

# COOPERATIVE SOCIETIES MEMORANDUM TO CABINET SECRETARY MINISTRY OF COOPERATIVES AND MSME



November 2022

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## **1.0 Financial Services Sector**

Saccos contribute greatly to the mobilization of savings and deposits from their members with a view to intermediate the same on behalf of their member. Such intermediation may include investments, saving solutions, provision of credit among other financial services solutions. The most visible types of Financial Co-operatives are the SACCOs, Housing Cooperatives and the Investment Cooperatives. The SACCOs are largely regulated by Sacco Societies Regulatory Authority (SASRA)

In Kenya, for the period ending 31<sup>st</sup> December 2022, Saccos that are licensed by the Sacco Societies Regulatory Authority (SASRA) to carry out deposit-taking business were 175 Sacco Societies and 185 Sacco Societies duly authorized to undertake the specified non-deposit-taking Sacco business in Kenya as provided in the Act and the said Regulations, 2020.

### **1.1 Opportunities for Financial Sector Saccos**

#### **1.1.1 Access to Finance**

To make Saccos more effective there is need to mainstream Saccos in the National Payment System to give them access to cheaper credit from amongst themselves through inter-sacco lending. There is also need to have Saccos recognized as financial intermediaries that can effectively handle pension payments of retirees directly rather than through other intermediaries. Channeling of the 'Hustler's Fund' through Saccos would also serve to include more Kenyans who are at the bottom of the financial pyramid.

### **1.1.2 Reduction of implication of non-performing loans**

To mitigate the risks associated with lending business, the Saccos will need to review the guarantorship mechanism and debt collection methodology. Government also requires improving the scope and capacity of the Cooperative tribunal to determine cases referred to it expeditiously.

### **1.1.3 Entrenchment of Savings culture**

To achieve this, government should consider making it compulsory for all Kenyans with gainful employment to belong to a Sacco.

### **1.1.4 Enhancement of Cyber Security**

Government through the Ministry of Cooperatives should set a minimum standard of operating in a Computerised environment with pre-qualified ICT system auditors and mandatory system audits per annum.

## 1.2 Proposed Interventions

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<p><b>1. Technology Uptake in Cooperative Societies</b></p>	<p>Even with the great advancements in the Cooperative movement, there still remains a relatively low uptake of technology inhibiting the sector from exploiting its potential for the following reasons:</p> <ol style="list-style-type: none"> <li>1. Prohibitive cost of technology. Many small and medium cooperatives who, are the majority, are unable to pay full cost for suitable and sustainable technology</li> <li>2. Limited ICT knowledge by industry players leading to vulnerability by software vendors who take advantage of cooperatives and also exposing them to risks of cybercrimes</li> </ol>	<p>Provision of a shared Core Banking and Digital platform for all Saccos to allow for:</p> <ol style="list-style-type: none"> <li>a. Better connectivity among Saccos,</li> <li>b. Standardization of services</li> <li>c. Operationalization of a Central Liquidity Fund (CLF) allowing for inter-sacco lending and inclusion in the National Payment System</li> <li>d. Ease of application, processing and management (reporting and traceability) of</li> </ol>	<p>Implement the shared services platform as shared in the National Cooperative Policy</p> <p><b>Action by :</b> Cooperative Alliance of Kenya (CAK)</p> <p><b>Timeline:</b> June 2023</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>3. Limited skills in the industry to effectively manage the IT resources since most cooperatives are unable to recruit, train and retain qualified professionals.</p> <p>The lack of optimal uptake of technology among cooperatives has led to:</p> <ul style="list-style-type: none"> <li>• Greater operational inefficiencies meaning cooperatives cannot compete effectively against more efficient players such as commercial banks and Fintechs</li> <li>• Loss of membership especially the youth to Commercial banks</li> </ul>	<p>financial inclusion products such as the 'Hustler's fund' through Saccos.</p> <p>e. Ease of transfer of shares between members</p>	

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>and Fintechs who prefer tech savvy financial institutions.</p> <ul style="list-style-type: none"> <li>• Income loss by Cooperatives since there is possibility of loss of data, members and confidence in them denying them income generating opportunities.</li> <li>• Poor image of Cooperatives among serious players in the financial industry thus excluding Saccos from participating in more financial intermediation such as managing government funds that have impact at grass root levels reaching the underserved Kenyan population.</li> </ul>		

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>In increasing technological adoption, Cooperatives stand to unlock the following opportunities:</p> <ul style="list-style-type: none"> <li>• Increased efficiency leading to improved customer service and satisfaction and ultimately increased incomes</li> <li>• Introduction of more relevant products</li> <li>• Increased membership especially the youth</li> <li>• Wider participation in financial inclusion such as channeling of ‘Hustler’ funds</li> <li>• Creation of a secondary market for members wishing to transfer their shares within the Sacco</li> </ul>		
<p><b>2. Non-remittance and delayed remittance of dues</b></p>	<p>Non-remittance and delayed remittance of Sacco deductions by employers, leading to near death of some Saccos as these are funds</p>	<p>Proactive action by Commissioner for Cooperative Development on behalf of the cooperative, to institute legal</p>	<p>1. Implementation of the provisions of the Act by Commissioner with</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>meant to be repaying member loans issued and manage liquidity requirements of the respective Saccos.</p>	<p>proceedings in court for recovery of the sum owing without prejudice to any other mode of recovery and such sum shall be a civil debt recoverable summarily or appoint any person, bank or institution to be an agent of the cooperative for the purposes of collection and recovery of a debt owed to the cooperative.</p>	<p>regard to non-remittance recovery.</p> <p>2. Recover unremitted deductions of Kes 4B made by employers at source (treasury) for those hard to recover cases.</p> <p><b>Action by :</b> Minister of Cooperatives &amp; SME Development</p> <p><b>Timeline:</b> December 2023</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>3. Cooperative Alliance of Kenya to support Cooperatives follow up on recoveries</p> <p><b>Action by :</b> Cooperative Alliance of Kenya</p> <p><b>Timeline:</b> December 2023</p>
<p><b>3. Establishment of proper Cooperative Structures</b></p>	<p>The current Cooperative Societies Act was last reviewed in 2004. The lapse of time meant that the Act was out of touch with modern realities. Currently the Cooperative movement is disjointed in its approach to various issues affecting it to the extent of creating</p>	<p>Alignment of the Cooperative Bill to National Government manifesto</p> <p>Fast track the establishment of sectoral federations</p>	<p>1. Review of the Cooperative Societies Bill to align with the national government development agenda</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>competition among industry players owing to conflicting roles.</p> <p>The Cooperative Bill has made proposals to establish federations that will help coordinate sectoral activities among cooperatives. This will ensure that the pertinent matters relating to each sector are addressed wholistically and in an orderly manner.</p>	<p>Enhance governance and ethics of cooperatives in Kenya</p> <p>Enhance and strengthen the Apex Organisation through financial support for harmony and leadership in the movement.</p>	<p>2. Fasttrack enactment of the Cooperative Societies Bill to an Act of parliament</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p> <p>3. In collaboration with Cooperative Alliance of Kenya, Ministry to establish of a team to implement the Cooperative Act through development of Regulations and target to have</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>both Act and Regulations tabled together for approval</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p> <p><b>Timeline:</b> March 2023</p>
<p><b>4. Pension Payments</b></p>	<p>Saccos FOSAs not recognized for payment purposes e.g., for pension, as Sacco members must channel the same through Commercial Banks, denying Saccos growth opportunities. This leads to loss of membership and deposits from members once they retire, denying the Saccos much needed liquidity to continue operating. It</p>	<p>Recognition of Saccos as financial intermediaries that can process terminal dues for pensioners and allow Saccos to continue offering services to retirees</p>	<p>Lobby Treasury to have pension payments be processed through Sacco FOSA accounts</p> <p><b>Action by :</b> Cooperative Alliance of Kenya to follow with the Ministry of</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>also denies members opportunity to continue being active borrowers and savers even as they enter into a new phase of their life in retirement. This has led to many Cooperative members who have retired falling into despair since they are unable to access financing from other financial institutions where they need to start building a credit history, yet they already had an active one in their Cooperatives.</p>		<p>Cooperatives &amp; SME Development</p>
<p><b>5. Loss of members deposits</b></p>	<p>Currently there is no legal requirement for employees to have clearance through from their Saccos upon exit from employment. When members exit employment while servicing loans held with Saccos they tend to default on their repayments leaving the Saccos with</p>	<p>Safeguard Saccos from such possible losses by ensuring employers take their agency obligations more seriously by recovering and remitting dues owed to a Sacco.</p>	<p>Include legal provision for employers to have their exiting employees clear with Saccos before their final dues are paid out or change of pay point is effected</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	bad loans that then affect their going concern.		<b>Action by :</b> Commissioner of Cooperatives to guide  <b>Timeline: March 2023</b>
<b>6. Cooperative Dispute Resolutions</b>	Determination of cases referred to the Cooperative Tribunal take time to be resolved. This affects the confidence in cooperatives by affected parties. Considering that the Cooperative movement is large and widespread, there is need to have cooperative related disputes led by the sector itself for efficient and timely resolution.	Review of the current set up where the Cooperative Tribunal reports under the Judiciary	Recall the Cooperative Tribunal to be under the Ministry of Cooperatives and MSME Development  <b>Action by :</b> Ministry of Cooperatives & SME Development
<b>7. High taxation</b>	Limits business expansion for Saccos among MSMEs such as Chamaas and start ups	Review of tax laws to recognize all members of Saccos i.e., groups, Chamaas for tax purposes	Amendment of the Income Tax Act Sec. 19(A) to exempt all members of Cooperative Societies

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>including Chamaas and groups from payment of withholding tax on their dividends/interest</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>
<p><b>8. Regulation harmonization</b></p>	<p>The existing Cooperative laws are in need of alignment with the current market practices and with the mother law i.e., Cooperative Societies Act</p>	<p>Review the existing regulations on Sacco Societies Act to be in line with the proposed Cooperative Societies Bill</p>	<p>Fastrack the Cooperative Societies Amendment Bill in parliament</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<b>9. Restricted business types for Saccos</b>	Saccos restricted from dealing with foreign exchange thus denying them opportunity to attract diaspora clients, manage risk through hedging of currency volatilities	Review of the Cooperative Societies Act that restricts Co-operative society's from transacting foreign exchange	Fastrack the Cooperative Societies Amendment Bill in parliament

### 1.3 Financial Saccos Federation

To champion their specific needs as Financial Saccos, the Saccos proposed to form a federation called Federation of Savings and Credit Co-operatives of Kenya within the first six months of year 2023.

## 2.0 Coffee Sector

Currently the Coffee production is at an average of 2Kg/tree. The Sector aims to increase this production to 6kg/tree over the next five years.

<b>County</b>	<b>Current production of cherry at 2 kgs/tree (Average)</b>	<b>Targeted production of cherry at 6 kgs/tree (Average)</b>
Kiambu	44,807,256	143,421,768
Kirinyaga	32,664,822	97,994,466
Muranga	28,205,040	84,615,120
Nyeri	23,703,612	71,110,836
Embu	15,367,260	46,101,780
Kisii	13,642,032	40,926,096
Kericho	13,186,068	39,558,204
Bungoma	12,631,794	37,895,382
Meru	9,194,280	27,447,622
Machakos	6,815,874	20,447,622
Nyamira	6,081,804	18,245,412
Nandi	3,403,104	10,209,312
Tharaka Nithi	3,187,806	9,563,418
Transnzoia	2,880,882	8,642,646

Nakuru	2,228,892	6,686,676
Others	3,236,316	9,708,948
<b>Total</b>	<b>221,236,836</b>	<b>663,710,508</b>

## 2.1 Opportunities for Coffee Sector

The increase in production is expected to yield a return to the farmer per kg from the current average of Kes 75 per kg of cherry to minimum of Kes150 per kg within five years. Some of the initiatives already underway to increase production are as below:

- Capacity building of farmers and Coffee cooperatives societies through collaboration with various input suppliers
- Adoption of soil testing services financed/subsidized by government
- Build capacity for the National Coffee Cooperative Union (NACCU) and Kenya Cooperative Coffee Exporters (KCCE- a farmer owned coffee marketer) to roast and market coffee locally and internationally and acquire requisite machinery for NACCU to roast and brand own coffee.

## 2.2 Proposed Interventions

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<p>1. Low and delayed Coffee payments</p>	<p>Apart from the low payments received, many growers have to wait for almost 6 to 8 months to receive payments. This delay is mainly attributed to the time for coffee to be processed, milled, and offered for sale at NCE, and the delays in processing of payments. Although these payments to growers are required by law to be made within 14 days, this is hardly the case. NCE has a system that penalizes dealers who do not make payments to</p>	<p><b>1. To improve both the rate and timeliness of coffee payments;</b></p> <p>a) Statutory levies of 4 percent of coffee sales proceeds be deducted to finance CRI and AFFA (Coffee Directorate) and the Roads levy be abolished, and the funding taken over by the Exchequer.</p> <p>b) The Cooperative society commission should not exceed 15 percent of the net earnings from coffee sales. This limit should be strictly enforced.</p> <p>c) Growers and the millers negotiate and agree on the cost of export bags and the agreed cost be</p>	<p>Implementation of recommendations of the National Task Force on Coffee Sub-Sector Reforms</p> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>marketing agents within seven days after coffee is sold. However, there is no system to ensure that marketing agents pay growers on time.</p> <p>Farmers' Cooperative societies (as growers) receive payments from marketing agents, subtract their costs and pass on the balance to individual small-scale farmers. Quite often, there are complaints of further delays at the cooperative level. Some of these delays are attributed to managerial inefficiencies, including coffee factory management limited</p>	<p>included as part of the milling agreement.</p> <p>d) Funding of the NCE be reviewed and the agreed commission(s) be provided for in the trading rules.</p> <p>e) Establish a revolving fund to be used to finance a cash on delivery cherry advance to smallholder farmers. The recommended fund is aimed at addressing the 6 to 8 months delays in payments, which constrain smallholder farmers' cash flow and their ability to finance farm operations and their livelihoods.</p>	

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>capacity to process payments. Delays in payments can cause severe cash-flow problems to farmers, thereby forcing them to borrow or to default on critical family obligations.</p>		
	<p>There is an opportunity to finance coffee farmers through a Cherry fund which is expected to have impact in increasing coffee production by at least 3 times</p>	<p><b>2. Efficient Cherry Fund disbursement</b></p> <ul style="list-style-type: none"> <li>• Payments to be made directly to farmers account one month after delivery. The societies will be required to submit the records on deliveries and account number per farmer to facilitate the payments from the proposed central depository unit (CDU).</li> <li>• A clearing bank(s) to be appointed/procured to administer the proposed CDU.</li> </ul>	<p>Review of model of disbursement of cherry fund by NKPCU by including financial institutions.</p> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p> <p>Implementation of the Direct Settlement</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
		<ul style="list-style-type: none"> <li>• Build up the fund and cater for operational overheads.</li> <li>• All societies participating in the programme to open and maintain an account with the appointed bank(s)/CDU where proceeds for coffee sales are to be deposited to enable the bank/CDU to recover the cherry advance payments at source.</li> </ul>	<p>System as envisioned in the Capital Markets (Coffee Exchange) Regulations, 2020</p> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
2. Access to markets	Lack of access to the Nairobi Coffee Exchange and non-supportive legislation	Immediate admission of licensed coffee brokerage companies owned by cooperative unions to the exchange	<ul style="list-style-type: none"> <li>• Revocation Crops (Coffee) (General) (Amendment) Regulations 2022</li> <li>• Prevail upon NCE to admit Coffee Co-</li> </ul>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>operative Unions Licensed by CMA</p> <ul style="list-style-type: none"> <li>• Reconstitution of the Nairobi Coffee Exchange to operate as an efficient market.</li> </ul> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
3. Extension Services	Lack of extension service support to farmers leading to farmers abandoning good farm management practises	Collaborative and harmonized efforts between county governments, Unions and NKPCU in provision of agronomy services.	
4. Farm Inputs	Lack of affordable and quality inputs	Government support to access inputs	Provide affordable inputs through the Cooperative societies

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
5. Low coffee yields	Farmers unable to get better value from their farming since the area under production as well as the varieties they grow produce little yield	<p>Better farmer support:</p> <ul style="list-style-type: none"> <li>• Better coffee varieties</li> <li>• Soil testing</li> <li>• Extension service support</li> </ul>	<ul style="list-style-type: none"> <li>• Fund Coffee Research Institute to do research and farmer support</li> <li>• Streamline subsidy programs by government and institutionalize it</li> </ul>
6. Inadequate support for farmer by	Most farmers issues remain unaddressed since there is inadequate farmer representation at most of	<p>Have representation of farmers in the key coffee institutions:</p> <ul style="list-style-type: none"> <li>• Coffee Board of Kenya</li> <li>• Coffee Research Institute</li> </ul>	<p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p> <ul style="list-style-type: none"> <li>• Review governance structures of these bodies</li> </ul>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
government agencies	the key institutions that make decisions on behalf of the farmer	<ul style="list-style-type: none"> <li>NKPCU</li> </ul>	<ul style="list-style-type: none"> <li>Review funding of these institutions</li> </ul> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
7. High debts	Some of the Coffee cooperative institutions have high debts that reduce their effectiveness on delivering services to their members	Debt writes off for loans crippling Cooperative Societies	<p>Government write-off of loans</p> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>

### 2.3 Coffee Sector Federation

To champion their specific needs as Coffee Cooperatives, the Cooperative Unions proposed to form a federation called National Coffee Cooperative Federation of Kenya and the application has already been filed with Commissioner of Cooperative Development.

### 3.0 Dairy Sector

The dairy value chain is an integral part of the Kenyan enterprise. The value chain provides nutrition and income to many Kenyans. The dairy value chain activities milk bulking (mostly done through cooperative societies), transportation, processing, marketing and retailing create additional socio-economic benefits such as employment creation and diversification of milk into various products.

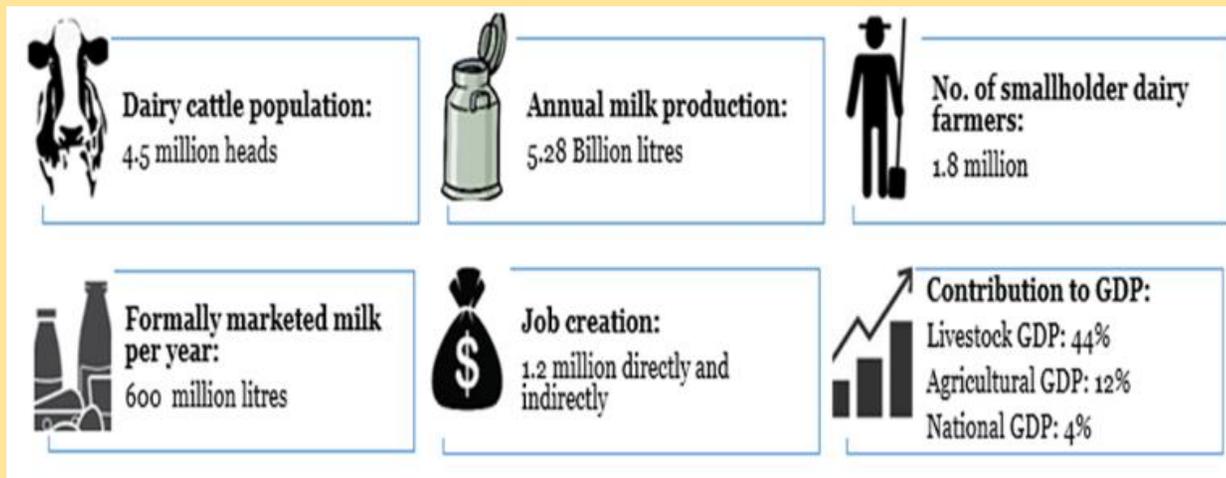


Image source: Kenya Dairy Board

#### 3.1 Opportunities in Dairy Sector

The current daily milk production in Kenya is around 1.5 million liters per day. There is an opportunity to increase this to 3 million liters in the next 5 years. Dairy has the potential to create employment for many youths along the entire value chain from production to marketing. There is also an opportunity to professionalize sector by training of

professionals in the dairy sector such as farm managers, exporting of milk and milk products to the region, growing of animal feeds such as protein supplements and conversion of more raw milk to processed milk from 30 % upwards.

For these opportunities to be realized milk production per cow will need to be doubled to around 10 liters per day, more dairy farmers to be added in the sector by 20%, process all the available raw milk and increasing the number of processors by 20 % to mop up excess of milk.

### 3.2 Proposed Interventions

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<p>1. Milk production</p>	<p>Many factors keep milk production in Kenya below its capacity. Key among them is the quality of breeds kept and feeding habits.</p> <p>With a focus on just these two initiatives, it is possible for farmers to increase their milk production per cow. A challenge to improving the breed include availability and affordability of good breeding semen, and limited farmer knowledge on the same.</p>	<p>Availability of knowledge on good cow breeds as well as availability of bull semen across the country</p>	<p>Government to train farmers through their Cooperatives good breeds.</p> <p>Support to Kenya Animal Genetic Resources Centre (KAGRC) to make AI services available to all counties.</p>
<p>2. Animal Health</p>	<p>Lack of routine and standardized vaccination such as foot and mouth, lumpy skin and ECF. This has led to counties doing uncoordinated vaccinations at different schedules and using</p>	<p>The vaccines to be locally produced and distributed in time through co-operative's</p>	<ul style="list-style-type: none"> <li>• Activation of a national vaccination programme that is centrally managed</li> </ul>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>different types of vaccines. This then leads to creation of a gap since some animals develop resistance to some vaccines especially when there is transboundary movement</p> <p>To make the role of artificial insemination more effective, the National and County governments could train and equip youth to carry out AI services at the ward level. These youth can be linked to finance through the ‘Hustler’ fund to allow them purchase AI equipment to enable them carry out the work. This not only serves to improve AI but also create employment.</p>	<p>Empowering youth to provide veterinary services by having them trained, equipping them through the ‘hustler’ fund so that they can provide AI services at the local levels in a timely manner. This will also serve to create employment</p>	<ul style="list-style-type: none"> <li>• Revamp farmer extension services or facilitate cooperatives to establish own extension services</li> <li>• Funding of youth through hustler fund to provide extension services</li> </ul>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			Action by : <b>Ministry of Cooperatives &amp; SME Development</b>
3. Uncompetitive milk prices	Availability of cheap milk imports	Regulating milk imports into the country to stop erosion of market share held by local producers	Importation of milk to be done when necessary, i.e., when local production is inadequate, to encourage domestic production  Action by : <b>Ministry of Cooperatives &amp; SME Development</b>
	High tax on imports/restrictions related to dairy farming	Reducing cost of importing necessary inputs in dairy production	Exempt tax on animal feeds, machines, chemicals, semen and equipment

**Agenda****Challenges and Opportunities****Proposed Solutions****Action Required**

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Low payments made by milk processors to farmers

Set minimum prices for milk to encourage more to participate in dairy farming

Action by : **Ministry of Cooperatives & SME Development**

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Establish a price stabilization fund of Kes 3B under New KCC to mop up excess milk and convert it to powder milk

Action by : **Ministry of Cooperatives & SME Development**

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Milk hawking leading to low milk prices for farmers and increase of health risks by consuming poorly handled milk

Banning of hawking of raw milk to save co-operative's as well as protect health

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Enforce ban set by the Kenya Dairy Board

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			Action by : <b>Ministry of Cooperatives &amp; SME Development</b>
4. Milk quality /post-harvest losses of milk	<p>Lack of milk storage facilities in some areas as well as lack of supportive infrastructure e.g., electricity</p> <p>Farmers also loss value and milk during periods of glut since they have nowhere to take their milk but only to predatory buyers who purchase at low prices. This discourages farmers from increasing their production since price and markets are not assured</p>	<p>Farmer education on milk handling and preservation</p> <p>Increase the number of cooling facilities and pasteurizers and be distributed where there is need</p> <p>Funding of the New KCC to enable it purchase milk from farmers during periods of glut to avoid losses to farmers and</p>	<p>Government to train farmers through their respective cooperatives</p> <p>Government to provide coolers and pasteurizers through cooperatives at the nearest point to farmers to minimise on milk losses</p> <p>Establish a price stabilization fund of Kes 3B under New KCC to mop up excess</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
		<p>also allow them focus on production</p>	<p>milk and convert it to powder milk</p> <p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
<p>5. High price of feeds</p>	<p>The cost of feeding animals to enable them produce is increasing, and this discourages farmers from proper feeding habits of their livestock, resulting in low yields</p>	<p>Lowering cost of animal feeds through:</p> <ul style="list-style-type: none"> <li>• Encourage growth of fodder crops</li> <li>• Standardization of quality on animal feeds</li> </ul> <p>Dairy sector to be encouraged to establish animal feed processing plants</p>	<p>Subsidize seeds and fertilizers by zero rating tax on farm inputs and having such inputs channel through co-operative's</p> <p>Fastrack the revitalization of cotton and soya beans cooperatives whose by-products can be consumed by the Dairy</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			<p>Cooperatives as fodder.</p> <p>Tax exemption on materials used to produce animal feeds to ensure lowering of costs of feed production</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>
<p>6. Low absorption of technology</p>	<p>Poor technology adoption makes dairy farming expensive</p> <p>To create employment in the dairy sector, government could fund youth to do fabrication of dairy equipment such as aluminum milk</p>	<ul style="list-style-type: none"> <li>• Adoption of technology in farming and subsidizing of farm machinery</li> <li>• Access to finance for technology</li> </ul>	<p>Provide seed capital for purchase of farming technology</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>cans, chaff cutters and milk pans. This not only drives uptake of technology in sector but also creates jobs.</p>		<p>Action by : <b>Ministry of Cooperatives &amp; SME Development</b></p>
<p>7. Sub-division of land</p>	<p>Most farmers unable to get adequate fodder for their animals since they have limited space on which to grow fodder</p>	<p>Provision of alternatives for farmers to grow fodder for their cows</p>	<p>Lease idle land to cooperatives to grow animal feeds</p> <p><b>Action by : Ministry of Cooperatives &amp; SME Development</b></p>
<p>8. Farmer representation</p>	<p>Farmer concerns are not adequately addressed in key institutions where decisions affecting them are made.</p>	<p>Have farmers representation through the National Dairy Federation in the board of Kenya Dairy Board with majority of the board members.</p>	<p>Reconstitute board of Kenya Dairy Board</p> <p><b>Action by : Ministry of Cooperatives &amp; SME Development</b></p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<p>9. Environmental protection in line with SDGs</p>	<p>Dairy production, especially processing is a high consumer of energy, a lot of which is sourced from firewood. With increased felling of trees, forest cover is degraded.</p> <p>There is an opportunity for the sector to reduce forest depletion by establishing bio-gas project for every dairy farmer which will mean that less trees will be cut with an alternative source of fuel found. Biogas also produced a useful byproduct, manure that is not only useful in crop production but can be used as an alternative source of income for youth who sell it. The same youth can also be used in the setting up of the biogas</p>	<p>CAK to spearhead training of youth who will lead construction of biogas units and cow sheds</p>	<p>CAK to seek partners to train 400 youth each year to acquire skills to support farmers establish biogas units</p> <p><b>Action by :</b> Cooperative Alliance of Kenya in conjunction with Ministry of Cooperatives &amp; SME Development</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	units and construction of cow sheds.		

### 3.3 Dairy Sector Federation

To champion their specific needs as Dairy Cooperatives, it was proposed to set up a federation called National Dairy Federation of Kenya (NDFK) before the end of the year 2023.

## **4.0 Rice**

Rice is increasingly becoming an important food and cash crop with a per capita consumption range of 11 to 16 kg per person per year (USDA, 2010). National rice consumption is estimated at 300,000 metric tons compared to an annual production range of 45,000 to 80,000 metric tons. The deficit is met through imports. The current rice production is estimated at 80,000 metric tons on about 20,000 hectares of land. This production meets only 16% of total demand which is expected to rise with increasing youth population and change in eating habits. Rice consumption is increasing at a rate of 12% annually as compared to 4% for wheat and 1% for maize.

Rice is mainly produced by small-scale farmers in Central (Mwea), Western (Bunyala), Coast (Tana delta, Msambweni) and Nyanza provinces (Ahero, West Kano, Migori and Kuria). About 300,000 rice farmers provide labour and also earn their livelihood out of the crop's production. There are four major rice mills spread across the country with varying capacities. LBDA has a milling capacity of 3.5 metric tons, Mwea NIB 24 metric tons, Western Kenya Rice mills 3 metric tons and Tana Delta with 3 metric tons per hour. Additionally, there are several small privately owned one pass mills especially in Mwea.

### **4.1 Opportunities for Rice Sector Cooperatives**

4.1.1 Opportunity to double production of rice now that we have the newly constructed water dam for irrigation

4.1.2 More areas in the expansive Mwea irrigation scheme will be brought under irrigation

4.1.3 Opportunity to increase membership to the Sacco

4.1.4 With the increase in membership the Sacco will have an opportunity to grow the loan book as a result of the increased membership

4.1.5 Embracement of technology to provide tech-savvy services

## 4.2 Proposed Interventions

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
Production	The land under irrigation to grow rice is only 20000 hectares. There is an opportunity to increase this to a larger area through putting more land under irrigation. To encourage this, more farmers will need to be recruited into cooperatives to give them an offtake for their produce	Putting more land under irrigation	Government to increase irrigation schemes with the newly commissioned water dams  <b>Action by :</b> Ministry of Cooperatives & SME Development
<b>Value Addition</b>	Most farmers fail to unlock maximum value from their produce when they sell it in its raw form for consumption. Rice and its by-products have multiple uses which can be used for income generation for the youth. Example: <ul style="list-style-type: none"> <li>Rice can be used to brew alcohol as well as extraction of cooking oil;</li> </ul>	Educating rice farmers on value addition in rice value chain  Establishment of rice processors for rice cooperatives	Government to fund training of youth  <b>Action by :</b> Ministry of Cooperatives & SME Development

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<ul style="list-style-type: none"> <li>Rice husks can be used for making cakes and biscuits, processed into animal feeds, soil replenishing manure and as a carrier material for cement</li> </ul> <p>Farmers need to be educated on these alternatives to enable them to create additional value.</p>		
<p><b>Production Costs</b></p>	<p>High cost of fertilizers, farm inputs and machinery</p>	<p>Government assisting farmers to access subsidized fertilizer inputs and machinery</p>	<p>Provision of fertilizer subsidies to rice farmers through co-operative societies.</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>
<p><b>Access to markets</b></p>	<p>Lack of readily available market for the locally produced rice</p>	<p>Government and other institutions are encouraged to consume locally produced rice.</p>	

**Agenda****Challenges and Opportunities****Proposed Solutions****Action Required**

Government to control the importation of rice

**Access to Finance**

Rice farming is labour intensive, and many would shy away from rice farming because of the high cost associated with it. Access to finance by rice farmers is also limited thus denying many farmers much needed resources to farm.

Provision of affordable loans to rice farmers

Government to factor rice under the commodities fund in the ministry of co-operative's and MSME'S where the society can borrow at an affordable interest rate for lending to farmers to undertake their farming activities.

Government to be channeling its disbursements through the cooperatives to build the capacity of the cooperatives to build the capacity of the cooperatives to reach the common man

### **4.3 Rice Sector Federation**

To champion their specific needs of Rice Cooperatives, it was proposed to set up a federation called Kenya Federation of Rice Growers by the end of the year 2024.

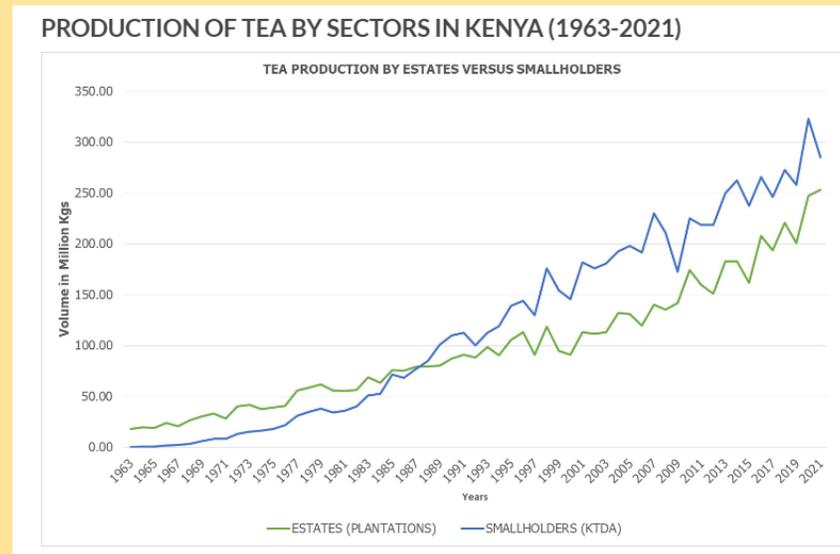
## 5.0 Tea Sector

Kenya is one of the top tea producers in the world. It is the fourth largest producer of tea after China, Sri Lanka, and India, and is known for its specialty Orthodox black teas. Most of the tea produced in Kenya is black tea, but green tea, yellow tea, and white tea are also produced on order by major producers.

Regionally, tea is grown in two significant geographical areas namely the East of the Rift block and the West of the Rift block. The East region is predominantly mountainous consisting of Mt Kenya, the Aberdares ranges and the Nyambene hills while the West of the Rift is characterized by plains and undulating hills which include Kericho, Kisii and the Nandi areas. The counties that comprise of West and East blocks include Nandi, Trans Nzoia, E. Marakwet, Kakamega, Vihiga, Kericho, Bomet, Kisii, Nyamira, Narok, Nakuru, Kiambu, Muranga, Nyeri, Kirinyaga, Embu, Tharaka Nithi and Meru.

Kenya produced nearly 540,000 metric tons of tea in 2021 with majority of it being produced for export. In the first quarter of 2022, tea production amounted to 135,800 metric tons. Tea is a major foreign exchange item for Kenya. Worldwide, the country is one of the leading exporters of tea. Together with coffee, mate, and spices, tea accounted for over 20 percent of the country's exports in 2021.

Cultivation is split between two types of system – small rural farms, called smallholdings (or shambas) and large company-run plantations, with most of the tea being produced by Small Scale Tea Farmers under KTDA.



Lately an emerging group of independent tea processors has emerged. Some of the co-operative societies growing and manufacturing tea, include:

- Sinendet Cooperative serving 16000 farmers with 900 acres under tea
- Mau Tea Cooperative serving 48000 farmers with 900 acres under tea
- Kipsigis Highlands Cooperative serving 5500 farmers with 1500 acres under tea
- Sireet OOP serving 7500 farmers with 2800 acres under tea
- Sot Tea Growers (STEGRO) serving 18000 farmers

Most of the tea estates and factories have set up Saccos that then offer financial services to their members.

## 5.1 Opportunities for Tea growers and Cooperatives

- 5.1.1 Tea based Saccos have an opportunity to diversify their membership from just dealing with tea farmers to include other value chains, since there are many other categories of people who do not access financial services
- 5.1.2 Tea based Saccos can adopt technology to improve on their efficiency in serving members and also allow them to expand beyond their traditional tea zones.
- 5.1.3 Capacity Optimization – factories under the above cooperatives are operating at below the installed capacities (60%) due to low production in own farms and competition for green leaf in the out growers sector.
- 5.1.4 Value addition and marketing. The above cooperatives produce tea products mainly for the Mombasa tea auction where tea is traded in bulk at prices dictated by the global dynamics of supply and demand. To achieve better value, the cooperatives need to add value through packaging, branding and marketing.
- 5.1.5 Production of Specialty Tea – (Orthodox, Purple Tea Oolong teas etc).
- 5.1.6 Expand land under tea. Cooperatives model are better placed to undertake large scale tea farming because of the structure and organization.
- 5.1.7 Tea farmers can diversify into other economic activities such as housing, real estate, horticultural farming and produce marketing.

## 5.2 Proposed Interventions

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
<p>Unfair competition from Greenland Fedha</p>	<p>The Greenland Fedha, which is a subsidiary of the KTDA has an unfair advantage over tea based Saccos. When tea farmers take their tea to their factories, they are able to access borrowing from Greenland Fedha which then is able to recover the repayments direct from source. This is spite of members of Saccos having running loans with their respective Saccos thus exposing the Saccos to loan default and probable collapse in the future.</p> <p>Greenland Fedha Limited being a non-deposit taking micro finance institution means that they are not regulated despite offering financial services. They thus operate with minimal oversight,</p>	<p>KTDA to focus on its key mandate of tea dealing.</p> <p>Delinking of Greenland Fedha from KTDA</p> <p>Regulating Greenland Fedha under the recognized regulator.</p>	<p>Review mandate of the Greenland Fedha</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>and they create an avenue through which tea farmers can be exploited since the same institution selling their tea, and holding their money is the same that is lending to them; from the same farmers' money. The lending done to the farmer is an advance and as such limited in amount meaning that the farmer is not able to take long term loan for development.</p>		
High Tax regime	<p>Kenyan tea faces competition globally since buyers consider it expensive. A review of the taxes on the tea sector would make it more affordable in the world market and at the same time increase local consumption.</p> <p>High taxation stops buyers from buying directly from Kenyan producers outside of the official auction as it</p>	Govt to provide some services for free e.g., security services	

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>attracts tax, forcing them to wait for refunds which take longer to process.</p> <p>Having taxes like VAT on Kenya teas disadvantages local producers since buyers can buy non-Kenya teas, which are not charged VAT as they are on transit.</p>		
<p><b>Cooperative Dispute Resolutions</b></p>	<p>Determination of cases referred to the Cooperative Tribunal take time to be resolved. This affects the confidence in cooperatives by affected parties. Considering that the Cooperative movement is large and widespread, there is need to have cooperative related disputes led by the sector itself for efficient and timely resolution.</p>	<p>Review of the current set up where the Cooperative Tribunal reports under the Judiciary</p>	<p>Recall the Cooperative Tribunal to be under the Ministry of Cooperatives and MSME Development</p> <p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>
<p><b>Inadequate lobbying for tea sector</b></p>	<p>Tea in Kenya is mainly grown by Small Scale Tea Farmers under KTDA. These tea farmers have limited control over</p>	<p>Formation of a famers apex body to represent tea issues</p>	<p>Registration of a tea sector federation</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>KTDA and as such most decisions affecting their tea sales are beyond their view or control. The ordinary farmer has little say in the tea industry and has limited options on what they can do. This is to a large part because they have no strong representative to address the issues of the tea farmer. It would be a gain for the farmer to have representation at the table where decisions are made about their produce.</p>		<p><b>Action by :</b> Ministry of Cooperatives &amp; SME Development</p>
<p><b>Production</b></p>	<p>To optimize capacities in the factories, cooperatives need to move from 60% capacity utilization to 90% in the next five years.</p>	<p>To expand tea production at the farm level, cooperatives need to acquire more land for tea growing.</p>	<p>This can be done through acquisition of existing tea plantations when they become available.</p>
<p><b>Value Addition</b></p>	<p>To achieve higher value for the tea produced, cooperatives need to add value to the tea products they produce.</p>	<p>Value addition of tea</p>	<p>Government support to tea factories under cooperatives to put up</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
	<p>Value addition can be done through branding, blending, flavoring, packaging and marketing locally and in the export markets</p> <p>Cooperatives need to venture into specialty Tea production since these products fetch better prices/value in the marketplace</p>		<p>specialty tea manufacturing lines</p> <p>Government to open up more markets for tea products through bilateral and multilateral agreements with other countries in the region.</p> <p>Government to encourage and support investment in local production of packaging materials to make them affordable and available hence support value addition.</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
			Government to support cooperatives through capacity building in governance and management.
Cost of Production	<p>The cost of producing tea is high owing to:</p> <p>Cost of farm inputs Fertilizers.</p> <p>High cost of labor due to trade unions</p> <p>High cost of energy – electricity, fuel and boiler firewood.</p> <p>High cost of factory machinery and packaging materials for value addition</p>	<p>Government support to:</p> <p>Avail fertilizers for tea cooperatives at subsidized/ affordable prices.</p> <p>Provide conducive environment for deployment of technology and mechanization.</p>	<p>Government should support players in the tea cooperatives to acquire fertilizer for tea production by facilitating bulk importation or local manufacture of the fertilizer.</p> <p>Government should harmonize taxation regimes to avoid over-taxation of the sector through multiple taxes and levies imposed by</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
		<p>Review electricity tariffs in favour of tea processors.</p> <p>Support cooperatives acquire of solar technology for electricity generation.</p> <p>Review taxes and levies on petroleum products to make them affordable.</p> <p>Allow cooperatives to lease land for wood production in government forests.</p>	<p>both the national governments and county governments.</p>

Agenda	Challenges and Opportunities	Proposed Solutions	Action Required
		<p>Review taxes/ levies imposed on imported packaging machinery and packing materials.</p> <p>Importation of packed tea from other countries should be regulated to make local teas competitive.</p>	
<p>Land for expansion of tea growing is not easily available.</p>	<p>Cooperatives being a good model for large scale tea growing, they need to be given a priority to acquire land from multinationals when they become available.</p>		<p>Government to support lease of titles to be allocated to Cooperatives when they become available</p>

### 5.3 Tea Sector Federation

To champion their specific needs of Tea Cooperatives, it was proposed to set up a federation called Kenya Tea Saccos Federation by the end of the year 2024.