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POLICY BRIEF

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An Analysis of Success, Failure and Demand Factors of Agricultural Cooperatives in Kenya

By James K. Nyoro and Isaac Komo

Introduction

The performance of smallholder producer organizations impacts on the economic and social welfare of the poor especially in developing countries. The most common forms of producer organizations in Kenya are the cooperatives. Cooperatives are organizations that are user-owned, user-controlled and user-benefited. In Kenya, cooperatives play a major role in production, primary processing and marketing of agricultural and livestock commodities.

Since the 1980s, producers have been confronted with the consequences of the broad trend of liberalization in the world economy. Despite the radical change of economic and institutional environment, the number of cooperatives in Kenya has continued to grow with the rate estimated at 27.5% between 1991 and 1995 in the case of agricultural cooperatives. During this period, this was the highest growth rate compared to that of other cooperatives, Savings and credit cooperatives (20.1%), non-agricultural cooperatives (17.4%) and Unions (6.6%). In spite of the general growth, in the same challenging environment, some cooperatives have continued to do well while others have been liquidated and others are in the verge of collapse. The factors behind the success or failure of such cooperatives and also the factors attributed

to the growth or demand of the organizations have not been thoroughly investigated in the past. This study identifies the success, failure and demand factors of cooperatives in Kenya.

Methods

Key informants were involved in making the choice on the study area, appropriate coffee and dairy cooperatives for investigation and in identifying measures of success. They were also the source of information on demand factors. The informants included some Coffee Board of Kenya management team, Ministry of Cooperative Development and Marketing officers at Headquarters, the Kenya Union of Savings and Credit cooperative's Nairobi regional manager and District cooperative officers. More data including financial turnover, share capital, value of assets, membership, sales, expenses, production, payout rates and workforce were collected through management committee of the 8 cooperatives that were investigated.

Kiambu District is an example of a region where both successful and unsuccessful agricultural cooperatives have co-existed. The District was selected to represent similar regions with inter-phases of successful and unsuccessful cooperatives. The District is both the most populous and most densely populated in Central Province. It has a total

of about 744, 000 people and density of 562 persons per square Kilometer. Its absolute poverty level is estimated at 25%.

In the coffee sector, cherry intake in the District during the year 2003 was 18 million Kgs which fetched KShs, 211 million of which 59% was paid to members at the average rate of KShs. 8 per Kg of cherry. On the other hand in the dairy sector, milk intake during the year (2003) was 50 million liters that fetched KShs. 878 million of which 86% was paid to members at an average rate of KShs. 14.60 per liter of milk.

Key Findings

This study identified the success, failure and demand factors of dairy and coffee cooperatives in Kiambu, Kenya. The variables defining success were payout rates, credit accessibility, conflicts and promptness in paying producers.

The results indicate that the demand factors of cooperatives were; profit maximization, need to harness various member-skills, enhanced advocacy and bargaining power, statutory requirements, enhanced credit accessibility, social capital, ability to raise high initial capital, educational opportunities, search for common markets, and the country's poverty reduction strategy.

The success factors identified were: vertical integration, high quality produce, volume of membership, proper record keeping and level of technology, skills of management committee and staff, timely dissemination of appropriate information, diversification into profitable enterprises, adoption of a strategic plan, credit availability and stores for farm inputs.

On the other hand, the failure factors identified were: credit burden and debtors, conflicts, external forces, investment on non-income generating activities, non-skilled Board members, poor or lack of communication between Board members and farmers, competition, dishonesty by staff and representatives, and deceitful businessmen.

Policy Implications

Given the success and failure factors identified by this study, it is important that policies promoting success and inhibiting failure are implemented in order to achieve improved effectiveness and efficiency of cooperatives and consequently increase benefits or improve welfare of smallholders.

More specifically, the extension of anti-corruption activities in procurement and investment affairs of cooperatives, declaration of wealth by management committee and staff, the communication of appropriate and timely information to members, are all important in enhancing smooth running and success of the cooperatives and consequently enhancing farmer's participation and efficiency in input, output and services markets.

The recent government's expression that they are contemplating writing off some cooperatives' debts and training their officials in modern management is a welcome move. This is particularly crucial considering the many cooperatives with heavy credit burden.

Farmers in the coffee cooperative sector would prefer to market directly to the dealers rather than through marketing agents. In so doing, they would maximize on their incomes. Moreover, the market for coffee at Nairobi Coffee exchange is accused to be oligopsonistic in nature. It is important therefore that more coffee dealers are registered so as to make prices more competitive.

Being the main decision makers of cooperatives, farmers should be trained and be well sensitized on important issues to ensure that they make informed decisions. Financial constraints hinder the organizations from carrying out training to their members. Farmer groups can contract with processing and marketing enterprises to deliver production extension services to farmers as a part of the credit -input package. A major challenge arises when farmers decide to sell to other existing firms rather than the one that extended the extension services. If the firms cannot recover the costs of their research and extension services to farmers, then the need for industry -wide collective action

to develop cost recovery schemes become important for the long term provision of these services through the private sector.

About the Authors

James Nyoro is the Director, Tegemeo Institute while Isaac Komo is a Research Fellow at Tegemeo Institute. This paper is a summary of part of a broader study on Producer Organizations in Kenya. This was a collaborative study between Tegemeo Institute of Agricultural Policy and Development (attached to Egerton University) and Cornell University.

Please direct all enquiries to the:
Director, Tegemeo Institute,
P.O. Box 20498, 00200
City Square,
Nairobi, Kenya.
Tel: 254-2-2717818,
Fax: 254-2-2717819
Email: egerton@tegemeo.org

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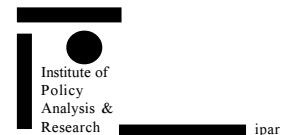
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POLICY RESEARCH and ANALYSIS



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Comments are welcome.
Please contact us at:
SAGA, Cornell University, 3M12 MVR Hall
Ithaca, NY 14853
607/255-8093, Fax 607/255-0178, saga@cornell.edu