentralization of power, which was formalized in the new constitution that was enacted in Kenya in 2010 and that devolved decision making to county governments. The policy changes in the 2000s resulted in an increase in smallholders' proximity to infrastructure, markets, and services (Chamberlin and Jayne, 2009). A strong reduction in travel distances occurred for rural roads, telephones, and improved water sources. This is ascribed—by Chamberlin et al. (2009)—to the Constituency Development Fund (2003), under which local authorities were given increased control of resources. On the private sector side, the distance households traveled to the point of a maize sale and to the nearest fertilizer retailer decreased, and this reflected an increased density of grain buyers. Rural poverty also started to decrease (49% in 2005), after having risen from 48% to 56% between 1992 and 2000 (Nzuma, 2013).

Despite these reforms and a relatively high growth rate (the 2014 GDP growth rate was 5.3%), some long-run problems remained, mostly in the field of food security. According to IFAD[1], "while Kenya is on the path to economic growth, however, poverty alleviation remains a challenge. Nearly half of

[1] IFAD Rural Poverty portal: http://www.ruralpovertyportal.org/country/home/tags/kenya [Accessed: July 11, 2016].

the country's 43 million people lived below the poverty line or are unable to meet their daily nutritional requirements". Rural poverty was 49% (measured at the national poverty line) in 2005, and the share of national income held by the bottom 20% of the population was only 4.8% (World Bank data[2]). Better figures seemed to emerge from the more recent Demographic and Health survey (2014)[3], which showed that the majority of households (89%) in Kenya had acceptable food consumption scores. At the same time, more than three in ten rural households (36%) reported not having enough food or money to buy food in the seven days preceding the survey. According to Foeken and Klaver (2014), the production of most basic food crops during the past 50 years had problems in keeping pace with population growth[4]. Kenya indeed has had an extremely high population growth, since it experienced an almost five-fold increase in its population in the last 50 years. At the same time, productivity in agriculture seemed to be a big problem: the same authors argued that only the basic crops that kept up with population growth (potatoes, sweet potatoes, rice, and beans) did so more through area increase than through yield increase. The same result is shown in a study that focuses on maize production: it increased after liberalization, but it did so by increasing cultivated land, rather than because of an increased yield per acre (Nyairo et al., 2013).

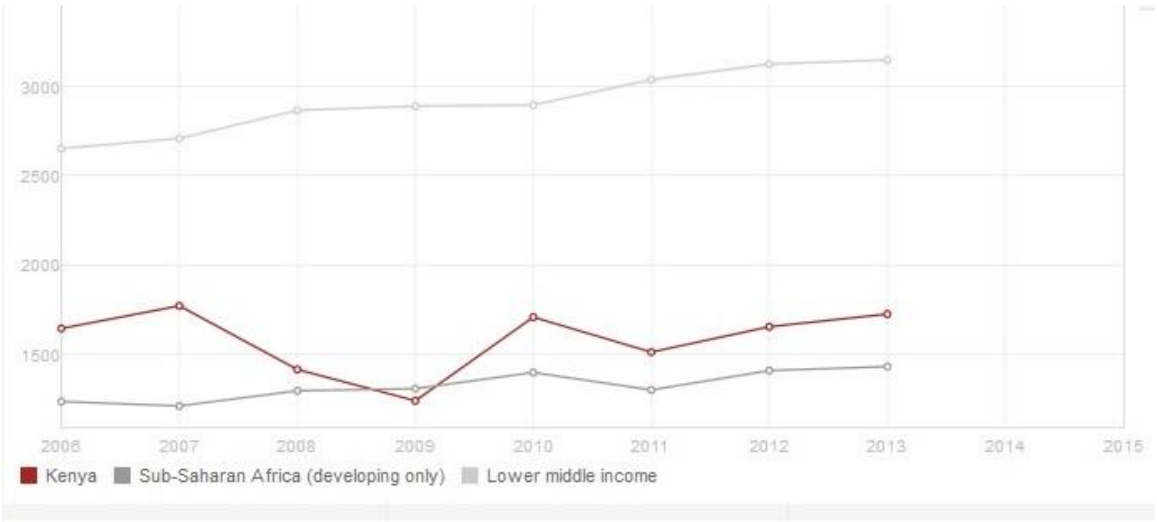
Fig. 1: Agriculture value added per worker (constant 2005 USD)



Source: World Bank data[5]

[2] http://data.worldbank.org/country/kenya [Accessed: January 24, 2016]
[3] Released in January 2016, http://dhsprogram.com/what-we-do/survey/survey-display-451.cfm [Accessed: January 24, 2016]
[4] In the 1990s, yield levels deteriorated for all basic food crops; the situation was better between 2000 and 2006, but it got worse again from 2007 to 2011(in 2009, total food energy in Kenya had dropped 19% compared to 2006) (Foeken & Klaver, 2014).
[5] http://data.worldbank.org/country/kenya [Accessed: January 24, 2016]

Fig. 2: Cereal yield per hectare (kg)



Source: World Bank data[6]

Kenya's attempts to develop non-food crops were partly successful, since its non-basic food area went up from 18% of its total crop area in 1961 to 21% in 2011 (Nzuma, 2013), but the same author argued that these successful points cannot compensate for the lack of basic food security. Nzuma pointed at another issue concerning food security, food prices: "Contrary to popular belief that farmers would benefit from the high food prices, the food crisis [of 2007–2009] has worsened the food security situation of most Kenyan households since a majority of these households are net food buyers" (Nzuma, 2013: 1). According to the author, the indications that prices in Kenya remained persistently high in 2009 despite the decline in international prices, together with their greater volatility (mainly prices of wheat and maize), were of particular concern from a food security perspective. The great volatility could be due to the fact that food price movements are heavily dependent on rainfall patterns, since Kenyan agriculture is largely rain fed.

2. Agrarian cooperatives: an overview

Organizations and institutions promoting self-help and cooperation at the local level were widespread in Kenya in pre-colonial times. The colonial government promoted a community development approach that relied on small-scale self-help groups to address social welfare needs and community betterment works (Borzaga and Galera, 2012). At the same time, as in most British colonies, the government promoted cooperatives, mainly in agriculture, to protect the interests of white settler farmers and to enhance their productivity (Wanyama et al., 2009). The reliance on local self-help strategies was further structured after Kenya's independence in 1963, with the formalization of the *Harambee* movement, epitomizing the Kenyan version of African socialism (Borzaga and Galera, 2012). This was based on the idea of self-reliant communities that organize common actions (such as construction of schools or health centers) through the mobilization and efficient use of local resources and social networks.

[6] http://data.worldbank.org/country/kenya [Accessed: January 24, 2016]

The cooperative movement of independent Kenya can be described with the "unified model," which was identified by Wanyama et al. (2009), with primary cooperatives at the bottom, secondary cooperatives in the form of unions and federations in the middle (both for horizontal and vertical integration), and a single apex body at the top. Cooperative development in Kenya has traversed two main phases: the first after independence, where cooperatives were embedded into a centralized state-led economy, and the phase of market-oriented liberalization, starting from the 1980s. In the first phase, which saw the origin and substantial growth of cooperatives under state direction, rural cooperatives were mainly instruments for implementing the government's socio-economic policies. The waves of registration of new co-ops corresponded indeed to policies that were implemented through cooperatives (Gyllstrom, 1991). The government set up Statutory Marketing Boards to manage the export of some cash crops (coffee, cotton, pyrethrum, and sugar), and cooperatives were the only agents that could buy the produce from the farmers and process it until the early 1980s (Gyllstrom,1991; Wanyama et al., 2009).

After liberalization, the cooperative policy direction also changed: the turning point was the Sessional Paper No. 6 of 1997 on "Cooperatives in a Liberalized Economic Environment," which marked the withdrawal of state control over the cooperative movement. According to this policy, members were responsible for running the co-ops through elected boards. The main problem was that cooperatives were "left without a regulatory mechanism to play the role that the government had previously played" (Wanyama, 2009: 5), and the very first impact was negative, as most cooperatives were unable to face the new market conditions and increased competition. In 2008, a new "Kenya Cooperative Development Policy" opened the way for a greater supportive role of the state for cooperative growth.

At the same time, despite the challenges of liberalization, the cooperative movement in Kenya did not disappear. In fact, the number of registered cooperatives and of their membership has been growing over the years. At the end of 2007, Kenya had 11,635 registered cooperatives, of which 4,414 were agricultural cooperatives and 5,122 were savings and credit cooperatives (Ministry of Cooperative Development and Marketing, in Wanyama, 2009). In 2007, the movement reported a membership of 8,507,000 people, of which 1.3 million were in agriculture. Agricultural cooperatives managed the marketing of members' produce as their main activity (though some cooperatives, such as coffee and dairy cooperatives, have started some processing activities). These cooperatives were classified by the produce that they handled, with the key ones in cash crops, such as coffee, cotton, pyrethrum, sugarcane, and dairy[7]. Non-agricultural cooperatives were involved mainly in finance (SACCOs) and then in other sectors, such as housing, consumption, crafts, insurance, and transport.

[7] Other cooperatives of this sector include fishery and multi-produce cooperatives, which market agricultural production and mobilize savings to purchase land for members.

Tab. 1: Number of Cooperatives by type (2003–2008)

Type of Cooperative	2003	2004	2005	2006	2007	2008
Agricultural	4,166	4,215	4,304	4,353	4,414	4,477
Savings & credit	4,200	4,474	4,678	4,876	5,122	5,350
Other non-agricultural	1,838	1,857	1,885	1,941	2,000	2,041
Cooperative unions	93	96	99	99	99	100
Total	**10,297**	**10,642**	**10,966**	**11,269**	**11,635**	**11,968**

Source: Ministry of Cooperative Development and Marketing, 2008: 19; Kenya National Bureau of Statistics, 2009: 165, cited in Wanyama (2009).

Tab. 2: Membership of Cooperatives by type (2003–2007)

Type of Cooperative	2003	2004	2005	2006	2007
Agricultural	1,153,000	1,024,000	1,140,000	1,238,000	1,318,000
Savings & credit	3,500,000	3,642,000	4,602,000	5,420,000	6,286,000
Other non-agricultural	265,000	319,000	333,000	370,000	334,000
Cooperative unions	624	625	639	639	569
Total	**5,542,000**	**5,610,000**	**6,714,000**	**7,667,000**	**8,507,000**

Source: Ministry of Cooperative Development and Marketing, 2008: 20, cited in Wanyama (2009).

These figures may be overestimated, as some cooperatives may be dormant or inactive. Indeed, according to a ministerial study cited in Wanyama (2009), 30% of the cooperatives in the agricultural sector had failed to continue operating by 2006, while a further 15% of the operating cooperatives did not comply with the requirements of the Cooperative Societies Act. At the same time, the picture does not include the whole world of associations that are not officially registered as cooperatives (and are considered more broadly as "community-based organizations") but that often have similar functions and governance (sometimes they are referred to as "pre-cooperatives").

The biggest component of the cooperative sector in Kenya is the Savings and Credit Cooperative Societies (SACCOS). They operate in both the urban and rural areas, even though they are more present in the urban context. According to Wanyama (2009), the Kenya Union of Savings and Credit Cooperatives (KUSCCO) brings together more than 3,000 active SACCOs, with a membership of over 4 million individuals, while the Union of Rural SACCOs (KERUSSU) has a membership of about 40 rural SACCOs, with a membership of about 330,000 cooperators.

According to 2008 data, coffee and dairy cooperatives are expanding, while the remaining agricultural sector is somehow suffering through a stagnant phase, namely in the cotton sector (Wanyama, 2009). This can be seen in table 3, which clearly shows the expanding momentum of SACCOs. The volume of sales of coffee and dairy cooperatives increased, while in other agricultural cooperatives, it decreased between 2003 and 2007.

Tab. 3: Annual turnover of Cooperatives by type, 2003–07 (KES millions)

Type of Cooperative	2003	2004	2005	2006	2007
Coffee cooperatives	3,892 (54.5)	3,951 (48.7)	4,266 (56.9)	4,819 (64.3)	4,887 (65.2)
Dairy cooperatives	1,290 (17.2)	1,500 (20)	1,933 (25.8)	2,247 (30)	2,395 (31.9)
Other agricultural	1,334 (17.8)	1,147 (15.3)	1,093 (25.8)	1,132 (15.1)	1,178 (15.7)
Savings & credit	9,761 (130.1)	10,359 (138.1)	11,609 (154.8)	13,511 (180.2)	14,409 (192.1)
Other non-agricultural	265 (3.5)	251 (3.3)	275 (3.7)	305 (4.1)	238 (3.2)
Cooperative unions	963 (12.8)	763 (10.2)	746 (9.9)	746 (9.9)	1,145 (15.3)
Total	**17,505** **(233.4)**	**17,971** **(239.6)**	**19,922** **(256.6)**	**22,760** **(303.5)**	**24,252** **(323.4)**

Source: Ministry of Cooperative Development and Marketing, 2008: 20, cited in Wanyama (2009).
Note: equivalent USD millions in brackets.

According to Wanyama (2009), the declining trend of agricultural cooperatives is due to their specialization, which was inherited from the time when they were the sole marketing structures for the main crops. Cooperatives mostly specialize in the bulking and marketing of primary products, thus operating at the lower tail of the value chain. To countervail this, some cooperatives have started developing processing activities to increase the value-added aspect of their production. Some positive examples can be found in this direction, mainly in the dairy and coffee sectors, where some cooperatives developed hulling techniques. Another example is the Uriri Farmers' Cooperative Society (Oyani Division of Rongo District, Nyanza Province), which started growing soy beans as an alternative crop to sugarcane and tobacco and which produced disappointing results (Wanyama, 2009).

The cooperative movement in Kenya is vertically organized into a pyramidal structure that links up primary cooperatives at the local level to the national level. The structure consists of primary cooperatives at the bottom, district or commodity cooperative unions, national cooperative organizations (NACOs), and one apex confederation (KNFC) that was created in 1964. In 2005, the KNFC was renamed the Cooperatives Alliance of Kenya (CAK). According to Wanyama (2009), this apex body was weak at the time and had little advocacy power, but a plan to go under rehabilitation and to strengthen the program was under way.

An important structure for the cooperative movement is the cooperative bank, registered in 1965 and licensed as a bank in 1968. In 1978, the first cooperative insurance company, known as Cooperative Insurance Services (now CIC), was created to help the cooperative sector and its members to cope with risks (Borzaga and Galera, 2012). Besides these two, NACOs include the Kenya Union of Savings and Credit Cooperatives (KUSCCO), Kenya Planters Cooperative Union (KPCU), National Cooperative Housing Union (NACHU), Kenya Rural Savings and Credit Societies Union (KERUSSU), and New Kenya Creameries Cooperative (New KCC). Members of these organizations are mainly cooperative unions and some primary cooperatives. KPCU is the largest coffee farmers' cooperative union, whose membership is made up of primary coffee cooperatives and large-scale coffee growers. In the late 2000s, KPCU suffered from management problems that triggered delays in payments to farmers; as a reaction, some secondary cooperative unions were revitalized and started

to mill and market coffee independently (Wanyama, 2009). The Kenya Rural Savings and Credit Cooperative Societies Union (KERUSSU, registered in 1998) is the umbrella national cooperative organization for rural SACCOs and other forms of savings and credit associations in Kenya. KERUSSU had a membership of 48 rural SACCOs with over 335,056 individuals in 2009.

3. The legal framework on cooperatives

The Kenyan government has maintained an institutional framework to develop the cooperative movement. The Ministry of Cooperative Development and Marketing is the government's official agency for coordinating cooperative development in Kenya, and it registers cooperatives, enforces the Cooperative Societies Act, and formulates cooperative policies.

The first law that regulated the cooperatives after the end of the centralized economy model dates back to 1997 (Cooperative Societies Act Chapter 12). The law authorized the autonomy of the cooperatives and regulated the election of direction boards, but left the cooperatives without a framework and thus did not manage to countervail their weaknesses (Wanyama, 2009). The 1997 Act was amended in 2004[8]. The Cooperative Societies (Amendment) Act of 2004 reinforced state regulation of the cooperative movement through the office of the Commissioner for Cooperative Development. The government roles are as follows:

1. creating the policy and legal framework for the development of cooperatives;
2. improving the growth and development of cooperatives by providing the requisite services for their organization, registration, operation, advancement, and dissolution;
3. developing partnerships with cooperatives through consultative processes that are focused on policy, legislation, and regulation.

From an analysis conducted for EAFU (Nkandu, 2010), an excessive dependence on an individual commissioner emerged as a critical point of the law. Also, the need for a development policy agenda emerged that sets the tools for cooperative development, building on the principles stated in the law.

The law states that the minimum number of members to form a cooperative is 10 and defines the rules for cooperative registration, requiring a first provisional registration for a period of maximum one year.

A member can hold up to 20% of shares and is entitled to one vote, irrespective of the number of shares he or she holds. According to a comment in the EAFFU-commissioned study (Nkandu, 2010), this ceiling should be reduced to 15% to limit the power of a single "big" member. Shares are transferable under some conditions:

> In the case of a co-operative society registered with unlimited liability, a member shall not transfer or charge any share held by him or his interest in the capital of the society or any part thereof, unless (a) he has held such share or interest for at least one year; and (b) the transfer or charge is in favour of the society or a member of the society.

[8] Moreover, a special law in 2008 intervened to regulate SACCOs that provides for the licensing, regulation, supervision, and promotion of savings and credit cooperatives by the SACCO Societies Regulatory Authority.

In the case of cooperatives that have charge over member's produce (mainly agricultural), Article 31 states that they may "enter into a contract […] binding the members to dispose of all their agricultural produce, or such amounts or descriptions of the same as may be stated" in the bylaws. "The contract may also provide for payment of a specific sum per unit of weight or other measure as liquidated damages for any breach of the contract". These contracts create "in favor of the cooperative society a charge upon the proceeds of sale of all produce".

The law states that 20% of net surpluses should be carried to the reserve and that reserves are indivisible and that "no member shall be entitled to claim a specific share of it" (Article 47). This legal reserve is not supposed to be taxed. After that, "the net balance of each year with any sum available for distribution from previous years, may be distributed in the manner prescribed by rules made under this Act or by the by-laws of the society" (Article 48).

The Cooperative Societies Act of 2004 is still valid, but it has been adapted to the constitutional change that occurred in 2010. The devolved system of government that was introduced with the adoption of the new constitution assigned to the county level most of the functions that were formerly controlled at the national level. The agriculture and cooperative sectors are among those sectors that had their functions devolved. After this, a process of promotion of country-level cooperative legislations started under the supervision of the Cooperative Alliance of Kenya (CAK). This is ongoing, since most of the preparatory meetings were held in 2014. Another consequence of the reform was the transformation of the Ministry of Cooperatives into a Department of the Ministry of Industrialization and Enterprise Development; this created a policy gap at the national level, which was partly addressed by the reinforcement of the Cooperative Department (also in terms of budget) at the end of 2015. At the same time, the withdrawal of the national level created some problems: first of all, the registration of cooperatives may be problematic when it is done at the county level. Specific problems may occur for credit cooperatives, since they are employer based, but an employer may be active in more than one county. The role of apex bodies and the dispute-settlement functions are also challenged by this devolution program[9].

Kenya is part of the East African Community Cooperative Society Bill project. In 2010, East African Farmers Union (EAFU) embarked on a process to have a harmonized law on cooperatives at the East African Community level. In July 2010, the EAC countries assented to the EAC Common Market Protocol, allowing free movement of goods and services across Burundi, Kenya, Rwanda, Tanzania, and Uganda. More recently (2013), the five countries agreed to a 10-year roadmap leading to the East African Monetary Union. In this framework, EAFU started lobbying to obtain a unified framework law to regulate cooperative societies to harmonize the cooperative acts of the member countries, favoring joint ventures among cooperatives across borders and the creation of a common cooperative promotion agency. The bill has been passed by the East African Legislative Assembly and is awaiting assent by the EAC Heads of State. In Article 3, the bill states the aims of cooperatives:

> The objectives of a society established under this Act are to
>
> - solve problems collectively which members cannot solve individually;
> - coordinate knowledge, skills, wealth and labor of the members for better results;
> - promote self-reliance among members;
> - collectively protect, withstand and solve economic problems;

[9] Interview with Judith Nthiga, Program Manager of CAK [February 2, 2016].

- improve the living standards of members by reducing production and service costs by providing input or service at a minimum cost or by finding a better price for their products or services;
- expand the mechanism by which technical knowledge could be put to practice;
- develop and promote saving and credit services;
- minimize and reduce the individual impact of risks and uncertainties;
- develop the social and economic culture of the members through education and training; and
- empower the members to have ownership along commodity value chains by facilitating business development for the members.

It is interesting to note the accent on improving the standards of living of members through the exploitation of scale economies and the risk-protection and risk-sharing role of the cooperatives. *Cooperative societies* are defined as "democratic organizations controlled by their members who actively participate in setting their policies and making decisions, and every member has equal voting rights". Members receive portions of profits according to their contribution after deducting the amount necessary for reserve and "social services". The share of profit assigned to legal reserves is set at 20%. Reserves are bound to be indivisible. The relationship between cooperative and members is not considered a market transaction: cooperatives "do not buy from members but facilitate members to sell their goods without the societies taking ownership over the goods".

4. The selected projects

In Kenya, the research team selected four cooperative development projects. One was handled by a European CDO, the Swedish We Effect, and three were directed by US-based CDOs: NCBA-CLUSA, LOL, and ACDI-VOCA. Four different strategies have been employed: the CDP project by NCBA-CLUSA focuses on food security and food crop production; the We Effect project intervenes on a cash crop value chain (coffee); LOL's CDP focuses on the dairy value chain; and the ACDI-VOCA project aims at training to strengthen management capacities and support to production.

4.1 We Effect, Strengthening Smallholders Participation in the Coffee Value Chain

CDO	Target country	Project title	Main partners	Period
We Effect (Sweden)	Kenya	Strengthening Smallholders participation in Coffee value chain	Kenya Coffee Producers Association (KCPA)	2013–2015

We Effect had a three-year project in partnership with the Kenya Coffee Producers Association (KCPA). The two organizations were linked by an agreement between 2013 and the end of 2015. The partnership has now come to an end, but the perspective of the Swedish organization is to try to find more funds to continue working with the Kenyan partner organization.

KCPA is a membership organization of coffee farmers, whose core mandate is to lobby and advocate a favorable environment for coffee production, processing, and marketing. The main objective of the association is to "ensure that all coffee issues are handled professionally and in a manner that gives

the Kenyan coffee producers maximum benefit." The Kenya Coffee Producers Association (KCPA) was formed in 2009 following a merger between the Kenya Coffee Growers Association (KCGA) and the Kenya Coffee Growers and Employers Association (KCGEA) to form one single advocacy organization for coffee farmers. The former started as a welfare association of the coffee producers in 1934 to serve the interests of white colonial coffee farmers and later became open to African growers. The government registered another organization in 1992 known as the Kenya Coffee Growers and Employers Association to take care of large-estate farmers' labor issues. The situation of a double association was unfavorable for lobbying and was solved with the merger of the two.

Box 1: The coffee value chain in Kenya

Until 1998, coffee was Kenya's top foreign exchange earner and ranked fourth in 2014 after tea, tourism, and the horticultural subsector. It contributes about 10% of the total agricultural export earnings and up to 30% of the labor force employed in the agriculture sector. More than 60% of coffee farming is done by small-scale farmers (about 700,000 smallholders), who are organized into cooperative societies. These cooperative societies oversee the primary processing of coffee to remove coffee pulp for sun drying ("primary processing") before the coffee is taken for milling and marketing.

The coffee sector was liberalized in the early 1990s (coffee milling was liberalized in 1994). In 2001, the Coffee Act No. 9 was enacted. This delinked the marketing and regulatory functions undertaken then by the former Coffee Board of Kenya (Minai et al., 2014). Despite this and the increase in coffee prices in the 2002–2012 decade, yields have remained low. The reasons that we can find include the lack of training, which limits the quality of the product (from the baseline study of KCPA and We Effect), and the inadequacy of credit, which is related to the quantity delivered and thus creates a vicious circle of low production/low credit (Minai et al., 2014). Interestingly, both KCPA and Minai et al. underlined the importance of crop diversification in providing resources for investments in coffee production.

Today, coffee prices are set on the Nairobi Coffee Exchange auction market. There, buyers meet marketing agents (traders). Marketing agents buy coffee from the cooperatives and pay them back after the coffee is sold and a commission deducted. Only registered marketing agents can participate in the auctions. Some cooperatives have registered as marketing agents, but most cooperatives have not.

The cooperation between KCPA and We Effect (the "Swedish Cooperative Centre" at that time) dates back to 2009. The project started in 2013 and aimed at strengthening both the national level and the first-level member cooperatives. A contract between We Effect and KCPA was established, and within this framework, several actions were planned at different levels.

At the national level, one of the problems that provided motivation for the project was the policy limits regulating the environment for coffee farmers. Coffee farmers bore a high portion of risk in the value chain; the coffee sector was highly taxed, with a low reinvestment of these taxes in the sector itself. The representation of farmers in national bodies was also weak. KCPA was strengthened in its internal functioning and through the election of representatives, and it increased its membership. In 2014, KCPA named some farmers' representatives at the Nairobi Coffee Exchange (NCE), the auction market where the price for coffee is formed (until then, only intermediaries were represented). An example of a positive result deriving from this is that farmers' coffee samples are paid for, and the sample size is also reduced.

At the first-level cooperatives, interventions were concentrated in three main areas—the Eastern, Western, Nyanza, Rift Valley, and Central provinces of Kenya—and aimed at increasing both the quantity produced and the quality of the processed coffee. The quantity was initially 1–2 kg per tree. Improvements were brought through training programs and by inclusive policies towards women and

youths. Increasing the quality of the processed coffee bean has been obtained by training on primary processing, in collaboration with the Coffee Research Institute. Crop diversification has also been promoted through the diffusion of irrigation kits, mainly to produce vegetables. One of the main concerns in the strengthening of the first-level cooperatives has been the training of board members and managers to clarify their roles and to avoid conflicts between them.

The main results of this project are the increased bargaining power and visibility of KCPA and the increased support activities that this does in favor of farmer members and primary cooperatives. First, as mentioned, KCPA obtained the establishment of a farmers' representative at the NCE, and it participated in a local TV program that made more farmers aware of its existence and activities. In regard to the activities for members, KCPA started sending market information to its members through an SMS service. For cooperatives, it started developing strategic plans for primary cooperatives (some of them have never had a strategic plan; these plans included diversification of farming enterprises), and it introduced Sustainable Agriculture Land Management (SALM) training in 37 cooperatives.

This project was not initially directed to cooperatives, but to strengthening farmers' position in the value chain through the support to KCPA; nevertheless, it directed part of the activities of KCPA to support cooperatives. It would be interesting to develop the possibilities by scaling up the activities of cooperatives and to register them as traders, thus allowing them to participate in the NCE. Another aspect that needs to be addressed is access to credit products tailored to the needs of coffee production.

4.2 Land O'Lakes, Cooperative Development Program (CDP)

CDO	Target country	Project title	Main partners	Period
Land O' Lakes Inc. (US)	Kenya (and Ethiopia)	Cooperative Development Program (CDP)	Kenya: Lari Dairy Alliance, ltd, Limuru Dairy Farmers Cooperative Society, Ltd., Meru Central Dairy Cooperative Union, Ltd. Other:International Dairy Enterprise Alliance (IDEA) Eastern and Southern Africa Dairy Association (ESADA) Funding organization: USAID	2010–ongoing (expected end date: 2016)

The Land O'Lakes Cooperative Development Program seeks to assist dairy cooperatives in East Africa in responding to increased competition by achieving and sustaining economies of scale through horizontal and vertical integration. The program was implemented between the years 2010 and 2015 in Uganda and Kenya. In 2013, the program expanded to Ethiopia and Rwanda. The inspiration of the CDP came from the macro-level institutional changes in Kenya, which have speeded up the liberalization of markets. There has been an increased demand for milk, and this may have provided new opportunities for smallholder cooperatives to increase their share of the commercial dairy market. At the same time, these reforms have increased competition for smallholder cooperatives, since large dairy processing entities, such as Brookside or Danone (who already had a large share of the market) expanded. The CDP in Kenya had three partner cooperatives, Lari Dairy Alliance, Ltd., Limuru Dairy Farmers Cooperative Society, Ltd., and Meru Central Dairy Cooperative Union, Ltd. The first partnership was finally interrupted because of the excessive debt burden of the cooperative,

which hampered its functioning. Debt burden seems to have become an important problem for Kenyan cooperatives after the end of the centralized economy framework.

Limuru, a 49-year-old dairy cooperative, is just outside of Nairobi. It collects milk from a single primary member cooperative with more than 9,000 members, of which the active membership is only a fraction (about 1,800 members) of the original. Because of competitive pressure, it had to lease out the processing plant and thus to de-integrate the steps in the value chain. Limuru members sell mainly to the big processor Brookside, but the price decreased and became lower than the farm gate prices being offered by other processors. For this reason, Limuru is looking for new marketing strategies to create alternative outlets for surplus milk. It saw an increase in revenue in the first half of 2015, but the increase was much smaller than at Meru Cooperative.

Meru, which is a union that serves about 13 primary co-ops, has experienced big growth in the business, recording a 59.4% increase in revenue between June 2014 and June 2015. It owns a processing plant, originally built in 1982. In 2012, plant equipment was refurbished and production efficiency was improved. In June 2015, the farmer members supplied an average of 90,000–100,000 liters per day. Meru produces a number of dairy products, including pasteurized milk in tetra classic and polythene pouches, yogurt, butter, and ghee. According to the LOL experts' report, Meru had great growth between the baseline analysis of the CDP and the 2015 assessment, mainly thanks to a more proactive leadership that greatly improved the work environment and to a clarification of the roles of board and management, leading to less conflict of interest and internal friction. Meru also benefitted from strategic investments in boilers, a UHT line, a 200 ml. packaging line, and raw milk storage. From the baseline to the end line report, members' gross diary income rose by 20%, the number of services accessed by members increased from 3.9 to 4.3, and the median cooperative farm gate price increased by 12%. Another positive element is that farmers received a uniform price during the whole year: members got a fair price even in the excess-supply periods when their competitors were paying a low price. This success was also helped by greater centralization. A total of 81% of Meru members are satisfied with the "cooperative's training and technical support to farmers." According to the final LOL report, this satisfaction is due the aforementioned elements and to the increased promptness of payment to members. At the same time, the Meru cooperative benefitted from the freeing up of geographical constraints with respect to where individual cooperatives can obtain their milk. That has provided opportunities for sizeable increases in milk supply. The same change had more challenging effects at the Limuru cooperative, which has a different location.

In terms of dairy income, the project end line survey showed that cooperative members in the Meru milkshed had a statistically significant growth in income of 25.2%. Given the governance and management struggles at Limuru and their dismissal of milk processing, the increase in dairy income at Limuru has been smaller. Prices paid to farmers have increased, but have still remained lower on average than the price paid by individual middlemen; thus, a non-negligible proportion of members sell outside. This was analyzed by Casaburi and Macchiavello (2015), who concluded that members preferred the higher prices and immediate liquidity that the traders provided. At the same time, members also valued the deferred payments and inherent saving mechanism that cooperatives provided by paying biweekly (even at lower prices per liter).

This project provides interesting insights on several issues. First, it highlights the need for vertical integration of the value chain within the cooperative. For example, the possibility of integrating processing activities appears to be a major success factor for the Meru cooperative. In a

monopsonistic environment, this is a major issue, since being tied to a single buyer exposes the cooperative to low market power and to price variability. Second, this project emphasizes the important role of governance structure, as a multi-level organization can have a comparative advantage. For example, a second-level organization (union) that collects milk from a number of primary groups has a greater capacity to enforce rules among members. The third insight relates to the side-selling problem and the underlying needs. One major problem for a non-processing cooperative is that it typically cannot manage to offer prices that are competitive *vis-à-vis* prices offered by middlemen. This provides a clear incentive to side selling; at the same time, farmers continue selling part of the milk to the cooperative as a saving device. This calls for an accurate analysis of the needs underlying sale decisions of small producers.

4.3 ACDI-VOCA, Cooperative Development Program (CDP) II

CDO	Target country	Project title	Main partners	Period
ACDI/VOCA (US)	Kenya (and Ethiopia)	Cooperative Development Program (CDP) II	Kenya: Agri and Cooperatives Training and Consultancy Ltd. Other: US Overseas Cooperative Development Council (OCDC) Funding organization: US Agency for International Development (USAID)	2010–2015

ACDI-VOCA's Cooperative Development Program (CDP) aims to improve the governance, management, and productive capacity of business-oriented farmer-owned organizations through targeted technical assistance and capacity-building activities. The program provides technical assistance through training, coaching, and volunteer assignments, and not through any sort of direct handout. CDP Kenya thus organizes targeted trainings and workshops aimed at addressing specific capacity gaps. The project has invested mainly in a local service provider (Agri and Cooperatives Training and Consultancy Ltd. in Kenya) to avoid the dynamic of creating a dependency towards an international NGO.

Although the original plan was to add five groups each year, the CDP realized that it took time to get to the point of positively working with local organizations and thus directly started with 10 groups, with the aim of getting to 16 in 2014. The groups are both cooperatives and "pre-cooperatives," which are defined as farmers' organizations that are not solid enough to be formalized as cooperatives, but are in the process.

The background analysis is that the cooperative movement suffers from the heritage of the top-down phase of its development: the fact that the cooperatives are actually owned and controlled by the members is still not widely recognized by the majority of members. Moreover, there is a widespread belief that groups have to be formed to serve the purpose of receiving assistance. A final element that the project wants to address is the lack of trust among members that leads to a lack of willingness to collaborate.

The first training sessions carried out in 2012 were on record keeping (specifically on dealing with inaccuracies in weighting the product sold by farmers), coffee production (CDP identified a model farmer with a successful farm and brought him to the co-op to train members directly about how to

increase coffee production), and dairy farming (CDP Kenya has identified several groups that are working in the dairy sector and targeted these groups). Moreover, the CDP worked on the development of training and learning material, both online and video, and through a Cooperative Learning and Information Center (CLIC). Then, specific attention was given to training on strategic planning. An interesting element was the specific training addressed to the raw milk collection cooperatives (seven co-ops). A major strategic question that many cooperatives face is whether to focus on vertical integration through processing or whether to expand horizontally by increasing raw milk collection. Consequently, the CDP carried out a specific training program to provide farmers with a deeper understanding of the dairy value chain in Kenya and to inform their future business planning.

The main successes so far are related to achievements with management and membership, while bigger challenges remain on finance and marketing. Membership empowerment is evaluated positively, since members in some cases were not comfortable discussing issues with the leaders in the beginning, as most of them believed that "the cooperative belonged to the leaders." But over time, the CDP has seen positive changes. Some cooperatives renewed the cooperative boards, thus reducing mismanagement practices.

A first set of identified challenges are considered to be related to the "lack of a proactive attitude" from certain groups. For example, some members are considered "not motivated to change" and easily satisfied with the initial achievements. This is probably connected to the leadership issue: CDP encountered many situations where the leading positions are held by elderly people, while women and young people are underrepresented. Another set of problems involve the lack of awareness of the legal tools, which leads to a disconnection between the bylaws of the cooperatives and the actual needs of members. Finally, some challenges are indicated in the diffusion of training material, which can be ascribed to the lack of IT infrastructure.

This program highlights several interesting points: first of all, the positive impact of training programs that are tailored to the specific needs of each group, and second, the importance of leadership (and of its renewal) and the empowerment of the membership towards the leaders at the same time. The CDP highlights the importance of investigating the possible reasons behind the "unwillingness to change" or the "lack of a proactive attitude." Some elements that should not be underestimated are a highly risky environment and the low risk-bearing capacity of poor producers, which may make it rational for farmers to consolidate small gains rather than to pursue constant change.

In regard to the legal framework and the disconnection of the bylaws from actual needs, it is important to consider the members' expected use of the bylaws. If the advantages in formalizing a cooperative are not high enough, formalization may be a step that is only taken because it is requested by the development agency, while members may have little interest in it, since registration costs are usually high when compared to the average rural income, and the procedures are complicated.

4.4 NCBA-CLUSA, Cooperative Development Program (CDP) III

CDO	Target country	Project title	Main partners	Period
NCBA-CLUSA (US)	Kenya (and Mozabique)	Cooperative Development Program (CDP) III	Kenya: PAFID NGO, East African Brewery, Kenya Agricultural Research Institute (KARI), Ministry of Agriculture, Livestock and Fisheries, Ministry of Industrialization and Enterprise Development, Ministry of Gender, Culture and Social Services, Ministry of Health, European Cooperative for Rural Development (EUCORD; Belgium). Funding organization: US Agency for International Development (USAID)	2010–ongoing (expected end date for Kenya: 2018)

NCBA CLUSA CDP activity in Kenya was awarded funding by USAID from 2010 to 2015 to promote improved food security, improved nutrition of mothers and children, and strengthened farmers' groups and cooperatives. It started in two counties (Narok and Mbeere) and then was extended to six other locations. The goal of the project is to increase the productivity of a selected number of food crops, to improve food sufficiency of targeted locations (by two months per year), to facilitate the creation of food security plans, to improve maternal and child health nutrition, and to increase awareness and participation of local governments in food security.

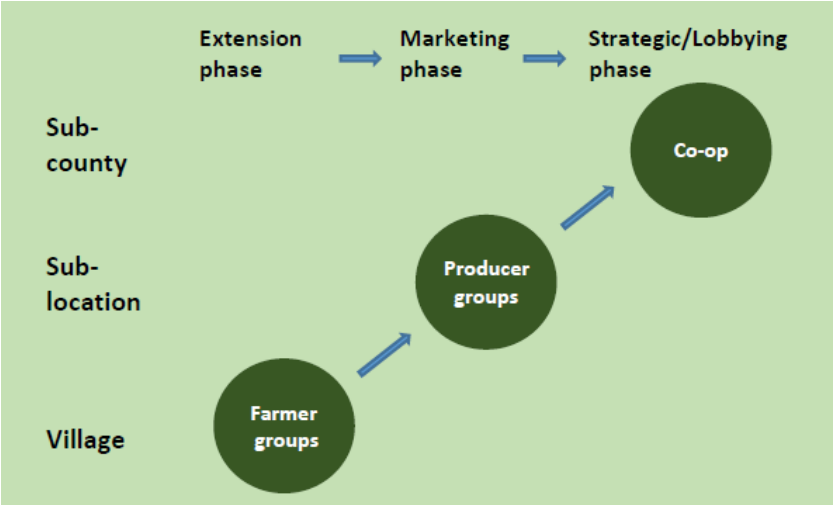
The program followed the recognition of famer groups' important role in reducing poverty. The goal of NCBA CLUSA's CDP activity was to create linkages between farmer groups and other community-based organizations to achieve an integrated approach to food security in semi-arid areas, where the risk of food insecurity was high. Moreover, it aimed at creating farmer groups managing basic food crops in a context were cooperatives previously developed by focusing on cash crops. The two initial locations (Mbeere and Narok) were identified as food insecure. They have faced erratic rainfalls and reduced levels of soil fertility, even though the agricultural potential justifies an intervention.

The CDP activated a number of partnerships, with NGOs, private firms, and governmental organizations. The main partner of the NCBA CLUSA is PAFID, a local Kenya NGO that has organizational qualifications in sustainable agriculture. The European Cooperative for Rural Development intervened in the sorghum value chain, creating the link with East African Brewery, which was looking to source local sorghum for beer production. The Kenya Agricultural Research Institute (KARI) contributed in providing seeds and training to farmers' groups. From the governmental side, the CDP had relationships with the Ministry of Agriculture, Livestock and Fisheries, the Ministry of Industrialization and Enterprise Development, the Ministry of Gender, Culture and Social Services, the Ministry of Health, and local governments.

NCBA CLUSA developed both an integrated approach following principles of community organization to facilitate the development of sustainable food security systems and value chain organizations, with a main focus on sorghum. The first focus was on food security and nutrition improvement needs (the objective was a reduction of two months per year of the hunger period), looking for the most appropriate crop in each context; the value chain organization came later on.

The organizations that are implemented among farmers are constructed on three levels of aggregation, which correspond to the levels of formalization and activities. The smallest (about 10–15 people) are the farmer groups, which gather around a contact farmer, who manages the village demonstration plots process and serves as the agricultural promoter for the community (two per village, one woman and one man). Usually, farmer groups are registered as self-help organizations and focus on learning and extension for agricultural production. As farmer groups start to increase production, the CDP works to form producer organizations (POs) representing 10–12 farmer groups in a given sub-location that are aimed at marketing activities. Frequently registered as CBOs, they are easier to register and are less bureaucratic than co-ops. The principal goal is to encourage farmers to bulk up their produce around a collection point to better attract buyers and to allow an increased negotiation capacity. Then, the POs purchase inputs at wholesale prices by buying in bulk. After the POs have developed into financially sustainable organizations and are meeting their members' marketing needs, the CDP intends to develop six sub-county co-ops that represent the six or seven POs in their sub-county. The goal of these co-ops will be to provide food security planning, strategic market advice, and advocacy activities.

Fig. 3: The structure of CDP activities



Source: Johnson & Omamo, Cooperative Development Program, Kenya Case Study, September 2014, NBCA-CLUSA & USAID.

Most marketing activities and input purchases are thus done at the PO level, where better selling conditions are obtained, thanks to the possibilities of bulking production, waiting until the product price is high enough, and storing in good conditions. At the same time, even though a PO can do table banking, the financial activities are at the cooperative level, where the organization can overlap with a SACCO, a saving and credit cooperative.

The private sector input supply capacity in Kenya for food security crops such as sorghum, millet, beans, and peas is weak. Fertilizer, pesticides, and herbicides are often too expensive for farmers. The CDP has worked to support the business capacities of input supplying POs in Mbeere and agro-vets in Narok, providing them with training. In Mbeere, the CDP took a PO approach to buying inputs. Two POs now aggregate their members' demand for inputs, pool funds, and then purchase and distribute them to those members. In Narok, the CDP facilitated linkages between two existing agro-vets and a private company to stock bean varieties.

On the marketing side, low yields, limited areas under production, and a lack of uniformity of production makes it difficult for farmers to accumulate the volumes necessary to bulk up and attract buyers. In addition, few communities have storage units or warehouses to stock their products. The CDP has therefore created POs to bulk sorghum and beans to attract more buyers and negotiate better prices. With assistance from its partners, NCBA CLUSA has provided these newly established POs with training in business skills, governance, and marketing.

The CDP has a broader focus on food security to be obtained through different channels. The role of the multi-level organization that has been illustrated is a strategy to scale-up interventions. The crucial aspect of the intervention, which is a major lesson to be learned, is the need to develop more than one activity, namely, to intervene both on the input-supply side and the output-marketing side. The credit component, which is delegated to the "upper" level (the cooperative level), is also crucial, and it seems to be the weakest. This weakness is possibly because it is the last to be activated, since it requires a stronger level of organization. Financial constraints are typical in contexts affected by poverty: relying only on local resources may constrain the saving and credit possibilities too much. A nationally integrated credit cooperative system might be able to overcome this problem.

5. Concluding remarks

From most interviews, it appears that the Kenyan context has some positive aspects for the emergence of cooperatives, mainly due to two factors. First, it displays a greater commitment of the public administration to cooperative development relative to other contexts, and second, it has a more established cooperative movement. This has to do with the ability of the state to implement policies, to enforce contracts, and to engage in the revitalization of the agrarian sector. As in other countries, Kenya went through a centralized phase first and then through state disengagement. It seems, nevertheless, that public policies in Kenya have started again—despite a lot of limitations—to support the agrarian sector and smallholder organizations.

From a context analysis, food security appears to be a great concern. This is probably an important element to be considered in cooperative development, which has traditionally been focused on cash crop production in Kenya. More broadly, the need for safe and regular income can be a need that is addressed by farmers' organizations, as is underlined by the findings of the research on a dairy cooperative by Casaburi and Macchiavello (2015). Even though the cooperative was paying prices that were lower than the private middlemen, farmers still sold a part of their production to the co-op because it guaranteed a regular—though lower—flow of earnings and worked as a savings device. This helps to shed light on the side-selling problem, which very often affects cooperatives. When it is difficult for co-ops to offer better prices than other buyers, this puts participation itself under pressure. This can be addressed in several ways that are not mutually exclusive: the search for new market outlets, the integration of the value chain through the development of processing activities, and the provision of income-security devices to members. The safety orientation of cooperatives is also highlighted in the East African Community Cooperative bill, which can also be a tool to enhance this function of co-ops. Mixed results from the point of view of price premiums are also highlighted by Fischer and Qaim (2012), who stressed that the main advantage of cooperatives in their study on the banana sub-sector has been increased yields and, thus, expanded production. This underlines the important role of co-ops in a multiplicity of activities besides marketing, including input purchase, information sharing, and extension service provision.

A relevant issue that emerges is the role that may be played by the development of processing activities in a vertical integration framework. Wanyama (2009) underlined the risk for agrarian coops to become trapped in the "low tail of the value chain" (a low value added segment), since historically they have focused on bulking and marketing activities. This is a crucial activity, but may not be enough to solve market power problems; in these cases, further integrating the value chain and developing high value-added activities may be necessary options.

It is difficult to evaluate the problem of self-selection into cooperatives, but it seems quite acknowledged by scholars and CDOs. Fischer and Qaim (2012) identified a "middle class effect" in the case of banana production, which is a sort of exclusion of the poorest and richest producers.

In terms of internal governance, some differences can be identified between groups that already have a background before CDO support and groups that are formed by CDO intervention itself. The first group seems to be able to mobilize more resources in terms of social capital, even though those co-ops often suffer from some inherited problems. In this respect, it seems that the debt burden in Kenya is a major problem for co-ops (cumulated debts under the centralized-economy system have been left up to cooperatives themselves after liberalization).

A second tradeoff regarding governance mechanisms relates to the choice of turnover of board members. A high turnover may have positive effects on democratic control over the organization, limiting capture by board members, but it may limit the results of training board members, and it may lower board empowerment with respect to the management (some cooperatives are managed by professional CEOs, which have higher education with respect to farmers). Leadership training and commitment are crucial variables in cooperative success. Continuing training programs are recommended to make turnover sustainable. Moreover, leaders' training has to be coupled with the empowerment of members to encourage them to be vocal towards the leadership and to monitor the leaders' activities.