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KENYA

SAVINGS + Credit OPG

OPG PROPOSAL

FY 80

PROJECT TITLE:	KUSCCO MANAGEMENT DEVELOPMENT PROJECT
PROJECT LOCATION:	REPUBLIC OF KENYA
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TABLE OF CONTENTS

A. PROJECT PURPOSE AND DESCRIPTION

1. Project Purpose and Beneficiaries 1
2. Project Description 5
3. End of Project Conditions 9

B. PROJECT BACKGROUND

1. Host Country Activity 11
2. Proposal Development 13
3. PVO Experience 16

C. PROJECT ANALYSIS

1. Cooperative Savings and Credit Societies 20
   1.1 Purpose and Structure 20
   1.2 Membership 22
   1.3 Society Achievements 26
   1.4 Problems and Needs 39

2. KUSCCO
   2.1 Purpose and Structure 50
   2.2 Membership 52
   2.3 Achievements 58
   2.4 Problems 63

3. Development Process 88
4. Project Impacts 90
5. Institutionalisation
   5.1 Technical Self-Sufficiency 106
   5.2 Financial Self-Sufficiency 110
6. Cost Benefit Relationships 125

D. DESIGN AND IMPLEMENTATION

1. Design 126
2. Implementation.....139
3. Evaluation and Measurement 146

E. FINANCIAL PLAN 157

F. CONDITIONS 167

A. Project Purpose and Description

1. Project Purpose and Beneficiaries

The purpose of the project is:

To improve the institutional capabilities of KUSCCO to manage its internal operations, provide existing services to member societies, develop a sound capital base, and operate on a balanaced budget basis.

Development resources used to support the proposed project are likely to result in long term benefits for the urban and rural poor of Kenya.

In Kenya, as elsewhere, savings and credit societies provide essential services to members, many of whom are drawn from the lower income segment of the population. Data obtained from a sample of member societies indicate that nearly two-thirds of the members receive monthly income of less than KSh 1,000. Since the sample was biased to focus on the larger urban societies, it is likely that an even greater percentage would obtain for the entire movement. Survey data also estimate

the average member income at KSh 643 per month, less than KSh 700 per month established by the GOK as the classification for lower income. Data on member occupation reveal that about 63 percent are categorized as manual or semi-skilled workers, frequently, in the urban societies, office messengers, clerks, typists drivers and watchmen.

For these people, credit is unobtainable from traditional financial institutions due to the stringent collateral requirements. Savings and credit societies enable the lower-income to obtain loans based on the member's character, for both provident, e.g., medical expenses and school fees, and productive purposes, e.g. agricultural inputs and small business investments. Small-scale development institutions, such as savings and credit societies assist the poorest majority to utilize the infrastructure services, schools, hospitals housing, etc that result from the large-scale development investments of Governments and donor agencies.

The expansion of the savings and credit society movement in Kenya has been truly remarkable in recent years, an indication of the vital needs served by these institutions. In the 4 year period from 1975-1978, the number of societies increased by 121 percent to 509, membership increased by 1 percent to 220,000, savings increased by 117 percent to KSh 285 million, and loans outstanding increased 230 percent to KSh 287 million. This growth has not been achieved without problems. In many cases, the capabilities of society leadership and staff have not kept pace with the growth rate, resulting in poor management and poor member service. Further, the national level organization, KUSCCO, has not developed at a similar pace, thus it finds itself increasingly unable to provide the level and quality of service required by its member societies.

A strong cooperative financial system can only be achieved if the national level organization is also strong. KUSCCO's accomplishments in the past 5 years are quite notable, particularly taking into account

the extremely limited resources available. It's promotion activities have obviously been successful, as demonstrated by the rapid society growth rates. It has responded to society needs by developing services for society bookkeeping, risk management, supplies, and education and training. These services were provided even though KUSCCO leadership recognized that they would only add to the already-difficult financial condition.

The emphasis has always been on the provision of needed services reflecting the aggressive service orientation of KUSCCO's leadership.

The movement is now entering a new phase, one requiring a financially and technically sound national level organization. Since KUSCCO's focus in past years has been external, i.e. developing societies, it has not developed its own internal management capabilities sufficiently. This project proposes to rectify this deficiency. By the end of the two year period, KUSCCO will not only have the capabilities for effective organizational and financial management, but will be able to provide a greater array of high quality services to its member societies.

2. Project Description

The following development objectives have been established for this project.

General Management Systems

1. By the end of year 1/ quarter 4 KUSCCO will have designed and implemented the following management systems:

   1.1 - Planning

   1.2 - Personnel

   1.3 - Office Management

   1.4 - Information and Reporting

Financial Management Systems

2. By the end of year 2 / quarter 1 KUSCCO will have designed and implemented a financial management and capitalization system, to include:

   2.1 - Accounting, Reporting and Auditing Procedures

   2.2 - Budgeting

   2.3 - Funds Appropriation and Expense Control

   2.4 - Cash flow Analysis and Control

   2.5 - Asset and Liability Management System

   2.6 - Cost Analysis, Pricing, Billing, Collection, and Funds Transfer System.

   2.7 - Petty cash Receipts and Disbursement system

   2.8 - KUSCCO Capitalization System

Staffing

3.1 By the end of year 1/ quarter 2, KUSCCO will have employed qualified staff for the positions of:

- Chief Accountant
- Field Services Manager
- Bookkeeping Centre Coordinator
- Supplies Officer / Cashier

3.2. By the end of year 1/Quarter 3 all incumbent staff will have been upgraded to conform with the revised job descriptions, or will have been replaced by qualified staff.

Services

4.1 KUSCCO will have designed and implemented revised systems and procedures for the following services: (by the time indicated)

4.1.1 - Bookkeeping, Year 1/Quarter 4

4.1.2 - Risk Management, Year 1/Quarter 2

4.1.3 - Supplies, Year 2, Quarter 1

4.1.4 - Education and Training, Year 1, Quarter 4

4.1.5 - Publicity, Year 1, Quarter 4

4.2 KUSCCO will have completed feasibility studies for service development / modification in the following areas (by the time indicated)

4.2.1 - Risk Management (Specialized Insurance), Year 2, Quarter 2

4.2.2 - Publicity (National Advertising Program), Year 2, Quarter 3

4.2.3 - Collection / Legal Services, Year 2, Quarter 1

4.2.4 - Audit Services, Year 2, Quarter 1

4.2.5 - Society Management Services, Year 2, Quarter 3

4.2.6 - Society Personnel Program, Year 2, Quarter 3

4.2.7 - Central Finance, Year 2, Quarter 2

These objectives reflect the findings of the Study Team, as confirmed by KUSCCO's Management Committee. The operational and financial difficulties facing KUSCCO are immediate and substantial. Without an intensive effort to resolve these difficulties, KUSCCO's prospects for success are limited. This project then is focued almost exclusively on KUSCCO, developing the technical and financial resources for KUSCCO to effectively manage itself. Once this has been achieved, a second phase effort may be proposed to assist KUSCCO develop the new services identified as feasible. The KUSCCO Management Development Project will require a limited amount of technical and financial inputs to realize the stated objectives.

Technical assistance will be provided principally through a WOCCU / Management Advisor. The Advisor will be experienced in all areas of national credit union association management, with particular skills in the areas of general and financial systems design and implementation, training, and services development. Short term consultant assistance will also be provided as required by WOCCU / Global Projects.

Financial assistance is required to partially support KUSCCO's operating budget for the two years of the project, resulting primarily from costs associated with the hiring new staff, and the increases in staff salaries to levels comparable to other national cooperative organizations. A limited amount of commodities has also been identified as essential.

Funding from USAID, is requested to support the costs associated with technical assistance, KUSCCO operations, and commodities as shown below.

	1980	1981	1982	Total
Technical Assistance	78,905	89,651	50,799	219,355
KUSCCO Operations	76,442	80,915	-o-	157,357
Commodities	36,314	-o-	-o-	36,314
Total	191,661	170,566	50,799	413,026

3. End-of-Project Conditions

The Project will result in both qualitative and quantitative changes. All the listed general and financial management systems will be in place. KUSCCO staff will be fully capable of operating those systems without further assistance. KUSCCO's financial condition will be vastly improved; deficit financing will have been elimated, and share capital in KUSCCO will have increased 5 times to KSh 1 million.

Services provided by KUSCCO will also have improved measureably. It is estimated that the number of individual members served by the KUSCCO bookkeeping centres will have doubled without any increase in bookkeeping staff, and that 90 percent of all societies enrolled at least 6 months will have records, accounts, and financial statements up-to-date. A total of 400 societies, a 70 percent increase, will be covered by the risk management program, 75 percent of whom will be fully meeting the participation standards. Eighty percent of affiliates will be using KUSCCO supplies. Although precise estimates are not currently possible, it is expetted that the innvative training programs developed during the project will substantially

increase the trained manpower pool available to the movement.

The underlying premise of this project is that savings and credit societies have demonstrated their potential as effective development institutions reaching the lower income populations not only in Kenya but worldwide. The scope and quality of services offered by savings and credit societies depends in large measure on the support and service received from the national level. By the end of-the-project KUSCCO will have re-established itself as a strong representative of the movement and an effective provider of valuable services. Accordingly, a strong cooperative savings and credit system will positively contribute towards realization of the sector goal of improved shelter, greater utilization of education and health services, increased food production, expanded employment opportunities, increased income, and greater participation in local and national development activities.

B. Project Background

1. Host Country Activity

Since independence, the GOK has strongly supported the development of cooperative institutions. Local and external resources have been mobilized to establish cooperative societies in nearly every aspect of Kenya's economic life. Particularly successful have been the various agricultural cooperatives organized with assistance from the Nordic countries.

Savings and credit societies are a relatively recent phenomenon. Whereas most forms of cooperatives were organized during the colonial era, the first savings and credit societies were not formed until 1964, in Mwea Tabere and Viya. In 1967, the Kenya National Promotion Committee was formed to accelerate the movement's growth. During that era nearly all societies were organized around a residential or tribal common bond. Without adequate supervision and assistance, most of these societies became dormant within two years, and most have subsequently been liquidated.

Recognizing this problem the Ministry of Cooperative and Social Services decided in 1969 to restrict the formation of savings and credit societies to salary and wage earners among employees that provided payroll deduction facilities. This policy was perhaps the largest single factor contributing to the subsequent movement expansion.

During this time, the Kenya National Federation of Cooperatives (KNFC) provided support services to the primary societies, although without compensation since the societies were not members of KNFC. At a conference of savings and credit societies held in 1972, it was recommended that a national association be established, and a working committee was appointed to make the necessary plans and decisions. In 1973, the Kenya Union of Savings and Credit Cooperatives (KUSCCO) was established, and began full operations in 1974.

In the six years since KUSCCO was formed, the movement has undergone dramatic growth, largely as a result of KUSCCO's successful promotional efforts, with the

able assistance of the Ministry of Cooperative Development (MCD). Government support for KUSCCO and the movement has been consistently strong, and the Ministry has worked closely with KUSCCO in pursuing common objectives. In the current GOK Development Plan 1979-1983, the Government's interest in savings and credit society development is reiterated, and reinforced with financial assistance directed to KUSCCO.

The leadership of KUSCCO recognized some time ago that the problems facing the organization, in part caused by their very successful efforts to accelerate growth, were serious. Most of the difficulties described in Section C were already well-known to the Management Committee. However, the lack of adequate internal resources precluded their effective resolution. As a result, KUSCCO requested of ACOSCA and WOCCU Global Projects that a special study be undertaken to assess their problems and recommend a course of action.

2. <u>Proposal Development</u>

In response, a field study was performed in October/

November 1979 by a study team composed of the KUSCCO General Manager, the MCD Cooperative Officer for Savings and Credit Societies/Nairobi, the Assistant Eastern Regional Manager of ACOSCA, the WOCCU Financial Systems Specialist, and the WOCCU Design and Evaluation Specialist.

The study team undertook the following objectives to be completed by the end of the study:

1. For a sample of savings and credit societies:
   - assess their management capabilities and financial condition.
   - identify the services required from KUSCCO

2. For KUSCCO:
   - assess its management capabilities and financial status.
   - assess its delivery capabilities for current and potential services.

3. Prepare a proposal, based on the field study results, that defines the objectives, implementation strategy and resources required for

KUSCCO to provide the required services.

A sample of 22 societies was selected from the list of KUSCCO affiliates. Using a detailed questionnaire, information on society growth, personnel, management procedures, financial services, financial statistics, and needed external services was compiled. In addition, interviews were conducted with:

MCD/ Credit and Finance Division
MCD/Savings and Credit Societies
Provincial Cooperative Offices
District Cooperative Offices
District Cooperative Unions
Cooperative Bank
Cooperative College
Kenya/Nordic Cooperative Development Programme
African American Labor Centre
Technoserve

At the KUSCCO level, interviews were conducted with the General Manager and his senior staff. In addition, Branch offices and Bookkeeping Centres were visited.

Fairly early into the KUSCCO analysis it became apparent that serious operational and financial problems had developed requiring prompt attention. The study focus therefore shifted from one of developing KUSCCO's service capabilities to improving its management and financial position. Preliminary findings and the proposed approach to problem resolution were discussed with USAID/Kenya and the KUSCCO Management Committee, and received basic concurrence. Accordingly, the proposal describes a strategy to focus appropriate technical and financial resources upon KUSCCO to enable it to become, within two years, a well-managed, financially sound institution.

3. PVO Experience

The proposed project will be principally implemented by three private cooperative organizations: KUSCCO, the African Cooperative Savings and Credit Association (ACOSCA), and the World Council of Credit Unions/Global Projects Office (WOCCU/GPO). The experience of KUSCCO has been

described; the following outlines the project related experience of ACOSCA and WOCCU/GPO.

3.1 ACOSCA:

The Africa Cooperative Savings and Credit Association was formed in 1968 by leaders of the credit union movement in seven African Countries. Today ACOSCA represents 22 national affiliates, movement savings in excess of $100 million, and a total membership of more than 1.25 million. ACOSCA serves its affiliates from headquarters in Nairobi, Kenya and through Regional Offices and Training Centers in Maseru, Lesotho; Bamenda, Cameroon; Lome, Togo; Bukuvu, Zaire, Bobo Dioulasso, Upper Volta; and Nairobi. ACOSCA Headquarters personnel, in addition to the Executive Secretary and other administrative staff, includes specialists in central finance systems, education/training, risk management/insurance, and credit union promotion, organization and development. ACOSCA has played the lead role in development of The African credit union movement and has a demonstrated capability in project development, management and evaluation. ACOSCA was instrumental in initiating the small farmer production credit programs undertaken in conjuction with the national leagues in

Lesotho and Cameroon. ACOSCA staff, in addition to participation in the development of this project, have contributed to feasibility studies, project development and management in Ghana, Liberia, Zambia, Swaziland, Siera Leone, Botswana and Togo.

3.2. WOCCU/Global Projects

The Global Projects Office of the World Council of Credit Unions is the major technical resource for international credit union development. Supported by the Credit Union National Association (CUNA) and by USAID grants through CUNA, the Global Projects Office responds to technical assistance, training and project development requests made by confederations affiliated to WOCCU.

CUNA's involvement in international development began in 1954 with a program designed to introduce the credit union idea to developing countries. In 1962, the first of several agreements with AID was signed, supplementing funds from the U.S. credit union movement. A decade of technical assistance resulted in formation of regional confederations in Latin America (COLAC), Africa (ACOSCA), the Caribbean

(CCCU) and Asia (ACCU). Specific involvement in Africa dates to 1964 when a grant from the Michigan Credit Union League Foundation funded technicians who helped organize national movements in Kenya, Tanzania and Uganda. CUNA supported the establishment of ACOSCA in 1968, and a Global Projects Technician was assigned to ACOSCA in 1970 to assist with its development program. Since 1974, Global Projects technical personnel have helped coordinate small farmer production credit programs in Cameroon and Lesotho. Through its Washington staff and access to the technical capabilities of the worldwide credit union movement, Global Projects is in position to provide specialized assistance, technical and administrative backstopping to the proposed project.

C. PROJECT ANALYSIS

This section of the proposal discusses the status, achievements and problems of the Kenya savings and credit movement, states the principal project objectives and describes the major impacts expected.

1. Cooperative Savings and Credit Societies

1.1 Purpose and Structure

The primary level institutions, saving and credit societies are true cooperative organizations: non-profit, democratically run, and organized to meet members' savings and credit needs. People with an identifiable "common bond" join together to form a savings and credit society. Societies encourage the discipline of regular savings, and make these funds available to members for provident and productive loans at relatively low interest. Each member has one vote to elect individuals to positions on the 9 person Management Committee, and three to the Supervisory Committee. The credit committee is formed from members of the management committee. The volunteer leadership is responsible for directing the activities of the organization; ultimate authority rests with the membership. All net earnings after appropriations to statutory reserves are distributed to membership as dividends on savings or refunds of interest payments.

The cooperative movement has been recognized by the Government of Kenya as " an important instrument for achieving mass participation in national development and for providing a means of raising the standard of the participants.....The whole concept of cooperation should be regarded as an organizational tool for promoting rural development generally and income-earning opportunities in both rural and urban areas." [1]

Savings and credit societies have an important role to play in the development process as vehicles to increase domestic capital formation, expand the availability of credit to groups denied credit from traditional sources, and to transfer education and skills required for increased standards of living. Information available on the Kenya movement indicates that societies have recognized and performed their development role with notable success, and that the potential exists for even more significant achievements.

One factor related to the expansion of savings and credit societies worldwide is their adaptability to local social and economic conditions. The basic structure, policies, and direction of the movement can be, and have been, adapted to fit a given country's needs. Thus in some countries, development has taken place primarily in the rural areas, while in Kenya it has been concentrated in the cities, small towns and villages, reflecting the differing perspective of the appropriate role of savings and credit societies

[1] Development Plan 1979-1983 Part I p. 309

in national development. In all environments the basic purpose of providing adequate savings and credit facilities to lower and middle income groups remains constant. Although it may not be conclusively demonstrated, several positive impacts result from this service. First, savings captured by the society may represent the diversion of funds from consumption or other unproductive uses. Second, to the extent that society funds are borrowed for productive investments, member productivity and income will be increased. Third, credit granted for provident purposes enhances the ability to utilize educational, health, and other infrastructure facilities. Fourth, by saving regularly, borrowing wisely, and repaying promptly, the three pillars of a savings and credit society, members are relieved from borrowing from non-institutional sources, i.e., money lenders, at usurious rates. For a large proportion of the membership, these benefits could not be obtained from traditional financial institutions.

1.2. Membership

The explosive growth of the movement has resulted in societies being formed in nearly every district in Kenya. Members are therefore found in rural areas, small towns, all secondary cities and the major cities of Nairobi and Mombasa. To date, development has focused on the salaried workers in the urban areas, in accordance with the GOK cooperative development strategy. Significantly, few urban members are exclusively urban; most have family and/or

land in the rural areas, and are actively engaged in farming, land development or other productive activities. Although the magnitude is unknown, it is estimated that a large share of credit provided to urban members is channeled into rural production and development efforts.

Based on data obtained from the survey of 22 societies, it is clear that the lower occupational and income groups comprise the largest membership share of most societies. As shown in Table C-1 62.5 percent of the members in the sample societies are categorized as unskilled or semi-skilled workers, principally various types of manual laborers. Another 28.1 percent classified as skilled workers, middle management technicians and supervisors, and small business operators, while 9.4 percent are senior level administrators, managers and professionals. In Table C-2, membership has been classified by income level. Nearly two-thirds of the membership receive monthly incomes of less than KShs.1,000 per month, while 13.8 percent earn in excess of KShs 2,000 per month. These data would seem to support the concept that savings and credit societies are particularly attractive to the lower income groups who lack the collateral to obtain credit elsewhere.

Table C-1 Member Occupations by Asset Size of Society
Kenya Saving and Credit Societies

	Total membership 12/78	Number of manual laborers, clerks, semi-skilled workers.	Members in Occupation senior clerks, skilled laborers, small businessmen, supervisors	Managers, Administrators Professionals
Asset size KShs 10 millic and above	67,335 100.0	43,760 65.0%	17,420 25.9%	6,155 9.1%
Asset size KSh 1 million to 1 million	10,830 100.0%	5,007 46.2%	4.579 42.3%	1,244 11.5
Asset size less than KShs. 1 million	534 100.0%	395 74.0%	132 24.7%	7 1.3
Total	78,699 100.0%	49,162 62.5%	22,131 28.1%	7,406 9.4%

Source: 1979 Sample of 22 Societies
(2 Societies: No data available

Table C-2 Member Incomes, by Asset Size of Society
Kenya Savings and Credit Societies

	Total Membership 12/78	NUMBER OF MEMBERS WITH MONTHLY INCOME BETWEEN KSHS. 0-500	500-1000	1000-2000	2000-3000	3000-5000	Above 5000
Asset Size KShs. 10 million and above	74,094	18,923	29,793	15,304	6,519	2,898	657
	100.0%	25.5%	40.2%	20.7%	8.8%	3.9%	.9%
Asset Size KShs. 1 million to 10 million	10,830	2,240	3,240	3,606	1,332	396	16
	100.0%	20.7%	29.9%	33.3%	12.3%	3.7%	.1%
Asset Size less than KShs 1 million	534	101	369	51	8	5	0
	100.0%	18.9%	69.1%	9.6%	1.5%	.9%	0%
Total	85,458	21,264	33,402	18,961	7,859	3,299	673
	100.0%	24.9%	39.1%	22.2%	9.2%	3.8%	.8%

Source: 1979 Sample of 22 Societies
(1 Society: No data available)

Total society membership was recorded at 220,000 at the end of 1978, a 41 percent increase over the previous year. Average family size is estimated at 6 for Kenya, thus more than 1.3 million people or 9 percent of the population are directly or indirectly benefited by savings and credit society services. With the movement expanding at the current rapid rate, the benefits resulting from the proposed development effort could easily reach one-sixth of the population within two years. To illustrate the possibilities in most of the sample societies current membership was estimated to be less than half of total potential membership.

1.3 Society Achievements to date

1.3.1. Growth

As shown in Table C-3 movement growth has been quite impressive. Membership has increased more than six-fold since 1972, and 70% since 1976, reflecting the increasing member confidence in the movement. The growth measured in financial terms has been even more impressive. Total assets increased at an annual rate of 59 percent while loans outstanding increased by 75 percent annually. Similar growth rates were recorded gross income, total expenditure, and net income/surplus figures.

TABLE C-3:

SUMMARY OF MOVEMENT GROWTH
KENYA SAVINGS AND CREDIT SOCIETIES

	1972	1973	1974	1975	1976	1977	1978	Compound Annual Growth Rate
Societies	101	125	155	230	308	448	509	31%
Membership	35,745	51,355	84,322	101,170	129,181	156,443	220,000	35%
Assets	19,068	33,444	84,253	119,530	179,192	256,274	307,362	59%
Savings	16,204	32,027	83,920	118,246	173,131	225,278	285,286	61%
Loans Outstanding	10,028	25,340	53,666	87,006	139,178	237,024	287,185	75%
Borrowers	15,345	29,282	41,115	60,976	67,267	95,890	84,109	33%
Annual Loan volume	13,908	30,996	60,916	99,652	140,765	190,309	209,978	57%
Statutory Reserves	285	405	646	1,241	2,527	5,961	6,543	69%
Gross Income	751	1,765	4,466	6,991	13,308	17,920	21,509	75%
Total Expenditure	340	770	1,068	1,986	3,845	4,893	5,810	60%
Net Income/Surplus	411	995	3,398	5,005	9,463	13,027	15,699	21%

Source: Ministry of Co-operative Development

Although this growth is certainly a notable achievement of the Kenya movement, it has been one factor leading to problems at both the local and national level. In brief, the movement developed at a pace that was difficult to manage and control, both for the Ministry of Cooperative Development and for KUSCCO. Accordingly the Government has recently attempted to slow the pace of expansion to allow the necessary support and control systems to be developed and implemented.

1.3.2. Savings Mobilization

One of the most signicant characteristics distinguishing savings and credit societies from other cooperatives is the traditional emphasis placed on the mobilization of household savings. This emphasis results from the development perspective contending that investments in expanded productive capacity and improved living conditions, particularly at the community level, must be financed from savings taken out of current income. As shown in the previous table movement savings increased at an annual rate of 61 percent. Clearly, the stress on savings mobilization has been effective. Several factors may be attributed.

First and foremost is the payroll deduction facility available to nearly all societies. Savings is therefore made convenient for the member, and becomes an assured source of regular capital inflow for the society. This convenience is one of the principal attractions causing members to join the society. A second factor is the relationship between loans and savings. Since the maximum amount granted is some multiple of member savings, (most frequently 3 times), borrowers have an automatic incentive to increase savings to qualify for additional credit. Third, it appears that KUSCCO and the Ministry have been quite effective in their education programs in installing the concept of regular savings. Finally, about half of the societies are participants in the ACOSCA/KUSCCO risk management program that provides term life insurance on both savings and loan accounts. This protection provides an additional incentive for the member to increase savings with his society.

Although nearly two-thirds of society members earn less than KSh 1,000 per month, it is interesting to note that average savings per member was KSh 1,296 in 1978. Through the discipline of regular savings encouraged by their

societies, these "small" savers have managed to accumulate a not unsubstantial amount.

1.3.3. Credit The provision of timely low-cost credit is the single most important reason for the majority of members to join a savings and credit society. For many there may be few, if any, credit alternatives except from local money lenders, whose interest rates vary between 20 and 40 percent per month. Savings and credit societies in Kenya offer several advantages to their members not found in most alternatives. First and foremost again is the convenience. In nearly all societies sampled, the average processing time from loan application to loan disbursement was two to four weeks. Collateral requirements include only the borrowers and his guarantor's shares. Repayment is made automatically through the payroll deduction facility. The 1 percent monthly interest charge is at least competitive with other credit sources, particularly since part is returned as dividends on savings or interest rebates.

From a macroeconomic perspective, savings and credit societies stimulate economic growth and development through the intermediation process, channeling savings back into loans for productive and provident purposes

at the local level. Saving and credit societies in Kenya often finance projects and activities below the reach of traditional financial intermediaries, stimulating employment directly through the provision of working capital and business loans to small scale enterprises and microproducers, as well as indirectly by financing demand for locally produced goods and services.

One shortcoming in the information system at both the national and local levels relates to data on loan purpose. Most sample societies had not compiled this information, thus current data is quite sketchy. Housing appears to be the area for which credit is most frequently used, both for financing purchases and improvements. Loans for land purchase and improvement are also quite numerous, followed by business purpose loans, medical expenses and school fees. One of the tasks of the proposed project will entail the development of an adequate information system that will reliably document, among other things, the purposes for which societies' credit is utilized.

1.3.4. Society Earnings

Kenya's cooperative savings and credit societies have proven themselves as strong financial performers. Table C-4 summarizes this financial performance in terms of various rates of return and income and expenditure relationships. This excellent receord is primarily due to two basic factors : the check-off system and employer support. The check-off system has been instrumental in the societies achieving high loan recovery rates, which are reflected in the high rates of interest income on average loans outstanding. Of course, in a number of sampled societies, in each of the asset size categories, loan default problems have reduced interest income rates. Development of a KUSCCO loan collection service should increase these recovery rates and have a substantial impact on the affected societies' earnings.

Employer support of societies has manifested itself not only in the provision of the check-off facility during payroll processing, but also

TABLE NO. C-4 SOCIETY EARNINGS 1977-78

KUSCCO SAMPLE (1)

Indicators (%)	Asset Size in million of shillings: Over 10	1 to 10	Under 1	Min. of Coop. Dev. National Summary
No. of societies	8	6	3	382
Gross income rate on average assets	9.0	8.3	7.8	10
Range	7.3-12.2	7.0-10.0	6.4-10.3	-
Net income on average assets	6.7	5.6	4.5	6.3
Range	3.3-8.4	4.1-6.9	3.8-5.1	-
Net income rate on average shares	7.9	6.5	4.8	7.2
Range	3.9-10.1	4.8-8.0	3.9-5.6	-
Interest income on average loans (2)	10.0	9.8	10.6	N/A
Range	7.5-11.7	7.1-12.4	8.1-12.5	-
Interest income to gross income (2)	87.4	80.7	91.3	N/A
Range	76.9-99.3	83.5-98.2	81.7-99.5	
Total expenses to gross income	26.3	32.5	37.8	37.3
Range	5.9-58.3	20.2-50.0	17.1-54.9	-

Totsl expenses to average assets	2.3	2.7	3.1	3.7
Range	0.5-4.6	1.4-4.1	1.1-5.6	-

Notes:

1. Sample data are for closed-bond societies only.
2. Interest income data is for six societies in the over 10 group and 5 societies in the 1 to 10 group.

SOURCE : KUSCCO study sample and Ministry of Cooperative Development year-end society status reports.

in the granting of time off and even full secondment of employees, free office space, and in some cases technical assistance. This has helped societies achieve very low expense to income ratio as well as a low expenditure to average assets position.

In most cases societies are performing well in terms of gross earnings, as shown by the gross income rate on average assets. The sampled societies were, on average, quite close to the national norms calculated from Ministry of Cooperative Development data. While the average gross income rates achieved by the sampled societies in each asset size grouping were quite close, (the differences are not statistically significant), there does appear to be a trend in other performance areas indicating that larger societies are at least slightly more profitable. This is probably due to their ability to achieve certain economies of scale in operations, along with increased financial resources to make "lumpy" investments in the hiring of more experienced and better qualified staff. These efficiencies are reflected in the lower total expense to gross income, and expenditure to average assets ratios of the

larger societies, through system-wide the higher cost levels of the numerically prepanderant small societies has resulted in higher national averages.

In addition, the larger societies have accumulated "surplus" capital through reinvested earnings, which, while not increasing their overall rates of return, has resulted in a somewhat lower dependence on loans to members to generate operating revenues. This surplus capital has had an earnings impact through the leveraging (gearing) of members' shares. Societies with over one million shillings in total assets generally have savings to assets ratios in the area of 0.85 as compared to 0.95 in the smaller societies. This leveraging has resulted in the higher net income per average share rates recorded by the large societies. Similar benefits for the smaller societies' membership can be expected from the operation of a central finance facility by a strengthened KUSCCO.

It is important to note that the high earnings and profitability rates obtained by the closed-bond societies have not been achieved by the rural, open-bond societies. While the sample included only one

such society, the financial problems identified there reflect the general problems which led to massive rural society failure in the sixties. The problem is a combination of poor member understanding of the use of credit, limited investment opportunities in smallholder agriculture and lack of an effective means of loan collection. The sampled society was in extreme default-related difficulty, earning only 2.3% on its average loan portfolio. Its overall gross income rate was only 4.9% on average assets, and the net income rate was 2.7%. Total expenses accounted for 50% of gross income, while interest on loans to members provided only 20.7% of total revenues.

Despite its poor earnings record, however, the society does provide much needed demand deposit services to a membership without direct access to other financial institutions. This is reflected in its low shares to assets ratio of 0.521. Given its problems in providing loan services to members, the society has reduced its loans to assets ratio to 0.428 and invested the balance primarily in liquid instruments. Meeting the financial and technical needs of this and similar

societies is clearly beyond the current capabilities of KUSCCO. Nevertheless, as KUSCCO becomes increasingly more effective in its operations, as a result of the proposed project, a way will be opened for the organization and support of rural societies and the provision of financial services to a population without access to other institutions.

1.4. Problems and Needs

Kenya Savings and Credit societies have clearly demonstrated their ability to provide essential financial services to a significant portion of the country's population. Nonetheless problems identified by both KUSCCO and the Ministry, and confirmed by this study continue at the primary society level such that the movement's full potential can not be realized. Although the proposed project focuses upon developing KUSCCO's capabilities, it is with the intent that by so doing, KUSCCO will be in a position to effectively assist member societies to identify and resolve their problems. Accordingly, a brief discussion of the problems currently confronting primary level societies follows

1.4.1. Growth

As noted above, many of the existing problems stem from the rapid growth rate experienced by the movement. Societies that only recently were managed by volunteer treasurers handling a small number of accounts, now require full-time staff and fairly advanced management systems and controls. Increased demands have been placed on society management committees to provide the level of service required by the membership. In turn, the society leadership has

placed increasingly greater demands on KUSCCO and the Ministry to provide additional support, particularly in terms of financial and management systems and to provide the training required to upgrade society staff capabilities. Resource constraints have limited the magnitude of assistance available from the national level, thus many societies have experienced both management and financial problems. For a small number of societies, these problems grew to critical proportions, requiring Government intervention to maintain the integrity of the society.

The following Table C-5 demonstrates the growth experienced by four selected societies. Although the growth recorded here is higher than for the movement as a whole, it illustrates the nature of the management and control problems experienced by the movement.

A further element of the growth problem relates to the proliferation of small societies. Previously, the GOK had registered nearly all groups desiring to form a society, irrespective of the potential size of the

Table C-5

GROWTH OF SELECTED SAVINGS AND CREDIT SOCIETIES

1974 - 1978

Growth Indicator	Membership			Assets(000)			Loans Outstanding(000)			Net Income(000)		
Society	1974	1976	1978	1974	1976	1978	1974	1976	1978	1974	1976	1978
Afya	3,334	7,324	9,754	1,957	7,855	22,336	1,550	6,520	19,426	77	453	1,520
Harambee	N/A	12,905 [1]	16,081	11,900	23,806	36,748	9,212	19,921	27,892	356	(2,424)	2,780
Sheria	540	1,132	1,093	294	998	2,312	222	796	,967	18	49	95
Ukulima	3,908	6,344	9,472	1,868	7,321	16,393	1,766	6,810	13,965	38	152	815

[1] 1977 Data.

Source: 1979 Sample of 22 Societies

soceity. As a result, it is estimated that more than 75 percent of all societies have total assets of less than KSh 1 million. Such societies usually require fairly heavy technical support, yet becuase they are small, they are unable to assume the full cost of these services, thus exacerbating the strain on the already limited human and financial resources at the national level. This strain is further intensified by the very youthfulness of the movement; the average society has been in operation just 4.3 years. This factor, combined with the high turnover among society staff and leadership has precluded the movement from developing a sufficient pool of skills at the primary level.

1.4.2. Management

Information obtained from the sample societies identified a number of problems with respect to organizational management. Since members of the management committee are elected annually, there is frequently high turnover and corresponding lack of continuity. It becomes virtually impossible to meet training requirements, thus committee members are often unable to perform effectively. The ability to set policies, develop plans, monitor society operations, particularly related to financial matters,

is often inadequate. More serious were the instances in some societies of the misuse of committee power to obtain unusually large loans or other special benefits. Since society staff are generally not protected by the existing labor laws, they may be subject to undue influence by the committee to accede to these demands. Apparently several managers have been dismissed because they were unwilling to "cooperate."

It follows that many societies have not been able to attract or retain highly qualified staff. With little job security, relatively low salaries, no job descriptions, and no structure for advancement, capable staff members soon leave. As a result many basic functions and activities are inadequately performed at the society level. The survey indicated that little or no organizational planning was being carried out, office management procedures were weak, information was often not properly compiled, stored, or subject to easy retrieval, and financial controls were frequently inadequate. The most immediate effect has been registered in the area of accounting.

Bookkeeping in the smaller societies is performed by volunteer treasurers, often with no real training or experience in accounting. With payroll deduction, even small societies have a large number of transactions

each month. As a result, volunteer treasurers are severely taxed to keep the bookkeeping records up-date, and in fact, the majority are usually several months behind. Without accurate, current financial records, the fiscal integrity of the society is greatly threatened. One approach to this problem has been the bookkeeping centers developed and operated by KUSCCO. However, due to problems addressed in the subsquent section, the accounting situation for many societies has not improved.

Among the larger societies with paid staff visited by the Study Team, accounting and bookkeeping was also an area needing substantial improvement. Although a uniform system of accounts has been developed, it has not yet been implemented in all societies. The staff turnover problem mentioned above has had a particularly deleterious effect on society financial record-keeping. Little or no financial analysis is performed, in part due to the lack of useful financial statement formats. Societies prepare member statements only infrequently, often once a year. Ledger reconciliation is also not performed with sufficient frequency. The current accounting system does not provide for adequate intermediate summarization, thus an inordinate number of jour-

nal entries are required. Finally the payroll deduction report frequently does not identify the interest portion in the loan payment, requiring extensive calculation by society bookkeepers.

The Ministry, as well as KUSCCO has concluded that the shortcomings in this area require immediate attention, starting with an effort to develop and implement a standard accounting system for all societies. Based on the information gathered, the Study Team would give full endorsement to this effort.

1.4.3. Liquidity Management

Most societies have not yet developed effective liquidity management procedures. Few perform analysis of their asset term and earnings structure, and most have only rudimentary estimates of their loan demand and capital requirements. As a result, a large proportion of the smaller, poorer societies have insufficient capital to meet member loan demand, while in contrast the larger societies generally have suplus capital but lack adequate investment opportunities.

Societies in a deficit capital situation have been forced to ration credit either by reducing the requested loan amount, or by delaying loan approval and disbursement, or both. Members,

particularly those needing loans for emergency purposes, are inadequately served leading in some cases to withdrawls from the society. Adequate forecasting, and the ability to obtain external financing is necessary to meet this problem.

Such financing could be obtained from societies accumulating capital in excess of their own member loan requirements. Present investment opportunities are quite restrictive, such that returns on investments are relatively low for most socieites. Several societies had large balances in their current accounts, far in excess of that required for liquity purposes, simply because they were unable to profitably invest these funds. A number had invested funds in commercial banks and other non-cooperative institutions, contrary to the precept that cooperative resources should remain within the cooperative sector.

It seems evident that society officials could benefit from training and assistance designed to improve their liquidity management capabilities. It is also evident that a central finance mechanism developed and operated by KUSCCO, in coordination with the Cooperative Bank, would be of immense value to the movement. In many countries, central

finance is the single most important economic service which a league can provide to its affiliates. It is the mechanism through which excess liquidity, typically generated by the larger, usually urban societies is transmitted for on-lending purposes to the poorer, normally rural societies. Central funding serves a stabilization function within the system and is also a means of risk diversification. The development of a central finance facility is a key priority for KUSCCO in order to serve member societies effectively, and at the same time, expand its income base.

1.4.4. Loan Collection

Loans in arrears is a chronic problem for the Kenya movement, but not one of critical proportions since the payroll deduction method assures the prompt repayment of most loans. The most common instance occurs when the borrower leaves the common bond, by changing jobs or retiring, before completing payment on his loan. Few societies have developed or implemented deliquency (effective) control and collection procedures, and for the relatively small amounts involved, the cost of legal action

becomes prohibitive. As a result, most societies have a number of delinquent loans often dating back several years.

Of the sample societies, most had only sketchy information on their delinquency situation. Usually the number and amount of delinquent loans could only be estimated by the manager, since delinquent accounts were not separated out, nor were delinquency reports prepared regularly. In one society for which data were available, delinquency was quite high. A total of 324 loans for KSh 1.7 million were delinquent, representing 6.9 percent of total borrowers and 15.6 percent of total loans outstanding. These percentages are likely to be higher than average, yet without adequate information, other societies could be experiencing similar delinquency rates without being fully aware of the situation. Nearly all societies mentioned it as a problem for which assistance was sought from KUSCCO.

This area would seem particularly amenable to centralized action. A KUSCCO legal services program designed to assist in the collection of defaulted loans would realize the economies of scale necessary to defray the related costs. Most of the costs

could be passed on to the defaulted borrower. Strong backing would be required from the Ministry in order to succeed in this area.

One final note relates to the need to establish procedures to write-off unrecoverable loans. Most societies had never written off any loans, even loans years overdue which could have been charged as a bad debt expenses. Ministry and KUSCCO attention should be directed to this area.

2. KUSCCO

2.1. Purpose and Structure

KUSCCO Limited is a union (often called a federation or league in other countries) open to all co-operative savings and credit societies in Kenya and is registered under the Co-operative Act. Its primary goals include:

- Promotion and development of new socieites.
- Representation of the movement in public affairs and government legislation.
- Liaison with the Ministry of Co-operative Development.
- Establishment of a common code of ethics.
- Education and training of society members, officials and employees.
- Development of society operating systems and maintenance of uniform accountancy methods.
- Improvement of internal society management.

KUSCCO is a non-profit, service organization governed by a democratically elected Management Committee. The supreme authority of the union, as with the primary

societies, resides in the General Meeting of the membership; each member society in good standing has one vote. The Management Committee is comprised of 11 members; 1 member is elected by each of the 8 Provincial Councils (sub-national organizational units representing all the societies in each province), with the exception of Nairobi, which because of its size has 2 representatives; and 2 members elected by the 40 nation-wide societies. An Executive Committee consisting of the table officers of the Management Committee is responsible for ensuring that all directives and resolutions of the General Meetings and Management Committee are carried out.

Day-to-day operations of KUSCCO are under the direction of the General Manager, who is appointed by the Management Committee and supervised by the Executive Committee. He is responsible for the general management of KUSCCO and supervision of all employees. The current staffing pattern of KUSCCO is:

POSITIONS

Office	Senior	Book Keeper	Machine Operators	Subor-inate	Total
Head Office	5	-	-	9	14
Nairobi	1	6	2	2	11

Coast	1	6	2	5	14
Eastern	1	3	-	1	5
Central	1	5	-	2	8
Rift Valley	1	8	-	2	11
Nyanza & Western	1	5	-	1	7
Total	11	33	4	22	70

Senior staff includes the General Manager and his personal assistant, Education and Risk Management Officers and Accountant at the head office, plus the 6 Branch Managers. Subordinate staff includes secretaries, copy/typists, receptionists, drivers, messengers and a watchman.

2.2. Membership

The member-owners of KUSCCO are currently 379 affiliated primary societies located throughout the Republic of Kenya. Table C-6 summarizes the number of member societies located in each province, grouped according to asset size. These classifications were made using year-end data supplied by the Ministry of Cooperative Development. It is safe to assume that the 91 member societies for which data were unavailable represent new and very small societies which either were not registered at the end of 1978

TABLE NO. C-6 KUSCCO MEMBER SOCIETIES

Province	Number of societies in each asset size group(KSh millions) Over 10	1 to 10	Under 1	Societies not Reported	Total
Nairobi	9	39	99	22	169
Eastern	0	3	8	0	11
Rift Valley	0	7	12	12	31
Nyanza	0	4	14	11	29
Central	0	11	15	11	37
Western	0	1	8	11	20
Coast	1	4	53	21	79
North Eastern	0	0	0	3	3
TOTAL	10	69	209	91	379

or, because of their short period of existence, have carried over their financial data for inclusion in the 1979 reports (in accordance with prevailing practice).

The preponderance of KUSCCO's membership is clearly in the small and/or very young categories, which include 300 societies or nearly 80% of the total. This reflects the high rate of growth of KUSCCO's membership, which has increased at a compound annual rate of 33.8% from 1974 to 1979. This closely approximates the national growth rate of total societies of 31% per year. The implications for KUSCCO of this growth and the concentration of small societies will be discussed in the following section.

Most of KUSCCO's member societies are located in the Nairobi and Mombasa areas, while approximately 34% are found in the rural areas, including secondary towns and villages. Individual membership data from the Ministry indicate that KUSCCO affiliates at the end of 1978 (the latest year in which data available) served approximately 190,000 members out of the total movement membership of about 220,000. Thus the strengthening of KUSCCO by the proposed project will

ultimately benefit over 85% of all savings and credit society members in Kenya.

Given the fairly wide distribution of affiliated society membership throughout Kenya, many of these benefits will be enjoyed by persons outside of the urbanized areas of Nairobi and Mombasa. Again, according to Ministry data, about 40%, or 76,000 members, reside in rural areas and secondary cities and towns, while the remainder is found in Nairobi and Mombasa.. This contrasts slightly with the distribution of the number of societies, 65% of which are registered to operate in Nairobi and Mombasa. The reason that proportionally more members than societies are found in rural areas is not due to the relative size of the societies themselves. Rather, the Nairobi-registered societies include some 40 nation-wide units, representing members living and working throughout Kenya. Thus nearly 30% of the total membership reported for Nairobi societies is actually located in rural areas.

As noted previously, most of the societies affiliated with KUSCCO are of the occupational or closed-bond type.

The common bond of these societies is limited to active employment in the sponsoring firm, government ministry or other organization. No generalizable data are currently available on the different occupations served by the movement in Kenya. It appears, however, that virtually all areas of economic activity are represented, from the very small firms to the very large ones. Virtually all societies are single-employer-based, thus permitting ease of payroll administration and processing. A very few societies are attempting to open their bonds to include employees working for different employers but in the same occupational group. This involves multi-payroll processing, but should permit societies to reach a more economical size.

Similarly, some ministry-based societies are allowing members who change ministries but remain on the government payroll to continue their membership. The Government payroll office then processes their check-off loan and share deductions in the normal manner, forwarding payments to the original society of membership. Development of this capability, while helping individual members maintain continuity in their savings and borrowings, has

also benefited societies by improving their ability to collect loans which otherwise might have been defaulted by employees leaving the particular ministry's payroll. The enhanced capabilities within KUSCCO which the proposed project will support, may be expected to lead to further innovations which will benefit the individual member and the societies alike.

One area in which the project is likely to have an invaluable, long term impact is in laying a foundation for development of open-bond or residential societies particularly in rural localities. While this has been fraught with problems in the past, a strengthened KUSCCO will be able to design, implement and, manage the appropriate support services necessary if open-bond societies are to florish in Kenya. The proposed project will not include the development of such societies during its short life; it will, however, support the qualitative improvement of KUSCCO's institutional capabilities which is a necessary precondition for successful development of open-bond societies.

2.3. Achievements

2.3.1. Growth

Supporting the promotion, organization and initial development of cooperative savings and credit societies has been KUSCCO's most visible achievement during the first five years of its existence. From an initial base of 155 societies in 1974, KUSCCO has worked with the Ministry of Co-operative Development to increase the total number of registered societies to nearly 600 by September, 1979. At the same time, its own membership of affiliated societies has grown nearly four-fold, from 95 societies to 379, while individual members served has risen from less than 80,000 to nearly 200,000. This promotion workload was recently increased by the Ministry decision to have KUSCCO undertake sole responsibility for the pre-registration organization and support of all new societies.

KUSCCO has responded to this rapid growth of both its own membership and the movement as a whole by greatly expanding its operations. Staff has increased during 1979 from 46 to 70, while the total number of offices and service centers has reached 13. Unfortunately, even

this remarkable growth rate has not kept pace with the needs of the movement. While KUSCCO has managed to develop and implement new services, particularly in the areas of risk management and centralized bookkeeping, both the quality and quantity of output have been severely limited by technical, financial and staffing constraints.

Just as growth has strained the ability of society managers to administer their portfolios and serve an ever increasing membership, it has trapped KUSCCO in a "chicken and egg" dilemma. Unable to serve adequately the majority of its member societies, the union has not been able to charge and collect the dues and fees needed to improve the required service capabilities. The proposed management development project will help to break this vicious circle by financing the institutional development of KUSCCO resulting in expanded and improved member services. This will permit KUSCCO to increase its service charges to a true break-even level and to develop other revenue sources, including central finance auditing, loan collection and society management

services. A sound technical and financial base will have been created to meet the increasingly varied and sophisticated needs of Kenya's co-operative savings and credit societies.

2.3.2. Services

While KUSCCO has encountered considerable output, quality control, and pricing and billing problems in the provision of services to its member societies, it has been successful in meeting at least some of their needs despite severe financial constraints. Society leaders and managers, as well as co-operative department personnel, have expressed their desire for improved and expanded KUSCCO service capabilities as well as appreciation for the services currently being provided. Their primary concern, of course, is how to obtain additional services. The project will address that concern by developing a sound operating environment for the management of KUSCCO's current service program. As problems are reduced and bottlenecks eliminated, increased resources will be obtained from both internal savings and movement sources. These human, financial and technical resources can then be

directed by KUSCCO into the development of new services with perhaps only minimal need for external assistance.

The following summarizes the current status of KUSCCO services

. Education and training : this essential service is offered free of charge to both affiliates and newly registered societies. It is targeted toward management committee members and society employees, with emphasis on technical, legal, financial and managerial subjects. Basic activities include seminars, member information day and participation in society annual general meetings. Most seminars are held at the Co-operative College; during 1978, 28 seminars were held serving 910 participants, while 562 society personnel had participated in 16 seminars by June of this year.

Risk management : this KUSCCO department administers the ACOSCA term life insurance program, which

covers participating societies' savings and loan accounts. Premiums are paid by the society; benefits to the membership include a cash payment of a multiple of the savings balance at time of death or total disability, and the cancellation of non-defaulted outstanding loan balances. The number of participating societies has increased from 100 in 1976 to 250 by September, 1979. During this period, 330 claims totaling Sh. 1,186,000 have been paid.

- Centralized bookkeeping : this service is directed at societies with membership of under 1,000, through some larger societies are included. A total of 166 societies with a membership of nearly 40,000 were participating as of June, 1979.

- Sale of stationery : KUSCCO sells standard operating forms to both affiliated and non-affiliated societies, mainly through the bookkeeping centers. Total sales from 1975 through September, 1979 are valued at KSh. 298,349.

2.4. Problems

Despite its achievements in promoting the growth of the movement and providing basic services to its member societies, KUSCCO's future growth and development depend on the immediate resolution of serious managerial and economic problems. These problems fall into three broad categories: general management, finances and staff. The successful resolution of similar problem in other sectors of the Kenyan co-operative movement suggest that KUSCCO also can be assisted into a position of financial and technical self-sufficiency. The following briefly describes the major areas of need which the proposed project will address.

2.4.1. Management

The lack of efficient internal management of KUSCCO's operations and finances has impeded the provision of cost-effective services to the majority of its member societies. The areas of management needing immediate attention are organizational structure, systems development, planning, supervision, control and follow-up.

KUSCCO's organizational structure is "flat"; that is, there are no intermediate levels between the general manger and operating personnel, except in the branch offices. The general manager is constantly involved in matters of a supervising or operating nature, which prevent him from addressing the institution's critical management needs. Faced with too many demands on his time, he is unable to do more than react to problems as they arise. His supervision of operations is replaced by ad hoc participation in them. As a result, KUSCCO's departments operate in an uncoordinated manner, with some work being duplicated while other critical functions remain unattended. Failure to delegate authority to key department personnel has prevented holding them accountable for results; results then are not achieved. Immediate reorganization is needed if KUSCCO is to respond effectively to the ever increasing demands of its member societies.

For the reorganization to be successful general management and operating systems must be developed and implemented. Currently, each area of activity operates on an non-integrated basis (particularly financial systems), some procedures are not well defined and there is great variance in performance

standards. Training of new employees must be done without reference to operating guidelines, the problem is compounded by reliance on workers leaving employment to train their successors. Since there is little room for promotion, given the flat organizational structure, there is no incentive for supervisory employees to develop sub-systems encouraging advancement of their subordinate staff.

The absence of defined systems has prevented effective, objectives-based planning. While KUSCCO is well aware of its major needs and has taken steps to resolve its problem, no strategy exists for the implementation, monitoring, and evaluation of the required intermediate steps. Most of KUSCCO's plans do not specify, in measurable terms, the outputs to be achieved. The planning problem is in part a result of the lack of delegation, since employees are not expected to resolve problems or meet targets on their own initiative. Even where some delegation exists, as in the branch offices, most management reports describe activities undertaken and problems encountered, rather than specific results achieved.

Control and follow-up by KUSCCO management is done on a crisis basis. Without adequate resources to employ mid- level supervisors, field and even headquarters operations cannot be monitored regularly. This inhibits early detection of potential problems and taking steps to prevent their evolution into crises. This has been a particular problem in the bookkeeping center and KUSCCO accounting and insurance departments.

Technical assistance to be provided by the proposed project, particularly in the areas of organization, system design and planning, can be expected to resolve these problems. They are typical in young, fast-growing cooperative organizations lacking sufficient resources to meet their current needs, much less address the longer term issues of institutional development. While KUSCCO's situation is serious and needs urgent attention, the prospects for success are good. The primary societies are relatively strong and are fully capable of assuming the costs of operating the union, once the proposed short term assistance

has improved management and brought KUSCCO's services up to the quality and output standards demanded by the movement.

2.4.2. Finances

Underlying the management problems discussed above are critical financial constraints. The high growth rate of the number of small, dependent primary societies, combined with Ministry of Cooperative Development insistence that KUSCCO provide greater management support services (particularly bookkeeping), has forced KUSCCO into uneconomically rapid expansion. This has resulted in poor quality services, ineffectively managed collections and primary society reluctance to pay. This has limited KUSCCO's current revenues which has simply reinforced the problem. Short term financial support is needed immediately to allow KUSCCO to get its operations under control and then proceed to develop on a sound basis.

Despite these problems, KUSCCO has infact made considerable progress in generating earned revenues to cover

at least partially its operating costs. As Table No. C·7 shows, earned income has grown at more than 100,000 shillings per year; the compound annual growth rate for 1975 through 1978 (estimated) was 69%. Including external grants, total income grew at an annual rate of 39%, while the contribution of earned to total income nearly doubled, rising from 22% to 39%. This is an impressive achievement for a small, understaffed organization with all of the problems cited above.

Nevertheless, these management problems combined with the perceived need to dramatically expand services delivery, have had a negative effect on the net earnings performance of KUSCCO. Total expenses more than doubled in the 1975-1978 period and deficits were recorded each year. 1977 was a particularly bad year due to overexpansion of the bookkeeping services in anticipation of a supportive grant that never materialized. The other deficits, while relatively minor in themselves, have not been balanced by additional surpluses after the year of organization. Thus the accumulated deficit had reached a total of over Sh. 650,000 by 1978.

TABLE No. C7

KENYA UNION OF SAVINGS AND CREDIT CO-OPERATIVES

INCOME AND EXPENDITURE

1975 - 1979 (1)

INCOME	1974	1975	1976	1977	1978est	1979est. (2)
Earned Income						
Dues	10,646	65,295	65,144	193,895	253,141	239,065
Service charges	-	23,630	62,835	134,553	231,837	223,831
Risk Management Commissions	-	-	6,192	12,298	43,688	118,897
Other	2,639	26,093	119,309	41,207	24,305	263
	13,285	115,018	253,480	381,953	552,971	582,056
Grants						
K.A.F. (3)	118,791	298,034	359,855	238,521	790,466	556,900
ACOSCA	47,303	49,144	39,692	-	-	-
AALC (3)	24,119	71,702	106,148	45,040	77,370	50,000
Sub-total	190,213	418,880	505,695	283,561	867,836	606,900
Total Income	203,498	533,898	759,175	665,514	1,420,807	1,188,956
EXPENDITURE						
Administration	169,079	555,159	549,575	848,712	985,487	764,415
Finance	4,348	17,019	9,815	52,913	81,734	67,351
Other	18,348	91,156	236,540	249,336	400,078	440,565
TOTAL EXPENDITURE	191,775	663,334	795,930	1,105,961	1,467,299	1,272,331
SURPLUS(DEFICIT)	11,723	(129,436)	(36,755)	(485,447)	(46,492)	(83,375)

NOTES: (1) 1978 and 1979 data are estimated from trail balances. Audited statements are available from 1974 through 1977 only.

(2) September 30th 1979; other data are year-end positions.

(3) 1979 K.A.F. income includes KShs.483,777 in reimbursements receivable, and a pending balance of KSh.8,420 from AALC.

SOURCE: KUSCCO.

KUSCCO management has clearly not run up these deficits intentionally. Rather, they are due to largely technical factors which the proposed project will remedy. There are:

- Inaccurate forecasting of projected income, and use of these estimates to balance planned cost increases.
- Implementing costly new operations before funding has been secured.
- Inadequate accounting system and bookkeeping procedures.

The ledger accounts are nearly two years in arrears. The last audited statement available is for 1977. Trial balances are prepared monthly, but do not show transactions for the current month; account balances are for the year-to-date period only. The format of the trial balance does not allow for separation of accounts into the major income, expense, asset, liability and members' funds groupings. Most trial balances are simply accounting machine proof sheets with accounts identified by number only. Analysis by staff, the general manager or the Executive and Management Committees is rendered extremely difficult.

- Dysfunctional Budgeting Procedures:

  Annual budget items are not broken-out into monthly or quarterly accounts for intermediate reconciliation and control. Reconciliation reports for the monitoring of expenses and collections are not prepared nor submitted to the Management and Executive Committees.

- Ineffective billing and collections system, resulting in excessive bookkeeping and staff operations while not generating status information on amounts owed to KUSCCO versus amounts actually collected. Collections are done by banker's orders signed by the society for direct funds transfer to KUSCCO accounts; most orders are years out of date, with receivable amounts based on estimates made in 1976 or 1977. A procedure exists for calculating amounts due for the various service and dues charges, but is not implemented nor is monitoring the up-dating of the banker's orders by branch managers. Billing is retroactive; the system does not allow for estimation of future amounts due nor prepayment by the societies with accrued charged then being transfered by KUSCCO.

In addition, there are more fundamental problems involved in KUSCCO's financial condition. First, services pricing is not done on a cost-recovery basis. For example, the bookkeeping services charge is 20% of the previous year's gross income. Most of the societies enrolled in the service are small, have low earnings and are often a year or more in arrears. Thus KUSCCO must absorb operating losses, in effect giving largely free services to these small societies; at the same time, the larger societies, partly because of the high 20% charge, do not join the program. A cost-based price would remove the tax and income redistribution implications of the service, thus motivating more societies to join while generating increased income for KUSCCO. Indications are that even the smaller societies could absorb full-cost pricing of the bookkeeping services.

A second problem is KUSCCO's dependence on a high cash flow to maintain externally funded operations. Current external grants are made on a cost reimbursement basis without prior advance of funds. Thus KUSCCO must use its own internally

generated cash flow to pay costs (principally in the education program) for which it will not be reimbursed until considerably later. These grants (which are only received if the expenditures have been made in advance) account for over half of KUSCCO's income, severely constraining cash allocation decisions.

A related problem is society need. Most of the societies using KUSCCO services, principally bookkeeping, have no other alternative and the Ministry has mandated KUSCCO to serve them. It would perhaps be politically impossible to eliminate them from the services for failure to pay charges owed, and difficult to change the fee structure, given the numerical preponderance of small, low gross income societies. Thus KUSCCO, in order to maintain its cash flow, continues to serve these societies despite their failure to pay the full charges owed. The problem is compounded by not accruing fees owed to KUSCCO so that subsequently, when the

societies' income has increased, the income can be recovered. Full collection of bookkeeping fees would increase KUSCCO's total service charge income by about 15% at current rates. This would not, however, cover full costs. Fortunately, KUSCCO has a strong economic base in its member societies. Their earnings spread is relatively high and the average society in each asset-size group is comfortably above the minimum break-even point. Possible dividend rates range from 2.6% in the under-one-million in assets group, to 3.8% in the one-to-ten group, and 4.8% in the over-ten group, at current asset, cost and membership levels. If all societies were to pay 100% of dues owed and adopt all services (with the exception of bookkeeping by the over ten million group), there would still be funds available in the average society to meet additional costs, fund their required reserves and pay dividends. Table No. C-8 shows the costs associated with KUSCCO dues and services with revised(full cost) pricing and 100% collection rates, and the impact on the average society, as well as the percentage amount of its gross income.

TABLE NO C-8 COSTS AND IMPACT ON GROSS INCOME TO THE AVERAGE SOCIETY OF ADOPTION OF KUSCCO SERVICES(SH.000).

	Asset Size Groups(millions)					
	Over 10		1 to 10		Under 1	
	Amount	%	Amount	%	Amount	%
Society data						
Average membership	7,243	-	1,191	-	118	-
Average assets(78)	11,609	-	1,646	-	95	-
Gross income rate	-	9%	-	8.3%	-	7.8%
Gross income	1,044.8	-	136.6	-	7.4	-
KUSCCO Costs						
Amount and % of Gross Income/Dues	12	1%	5.9	4.3%	0.4	5.4%
Services Charges	-	-	25.0	18.3%	2.5	33.8%
Insurance	148.8	14.2%	21.2	15.5%	1.3	17.6%
	160.8	15.2%	52.1	38.1%	4.2	56.8%
Impact						
Current Expense:						
Income(E:I) ratio		26.3%		32.5%		37.8%
E:I with KUSCCO costs		41.5%		38.1%		56.8%
% Increase of E:I with addition of KUSCCO costs		57.8%		17.2%		50.3%

Table No.C 8 also shows what impact the absorption of full KUSCCO support costs might have on the average society's gross expense: income (E:I) ratio. For the societies with over ten million in assets, the E:I ratio with KUSCCO costs is calculated as the sum of the current E:I ratio plus the additional dues and insurances costs. For the other societies, the increase is measured between the current E:I ratio and the ratio with KUSCCO costs. This is done under the fairly weak assumption that the major portion of current overhead costs would be absorbed by KUSCCO through its bookkeeping and reporting service. Given these assumptions, it is clear that the majority of societies would face an increase in their operating costs, but would still have considerable net income available to pay dividends and fund their reserves. As the project increases KUSCCO's ability to deliver these services while improving their quality, societies

There is evidence that not only are funds available currently, to pay KUSCCO dues and fees, but that societies would be willing to do so if the quality of management and services improved. This was stated by leaders of most sampled societies, while one said that the only reason they had not paid was that a bill had not been presented. Analysis of Ministry data indicates that KUSCCO is currently collecting only about 48% of its potential dues. KUSCCO records showed that only 58% of societies were making payments of any type.

It is probable that if KUSCCO had collected all dues and fees owed to it in 1978, it would have made a surplus.

KUSCCO has managed to finance its recurring deficits and meet its cash flow needs principally by borrowing society funds. Unfortunately, the limits of such borrowing have been reached, due to reduction in KUSCCO's net worth by the accumulated deficits. While these borrowings have largely financed KUSCCO's development to date, the carrying costs have become excessive and current account

surpluses are urgently needed to begin capital repayments.

As a result of KUSCCO's very low debt-equity position, and inability to pay dividends, member societies have not been buying union shares on a regular basis. Many societies have only bought the minimum number of shares required for affiliation, and the overall average is only 518 shillings. An automatic capitalization scheme is urgently needed, both as a precursor to a full central finance (interlending) operation and as a means for debt refunding. Given the relative liquidity of many societies, funds are available within the movement for share purchases, if reasonable dividend rates were assured. The proposed project will enable KUSCCO to eliminate its deficits through improved management and temporary financial support. This would remove society fears that their invested funds might be spent on recurrent expenditure, and permit a capitalization mechanism to function.

Despite KUSCCO's financial problems to date, the outlook for the proposed project is good. Technical assistance and direct supervision of union financial management by the Executive Committee and advisors will tighten fiscal controls. Financial assistance and grant advances will permit more effective cash management while eliminating deficits and the need for short term borrowing. Improved general management and reorganization should lead to increased productivity, billing and collections. A stronger KUSCCO will reawaken society confidence and willingness to resume share investments in the union.

2.4.3. Staff

Ineffectual management, combined with financial difficulties, relatively low salaries, and lack of a career ladder have had a profound impact on the ability of KUSCCO to attract and retain qualified staff at all levels. This, probably more than any other single factor, has led to KUSCCO's deteriorating image as a service organization.

Rapid expansion has forced KUSCCO to employ people with little appropriate experience, and training has

been virtually non-existent. Quantity of employees, rather than their quality, has been the overiding concern. Given the lack of systems and delegation of authority, growth has compounded the confusion and added little to overall productivity. The high number of employees has diluted the wage base, leading to job dissatisfaction and high employee turn-over. In effect KUSCCO has acted as a training ground for society managers and bookkeepers; many of these societies are not even paying their dues. A KUSCCO employee can increase his salary 30% - 40% by leaving to work for a society after learning his job at the union. Many KUSCCO bookkeepers, once trained, have left to become society accountants or managers, raising their salaries from about Sh965 per month to an average of Sh1300 in the intermediate societies and Sh1580 in the largest. KUSCCO department chiefs earn less than most managers of the larger Nairobi societies, and have less managerial authority.

The high turn-over rates have meant that KUSCCO has been unable to build up a core staff and experience base for the training of new employees. The resultant low level of qualifications and job skills has made delegation of authority difficult while inhibiting management from granting salary increases.

The proposed project will help to break this vicious circle by permitting a general reorganization, including upgrading or release of employees on the basis of merit and capabilities. Technical assistance will permit expanded and improved staff training. Temporary financial assistance will permit salary increases to bring KUSCCO remuneration into line with that of its own societies and the co-operative movement as a whole.

2.4.4. Services

The following briefly discusses KUSCCO's service-related problems, areas of need for new services, and project impacts.

Bookkeeping:

This is KUSCCO's major service and second largest revenue producer. Currently, 169 societies with over 40,000 members are enrolled. It is estimated that fee collections are being made at a rate as high as 87% of charges due, but these cover only about 27% of true costs. Some societies are overcharged, while others are paying nothing. Staffing continuity is the major operating problem, compounded by lack of work flow systems, output standards and reporting procedures. Participating societies are small (about 240 members each, few over 500), their leadership is inexperienced and reporting

and documentation needs for the accounting cycle are not met, documents are submitted late or not at all, and many societies are in arrears when they join. As a result, center-prepared trial balances are behind, reports are minimal and mistakes are frequently made. In some bookkeeping centres, the Timeliness of output and quality of work have been so low that societies have withdrawn their books. Nevertheless, some centers are performing quite well and the best bookkeepers are being used to upgrade skills in other centers as well as provide direct assistance to societies with unusual problems.

The major project impact on the bookkeeping operations will be improved service to societies combined with full cost recovery pricing. As noted, this will cause substantial cost increases for societies. Nevertheless, the total for a single society would be less than the cost of hiring an equivalently qualified bookeeper and opening an office of its own. Based on current and projected operating costs of the bookkeeping service, the minimum break-even price would be Sh 1/75 per member per month.

The project will improve this key service by developing systems and training methods to increase employee productivity (bookkeepers are currently handling only about 1,100 accounts per month, a low figure considering that this is largely "back-office" posting); raising salaries to lessen turn-over; and creating new reports for societies, including loan defaulters, financial performance analysis, budget reconciliation, and insurance coverage. KUSCCO will benefit through improved reporting on society growth and financial status, and better access to billing data.

Risk management:

This is KUSCCO's major cash source, as well as a provider of net income from commissions on premiums. From KUSCCO's side, the major problems are billing and collection of premiums, receiving coverage reports, KUSCCO faces a potentially serious liquidity problem if banker's order premium payments are not periodically revised to reflect the rising insurance liabilities of the risk management fund. (from societies, and lack of systems for financial control, accounting and reporting.) From the societies' side, the premiums are perceived as too high given the low risk associated with large, closed-bond societies where employee turn-over and low retirement ages reduce claims. The project

x 86

will help KUSCCO manage the program more effectively, pay dividends on net premiums to societies, and permit the feasibility study of expanded services, including bonding and flexible coverage, with ACOSCA and Co-operative Insurance Society of Kenya.

Education and training:

This program is a source of restricted grant funds to KUSCCO, accounting for nearly 40% of total income in 1979, and more in previous years. The basic problem is the need to provide basic society training to over 700 new society directors each year, plus specialized committee-member training to a portion of the 1,200 new directors currently being elected yearly, plus technical training to affiliate society managers and staff. There is a lack of standardized training materials and audio-visual equipment. The project will assist KUSCCO to develop a training system for needs assessment, skill requirements definition, materials preparation, and program design, implementation and evaluation. It will also permit the exploration of alternative, fee-supported training approaches, utilizing the general systems and skills developed in other areas of KUSCCO operations. These may include on-the-job training for society bookkeepers in the bookkeeping centers, night school classes in financial management, and specialized workshops for

for society managers using guest lecturers and management staff of the large, more successful societies.

Stationery supply:

While sales have increased by thirty to forty thousand shillings yearly since 1976, no net earnings have been reported due to failure to take closing inventories. The lack of a generally implemented society accounting system has inihibited the development and wide scale marketing of high quality, standardized forms. The project will enable KUSCCO to participate with the Ministry in the development of a nationwide accounting system, and its own internal purchasing, inventory control, and marketing systems.

While the proposed project will not address the implementation of new services directly, a number of feasibility studies will be carried out to investigate the market potential and cost/price constraints of several new services. Two such potential services merit brief discussion because they reflect continuing problems at the society level. These are auditing and supervision . Others were discussed previously in the society analysis section.

Auditing:

Although the Ministry is normally responsible for the auditing of all co-operative savings and credit societies, lack of staff has necessitated the appointment of private auditing firms. Their fees are considered excessive by most societies, and many support KUSCCO's intention to develop its own audit department. They feel that this will help KUSCCO to generate additional revenues, keep the monies spent within the movement, and lower society-paid fees. The project supported development of a society accounting system will necessarily include establishment of auditing standards, procedures, and guidelines to be adopted by society auditors. Similarly the streamlining of bookkeeping procedures and improvement of KUSCCO's bookkeeping center operations will lead to lower cost audits and develop staff capabilities to form an audit section in the future.

Supervision:

Many societies have expressed the need for KUSCCO staff to visit their offices more frequently and provide technical support. While this is also a function of the Ministry, its limited number of field officers and wide range of control and administrative responsibilities has impeded full operations in this area. A byproduct of the project's improvement in employee productivity and technical skills will be an increased KUSCCO ability to provide increased supervision

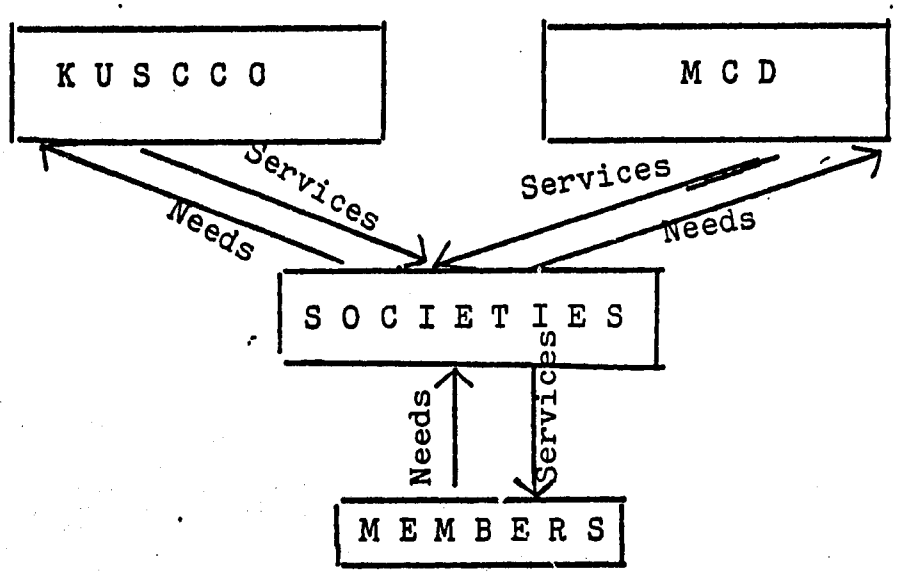
to the member societies.

2.4.5. Affiliation:

Most of Kenya's cooperative savings and credit societies are nominally affiliated with KUSCCO. Nonetheless, several large societies are not members of the union, and about 40% of the affiliates are apparently not paying their dues. The basic reason given for this lack of support is the poor quality or unavailability of appropriate services. The project-supported strengthening of KUSCCO's management and service development and delivery capabilities can be expected to increase the rate of affiliation and dues payment substantially.

3.. Development Process

As has been demonstrated in the preceding discussion, the problems and needs at the primary level in the system are closely related to those found at the national level. In this system, national level organizations, principally KUSCCO and the Ministry, respond to problems and needs of primary level societies who in turn respond to problems and needs of their members, as shown by the following diagram:



Any impairment in the ability to provide services at any level in the system, results ultimately in poorer service to the member, and accordingly decreased opportunity

to expand his productive capabilities. As noted, movement growth and development have occured primarily at the society level. Although experiencing some problems, e.g., general management, bookkeeping, liquidity management, delinquency, these have not seriously affected the ability of most societies to provide basic savings and credit services to their members. There has not been a concurrent development at the national level, particularly with respect to KUSCCO. Operational and financial problems have resulted in KUSCCO's inability to provide high quality services required to meet the needs of their member societies. The resultant effect has been damaging, not only to societies and their members, but also to the movement as a whole. Confidence in KUSCCO as a dynamic service provider has been weakened, many societies have stopped paying dues, and some have turned elsewhere for assistance. A strong system of cooperative savings and credit societies is not a likely prospect given existing conditions.

Without this system, the services needed, e.g., central finance, bookkeeping, training, insurance,

legal services, audit, supplies, etc, will likely not be developed or be only partially responsive to society needs. The ultimate objective of the Kenyan movement is the attainment of a strong, fully integrated cooperative system. A development program to strengthen KUSCCO is therefore the first order of business.

Based on the study findings indicating the magnitude of the operational and financial difficulties, the Study Team concluded that a two phase development effort is appropriate. Phase I, the period covered by this proposal, is a KUSCCO Management Development Project. The proposed assistance would be directed toward improving all internal management systems required for efficient operation within KUSCCO itself, upgrading current services, and examining the feasibility to initiate new services. Phase II, envisioned to start approximately years after the initiation of Phase I, would assist in the development and implementation of those new services deemed feasible. The objectives of Phase I therefore are confined to the development of a well-managed, effective national

association. Benefits from this effort will subsequently extend to the societies and members, particularly if augumented by Phase II, since a well-managed KUSCCO would be able to develop and provide essential services of more-than-adequate quality. Given the critical nature of some of the problems facing KUSCCO, it was the conclusion of the Study Team that the Phase I effort, in order to have maximum effect, should be initiated at the earliest possible date.

4. Project Impact

4.1. Economic Effects

Several consequences can be predicted from an effort to strengthen KUSCCO. First, with a strong national association providing essential services to member societies, a positive effect on savings mobilization will ultimately result.

As previously noted, there is a direct relationship between mobilizing domestic savings and increasing local investment and income; savings and credit societies are unique in their ability to mobilize domestic savings which would otherwise remain uninstitutionalized (as "box money" or in mattresses, ceilings, buried behind the house, etc.) and hence not invested. These savings are mobilized primarily among the lower income groups and as

such are especially significant as security against assorted economic crises and a means to leverage additional funds for various small business ventures. Since the project itself is of limited duration, and narrowly defined to KUSCCO, it is expected that measureable increases in the saving rate will only be recorded after the project terminates.

Second, not only will savings ultimately increase, but if the central finance program is established, the distribution of available funds will become more rational. Funds mobilized from capital surplus societies, usually the larger urban societies, will be made available to capital deficit societies, usually found in the rural, poorer areas. An absolute increase in the level of productive investment, made possible by the increased availability of savings will result.

Third, increased savings, combined with a more rational distribution of funds, will result in corresponding increases in lending. Loans for productive investments which increase capital formation, long recognized as a

necessary condition for development, will similarly increase.

Fourth, experience with savings and credit society projects elsewhere in the developing world has recorded measurable increases in productivity and income for farmers, artisans, merchants, entrepreneurs, and others with limited resources, otherwise unable to qualify for credit. The increases are not surprising, since unavailability of credit has long been recognized as a primary obstacle to development. By making the required capital available the small farmer can obtain improved seed and fertilizer; the artisan can buy improved tools, equipment and materials; the small merchant can purchase supplies in bulk quantities, and the entrepreneur can initiate or expand a small-scale industry. Obviously, increased credit is not the only factor; other resources and enhanced skills are required. Yet, in the absence of credit, they often go unexploited. ¶ Any direct increases in personal income resulting from increased credit availability are substantially magnified by the multiplier effect.

Additional income will increase the demand for goods and services, leading to further

increases in income. Again, much of this increased economic activity will occur at the community or neighborhood level among individuals usually untouched by the more grandiose development schemes.

Fifth, although direct effects on employment resulting from the project will be modest, fairly substantial indirect effects should result. It is estimated that about 75 to 100 societies currently employ staff; with the continuing growth in members and savings, that number will likely double within two years. KUSCCO encourages the hiring of paid management staff since a dramatic change usually occurs when a society hires its first manager: membership, savings, loan, and income levels increase rapidly allowing economies of scale and vast improvement in services to members.

More significant employment effects will result from increased lending activity. As noted, based upon very incomplete data, it appears that a sizeable portion of loans are currently used for housing acquisition and improvements, and for land purchase and development, particularly for societies located in Nairobi. Since the

production activities for housing, land development, and most other enterprises in Kenya are labor intensive, employment creation resulting from increased credit availability should be substantial.

4.2. Rural Development

The vast majority of savings and credit societies in Kenya have an occupational common bond, that is they are based in the place of employment. Only a limited number are residential-based societies. One reason for this approach is the experience obtained during the 1960's when a large number of residential savings and credit societies were organized. Without adequate training and supervision, they quickly encountered severe management and financial difficulties and soon failed. To guard against a repetition of this experience, societies were only organized among groups in which payroll deduction could be obtained.

Nonetheless, societies are found in every part of Kenya, including the small towns and rural areas. Most often they are the only purely financial institution serving these areas. District cooperative unions have been established in many areas to serve

farmer's production and marketing needs. Among the services provided is credit, but it is generally restricted to production purposes. Usually credit for provident or consumer purposes is not provided.

With the recent focus on the formation of occupational societies, however, little has been done to spread the movement to non-salaried groups, principally found in rural areas. Given proper support residential societies can be successful, as illustrated by societies established in Mwea Tabere and Nyeri, each with a membership of more than 2,000 and savings in excess of KSh 1 million. In recognition of this potential, KUSCCO management recently prepared a strategy paper for expanding rural development. It was estimated that, given proper support an additional 100 rural societies, with a total share capital of KSh 50 million could be organized within 4 years. The benefits accruing to the rural poor from this development effort, in terms of

increased standards of living and income, would be quite visible.

The Study Team, with KUSCCO's concurrence has recommended that implementation of this effort be delayed until the key management and financial problems facing KUSCCO are resolved. Promotion and supervision of rural societies is both more difficult and costly. Without skilled staff and adequate resources, rural society development becomes a very tenuous proposition. This project is, of course, designed to resolve KUSCCO's immediate problems, at which point, the rural development program would seem advisable.

4.3 Appropriate Technology

The technological implications of this project are basically two-fold:

1: the effect of increased credit availability on the production technologies employed by borrowers;

2. improvements in existing financial management technologies employed by savings and credit societies.

The lending activities of savings and credit societies encourage the adoption of appropriate technologies.

The types of projects financed are typically small scale, owner-operated and labor intensive activities located in the same area as the society. If the central finance program is deemed feasible and becomes operational, increasing attention can be directed to supporting specialized production finance projects employing appropriate technologies. The success of societies in Latin America and Africa in financing the use of appropriate technologies in small scale enterprises demonstrates the movement's effectiveness in supporting low cost production systems.

Improvement in savings and credit society management technology involves modernization of financial systems, primarily in the areas of accounting and analysis. The adoption of a uniform accounting system has already been discussed, but mention should be made of resultant direct improvements in employee productivity. Secondary effects will include decreases in auditing and supervision costs to KUSCCO and the Ministry and decreased training costs for new employees.

The development of KUSCCO's centralized bookkeeping centres represents an innovative approach to relieve small societies of the cost of hiring trained bookkeepers, or of having the task performed poorly by volunteer treasurers. In two centres, bookkeeping machines have also been introduced to expand the number of societies served. To date, though, the services provided have not been uniformly high, while the costs have exceeded projections. In essence, the technology introduced has so far been ineffective. The problems may lie not with the technology, but with the operation of the technology. The project will introduce the systems required to streamline the workflow, increase utilization of the bookkeeping machines, train staff, increase output, improve service, and reduce costs. By so doing the technology that is currently quite inappropriate will become appropriate.

Finally, the concept of appropriate technology can also be applied to institutions. The savings and credit society movement is found worldwide, among vastly differing cultures and socio-economic

conditions. The cooperative structure, the reliance on largely voluntary leadership, relatively simple procedures, and the "self help" approach to development are all features that seem to explain this expansion, and demonstrate the appropriateness of the institutional form.

4.4. Women in Development

Based on information obtained from the sample societies, 22.6 percent of the membership of savings and credit societies are women. (Available data from 19 societies estimated 10,941 women out of a total of 48,800 members). Using this percentage for the entire movement indicates that approximately 50,000 women are members. Since the largest proportion of sample societies is located in the large employers, including government, in which men predominate, it is likely that for the entire movement, the percentage of women is higher. Even among societies in which the percentage of women to total membership is low, nearly all women elgible to join have in fact become members. Society leaders reported active interest and participation in the activities of

the organization by women. Several sample societi include women on the management committee, and women are also represented both on societies' and KUSCCO's staffs.

Although it appears that even greater participation and involvement of women is needed, it is clear that the movement has recognized an important reality: women are important participants in Kenya economic life. They are engaged in independent income-producing activities, and as such, have distinct savings and credit needs. The benefits attainable via this project will further increase the availability of credit for women to use in various provident and productive activities.

4.5. Human Resource Development

Skills development will be one of the principal project impacts, most notably at the KUSCCO level. By the end of the project, all KUSCCO staff, from the general manager to the junior bookkeeper will be possess the skills to carry out essential functions and activities. Enhanced skills at the KUSCCO level will in turn lead to improved skills at the primary level, particularly when combined with non-traditional training approaches. Skills

development will not only increase the effectiveness and commitment of staff and leadership within the movement, but as employees leave the movement for positions elsewhere in the public or private sector, it will contribute to national human resource development.

The skills developed by savings and credit societies, i.e., accounting, financial management, general management, etc., are in great demand in Kenya, as in most third-world nations. Evidence of that, and of the relative effectiveness of even the current training programs, is the number of KUSCCO - trained bookkeepers hired away by both primary societies, as well as the private sector. The constant turnover in bookkeepers represents a problem to KUSCCO but is also an indicator of successful human development. The project will attempt to signicantly increase the effectiveness of current training efforts, while at the same time, establishing adequate compensation and advancement opportunities to retain qualified staff.

4.6. Poorest Majority

As shown in Table C-2 in C 1.2., nearly two-thirds of savings and credit society members receive less than

KSh 1,000 per month. Applying this percentage for the entire movement would mean some 140,000 members would fall in this category. These data were confirmed during interviews with society leadership and staff who pointed out that a large share of their membership was composed of office messengers, clerks, typists, drivers, and other lowly-paid occupations. Given the exacting collateral requirements of traditional financial institutions in Kenya, which preclude credit being granted to lower, and sometimes middle income groups, it is not surprising to find this skewed distribution for savings and credit societies.

Data on movement savings growth from 1973 to 1978 indicates that the average annual savings per member was KSh 482. Data from the sample societies indicates that members save approximately 6.25 percent of their income, which would signify an average member income of KSh 643 per month. According to Kenya national statistics, the lower income group includes individuals earnings less KSh 700 per month, thus the average savings and credit society member falls well within this group.

It is noteworthy that approximately 14 percent of the membership receives monthly incomes in excess of KSh 2,000, and would therefore not be classified among the poorest majority. In terms of sustained savings and credit society development, however, this is a healthy situation. A successful society needs a balanced mix of savers and borrowers; a society of only the poor will never have sufficient funds to meet loan demand. Therefore net savers, drawn principally from the middle and upper income levels, are not only welcome but essential.

If and when KUSCCO's central finance program becomes operational, funds generated by the movement's net savers will provide the liquidity base for re-lending to the capital-deficit societies. This mechanism increases the intermediation capability of the system, and increases the flow of funds available for lending to the rural and urban poor. The strengthening of KUSCCO's management capabilities resulting from this project will in turn increase the level and quality of services it can offer. Since the lower income groups constitute the majority of the movement's

membership, the benefits from improved service, such as the central finance program, will largely accrue to them.

4.7. Basic Human Needs

One of the strengths of the savings and credit society is that it is able to provide loans for both productive and provident purposes, unlike many development finance programs with narrowly focused lendin criteria directed solely towards production. As noted, a significant portion of lending activity is used for housing, medical, and educational purposes. Such loans often enable members to take advantage of the social, educational and economic infrastructure in which governments and donor organizations usually place their major investments. Increased savings and lending activity will result from the project, thereby increasing the ability of the membership to meet their basic needs for food, housing, education and health services.

5. Institutionalization

The Kenyan co-operative savings and credit movement is already institutionalized; the major need addressed by the project is not creating new organizations, but rather strengthening the existing management capabilities of KUSCCO. The movement is still very young but remarkable growth and the increasing needs of its members have dictated the necessity for enhanced capabilities at the secondary level if the institutional potential for member service is to be realized.

The main institutionalization issue with respect to the project is when KUSCCO will attain financial and technical self-sufficiency. The two aspects of this issue are discussed below.

5.1. Technical Self-Sufficiency

The project's fundamental objective is strengthening the financial and operational capabilities of KUSCCO resulting in improved earnings and services delivery to affiliated societies and their members. Financial inputs alone will not ensure the achievement of this objective. In addition,

KUSCCO needs enhanced technical capabilities if it is to solve the increasingly sophisticated problems which continued expansion will present. The union must become able to adequately perform its institutional maintenance functions (e.g., planning, budgeting, financial management, and office administration) in order to provide the services required by member societies (e.g., training, bookkeeping, central finance, risk management, legal services, representation).

The WOCCU advisor will assist KUSCCO to assess and improve its performance in these areas through application of an institutional analysis and development approach which involves:

1. establishing measureable outcomes for the performance of specified union and society operations;
2. the analysis of current performance and identification of factors leading to improved operations;
3. establishment of an institutional development plan that systematically strengthens the skills and attitudes required; and
4. periodic evaluation and improvement of institutional development activities. The systems

development and staff training activities undertaken during the project will be based on this approach. Project personnel will focus their efforts on developing the procedures, skills and attitudes necessary for effective and efficient management of KUSCCO's operations.

The process will be monitored and supported as necessary by WOCCU/GPO and ACOSCA. Technical materials, including model systems, training guides, sample forms, and GPO-developed technical assistance products (guidelines for systems development, financial planning and analysis, training, etc) will be supplied as requested to KUSCCO and the advisory staff.

By end-of-project, KUSCCO will have attained basic technical self-sufficiency in the management of its on-going operations. This will include:

- Integrated KUSCCO-society accounting operating and control systems.
- Trained staff capable of performing routine maintenance functions with normal supervision and control.
- Meeting minimum, planned operating targets and service quality control standards.

Staff capable of assessing the economic feasibility of new services and defining the technical and financial resources required for their development and implementation.

The ultimate measure of KUSCCO's success in attaining the projected level of technical self-sufficiency will be its ability to generate and manage sufficient earned income to support its service operations.

5.2 FINANCIAL SELF-SUFFICIENCY:

The basic operational objective of the proposed project is improvement in KUSCCO's financial management leading to increased earned income in the short term. Specifically, the project has been designed to minimize additions to cost (particularly of fixed overhead items) in order to assure that the requested USAID grant funds can be fully replaced by other KUSCCO income within two years of the start of the project. At the same time, incentives have been built into the programme to encourage member societies to take a more active role in the funding and capitalisation of KUSCCO. Provided with a sound capital base and more qualified technical management, KUSCCO should be able to respond more effectively to the service needs of its member societies.

KUSCCO'S PROPOSED FINANCIAL PLAN FOR 1980 - 1982

Three key considerations underlie the plan:

- Estimation of future earned income based on reasonable expectations rather than as a means for justifying large, grant supported cost increases. In all cases current trends have been used as the basic estimators, with predicted increases due to project implementation assumed to be moderate.

- Minimization of increases in overhead costs to provide management with maximum flexibility to respond to changing economic and market conditions. Variable cost-item amounts have been budgeted at levels which will assure that the limited member of new staff will have the necessary complementary resources to achieve maximum productivity.

However, should revenue increases turn out to be less than expected, these costs may be reduced without destroying KUSCCO's structural integrity.

- Encouragement of KUSCCO's initiative to provide financial incentives to member societies for the capitalization of the Union. Given KUSCCO's critical financial position, a sound capital base must be established as rapidly as possible if institutional development and long term stability are to be achieved. The project's key role in this process is to assist KUSCCO to eliminate its recurring deficits.

As will be noted in the KUSCCO Financial Plan for 1980 - 1982, shortfalls between total income and operating expenditure are planned during both financial years of the project. Unlike KUSCCO's previous operating deficits, these will be planned, monitored and controlled, to assure that net expenditures do not exceed the amount of grant financing. As an institutional incentive for improved operating efficiency, it is proposed that any savings obtained through reduction of the expected deficit be capitalised by KUSCCO in its statutory reserve, provided that project objectives have been met or exceeded.

It is highly probable that KUSCCO will successfully replace the proposed USAID budget support with internally generated income by the end of 1981. This is due to the project's very limited objectives. While financial stabilisation is urgently needed by KUSCCO now, the attainment of complete financial self-sufficiency will be a longer term process. WOCCU will continue to assist KUSCCO's resource mobilisation efforts to assure that this goal is achieved.

The remainder of this section outlines the assumptions and estimating procedures used in preparing KUSCCO's financial plan. The budget estimates of both income and expenditure are keyed on project start-up at the beginning of the second quarter of calendar year 1980.

5.2.1. INCOME:

- DUES: collections are estimated to be increased by 10% over the current trend during 1980 due to streamlining of the calculation, funds transfer and collections monitoring systems. Increases of 20% in the second year and 30% in the third are reasonable, given the growth of society income and total membership. It is currently estimated that dues collected are only 48% of the amount potentially receivable; the projected increases would raise the rate to 54% in 1980, 61% in 1981 and 68% by 1982. As of September, 1979, only 174 member societies were paying dues, so the potential for expansion is considerable. By 1982, the total amount of dues collectible from member societies should exceed shs.930,000.

TABLE NO. C-9 - DUES ESTIMATION (K.SH.000s):

	1979:	1980:	1981:	1982:
Current trend	301.7	363.1	424.4	485.8
Project impact		+ 10%	+ 20%	+ 30%
Budgeted amount	320.0	399.[illegible]	509.3	631.5
Estimated amount collectible	628.5	735.7	837.1	932.4
Collection rate	48%	54%	61%	68%

Increase in collection rate from 1979 to 1982 is 42%.

- SERVICE CHARGES:

Income from the centralised book-keeping centres should become KUSCCO's largest revenue source during the next three years, due to increases in the programme's total enrollment, improved employee productivity and revised pricing. A 10% increase over the current trend is predicted for 1980 without change in the price structure. This will be achieved in part by increasing the effective usage of the accounting machines used by KUSCCO in Mombasa and Nairobi and by increasing the productivity of the manual book-keepers. Their overall average production is currently around 1,100 accounts per book-keeper per month, whereas the modal production per book-keeper is between 1,500 and 1,600. A general productivity gain of 40% per year for the first two years is probable if appropriate workflow and supervisory systems are implemented, in both the manual and mechanized centres. It is estimated that the posting machines are being operated at about 30% capacity, due to lack o specialisation of functions in the posting process and high employee turn-over.

The market potential for the book-keeping service is sufficient to absorb the expected increases in capacity. KUSCCO now has approximately 170 societies enrolled with a total membership of about 40,000. An additional 152 societies with over 30,000 members are eligible to join when KUSCCO is able to serve them. It is estimated that a total enrolment of 71,000 can be achieved by the end of 1981.

TABLE NO. C-10 . BOOK-KEEPING SERVICE

POTENTIAL MARKET:

Thousands of members, 1978 Ministry data:

	CURRENT		POTENTIAL		TOTAL	
PROVINCE	Societies	Members	Societies	Members	Societies	Members
Nairobi	40	7,021	86	18,404	255	25,400
Coast	57	7,746	23	4,324	80	12,000
Rift Valley	36	9,968	5	1,040	41	11,000
Central	11	5,743	13	3,042	24	8,700
Nyanza	10	3,902	11	2,574	21	6,500
Western	8	3,344	8	1,560	16	4,900
Eastern	7	3,150	6	1,404	13	4,600
	169	40,874	152	32,348	450	73,100

The focus during 1980 will be on systems development and employee training; the average number of members served is not expected to exceed 43,500. During 1981 the average number of accounts should reach 55,400. A new pricing and billing procedure is expected to be implemented at the start of 1980. Societies will be charged on a member per month basis. The financial plan amounts are based on a price of two shillings per member per month, with collection rates estimated at 60% in 1981 and 80% in 1982. Currently 72% of enrolled societies are making service payments. Two shillings per account per month is quoted as the prevailing price for this type of bookkeeping. KUSCCO should have a market advantage due to small society loyalty and the ability to provide by-product reports and ancillary services.

TABLE NO. C-11 SERVICE CHARGE ESTIMATION

	1979	1980	1981	1982
Capacity				
No. bookkeepers	37	33	33	33
Average No. of accounts per bookkeeper per month	1,100	1,540	2,	2,260
Productivity increase	-	40%	40%	5%
No. of member accounts serviced by end-of-year	40,700	50,820	71,148	74,580
Average No. of accounts serviced per month during year	30,350	43,581	54,440	66,240
Billing				
Rate*	20%GI	20%GI	Sh 2/a/m	Sh 2/a/m
Current trend	287,299	356,932	426,566	496,200
Project Impact	-	+10%	+87%	+156%
Budgeted Amount	720,000	392,625	798,336	1,271,808
Estimated amount collectible	N/A	N/A	1,330,560	1,589,760
Collection rate	—	—	60%	80%

* GI is gross income;
Sh 2/a/m is two shillings per account per month.

- Risk Management

Commissions are estimated at current trend increases only, due to uncertainties about the continued participation of some of the larger societies and of those which are in arrears in premium payments. Only 170 of 250 societies covered are reported to be making premium payments. Nevertheless, the total number of societies covered and the amount of premiums collected have grown steadily. The expressed intention of KUSCCO to pay dividends on net premiums may counterbalance resistance to full collection rates. In the plan, commission income on estimated premiums is set at 95% of the nominal 6% rate.

TABLE NO. C-12 . RISK MANAGEMENT
COMMISSION ESTIMATION
(KSh.000)

	1979	1980	1981	1982
Premiums collected, current trend	2,039	2,668	3,318	3,968
Project Impact : No change in trend estimated				
Budgeted commissions	60.0	154.7	192.4	230.1
Estimated amount collectible	123.4	160.1	199.1	238.1
Collection rate	206%	95%	95%	95%

* Commissions are charged as 6% of premiums collected.

- Stationery Sales

Net income from this department is estimated at the current trend of gross sales. The mark-up is 25% of the cost price. No project impact on the trend has been estimated.

TABLE NO. C-13 STATIONERY SALES ESTIMATION

	1979	1980	1981	1982
Current trend Gross Sales	143,448	224,184	279,533	334,877
Margin	35,862	44,838	55,907	66,975

Project Impact : No change in trend is estimated; 1979 sales are likely to be about KSh.179,300.

- Central Finance

Income has been estimated on the basis of a gross spread of 4% earned by KUSCCO on the investment of proceeds from the sale of shares to member societies. Given the relatively liquid position of many societies, it is probable that the project objective of one million shillings worth of shares purchased by societies

by the end of 1981 can be achieved.

A possible dividend rate of 6% and a nominal earnings rate of 10% have been used as estimators. Share sales could begin during the third quarter of 1980 at an initial rate of 100,000 shillings per quarter, increasing to Sh 150,000 in 1981. The liquidity impact on most societies would be minimal, averaging about Sh 2,111 each.

Due to one quarter lags involved in receiving, handling and reinvesting the funds in such instruments as Co-operative Bank shares, and the dilution of its earnings by shares already issued, KUSCCO would probably experience slight losses in 1980 and 1981. By 1982, however, the total amount of invested proceeds would, at the cited spread, produce a small positive margin for the union.

TABLE NO. C-14 CENTRAL FINANCE ESTIMATION

KSH.000.)

	1980	1981	1982
Increase in shares (equal quarterly instalments)	200	600	600
Year-end balance	400	1,000	1,600
Amount invested during year (equal quarterly amounts)	100	550	600
Year-end balance of investments	100	650	1,250
Income, at nominal 10% rate	2.5	42.5	102.5
Dividends paid, at 6% rate	8	46.5	82.5
Budgeted surplus (Deficit)	(5.5)	(4.0)	20

The value of such a scheme lies in the vital importance of establishing a profitable mechanism for societies to invest in their union, even at the cost of small initial losses for KUSCCO. It would also permit staff to gain

valuable experience in intermediate finance. Successful operation of the scheme by KUSCCO would represent a milestone in regaining society confidence in its leadership role and technical capabilities. This would be the major long term accomplishment of the proposed project in assisting the development of Kenya's co-operative savings and credit movement.

5.2.2. Costs :

Expenses have been budgeted at the minimum possible levels consistent with achievement of the project's objectives. While increasing salaries is seen as a necessary condition for reducing staff turn-over, its impact on total overhead cost has been minimized by decreasing the number of employees in other areas. While this is unfortunate in terms of employment, it is necessary if KUSCCO is to be able to both balance its budget and provide the high quality services and effective leadership which its member societies need and demand.

Total operating costs are scheduled to increase about 18% in 1980 and 22% in 1981, then leveling off to a 4% rise in 1982 as KUSCCO begins to achieve economies of scale and

becomes able to function with less supervision and greater productivity.

Training costs will decline as a stock of instructional materials is built up and formal training activities are replaced by on-the-job training. External training costs may continue to be funded on a reimbursement basis by KAF after 1980. This would, of course, have no net income/expenditure impact on KUSCCO's budget. By 1982 the quality of KUSCCO's training, especially in technical areas, should permit charging societies a cost-based fee for their participation.

Office expenses increase only slightly during the period. Travel costs will be considerable and rising during the first two years, stabilizing at 10% in 1982. Enhanced mobility will permit KUSCCO's new headquarters staff to provide necessary training, support and supervision to the branch offices and bookkeeping centers.

Financial costs include 6% interest to be paid on outstanding KUSCCO borrowings of society funds, estimated to reach KSh. 1.7 million by the end of 1979. The same rate is to be paid on interlending funds of KSh.150,000 currently outstanding.

A 9% rate is paid on a KSh 120,000 Co-operative Bank loan. Total financial costs are not expected to decline during the 1980-82 period, as no surplus account funds will be available for capital repayments. Beginning in 1983, expected surpluses should be used to refund this debt and thereby reduce these financial carrying costs.

ACOSCA dues are estimated at current levels. It is expected that in 1982 or 1983, such dues will be passed through directly to member societies. This should both decrease KUSCCO costs and increase the total amount of dues collected and paid to ACOSCA. The impact on most societies would be marginal, since the ACOSCA dues rate is only 0.0008 per shilling of total savings.

6. Cost Benefit Relationships

Given the size of the Kenyan Co-operative savings and credit movement, the per capita cost of the project is quite low. This is because initial organizational investments in creating KUSCCO have already been made by its member societies, ACOSCA, WOCCU, KAF, and other organisations. The structure is in place, a nucleus of staff and volunteers exists, growth trends have been established, and a history of service has been recorded. The project will build on this institutional foundation, enabling KUSCCO to achieve not only growth but development. The following cost/benefit figures are based on the project budgets in section E and the forecast for total membership by the end of 1982, at current trends. Costs are defined as total contributions requested from USAID.

- Total donor cost per society member benefited by the project is $1.05 (total USAID contribution of $413,026 divided by total membership forecasted for 1982 at 395,000.)
- Cost per family member by end project is $0.17 (USAID contribution of $413,026 divided by estimated total family members served by societies in 1982 of 2,370,000).

D. DESIGN AND IMPLEMENTATION

1. Design

This project is designed to improve the management capabilities of KUSCCO, by implementing appropriate systems, obtaining qualified staff, imposing financial controls, upgrading current services, and examining the feasibility of providing new services. A second project, focusing on the design and implementation of new services, is also envisioned. However, this two-year project stands by itself. The management capabilities developed by the project will allow KUSCCO to adequately develop the new services, although without the Phase II technical assistance, it will likely be more difficult and take longer.

The proposed design strategy reflects the concurrence reached through lengthy discussions between the Study Team and the KUSCCO Management Committee. In addition, discussions were held with the Kenya/Nordic Cooperative Development Programme to reach basic agreement on project focus and direction.

1.1. Cooperating Organizations

1.1.1. KUSCCO

KUSCCO will have the primary responsibility for project implementation. It will provide the staff, organizational resources, and a significant proportion of project costs. Current senior staff include: General Manager, Education Officer, Risk Management Officer, Accountant, and 6 Branch Managers. The project will upgrade current staff to required levels, or if necessary replace incumbents with adequately qualified personnel. In addition, KUSCCO will provide staff for new positions, including: Field Services Manager, Chief Accountant. Bookkeeping Centre coordinator, and Supplies Officer / Cashier. For all positions, KUSCCO is committed to an ongoing program of staff development to ensure continuing improvement of its internal management and the quality of services to its affiliates.

1.1.2. ACOSCA

ACOSCA is the major resource available to the savings and credit society movement in Africa. Its staff include professionals with technical expertise in central

finance, risk management, and training and education. Technical assistance will be provided to KUSCCO in each of these areas to conduct required feasibility studies, design and implement new systems, and upgrade staff capabilities. ACOSCA will also play a central role in project monitoring and evaluation.

1.1.3. WOCCU Global Projects

A management advisor will be recruited and selected jointly by KUSCCO, ACOSCA, and Global Projects. The advisor will provide technical expertise to KUSCCO in :

1) the design and implementation of the identified management systems,
2) design and implementation of financial management controls,
3) systems development for current services,
4) feasibility design and analysis related to new services, and
5) design and implementation of KUSCCO staff development programs.

WOCCU Global Projects will also provide technical and administrative support to the project, and short-term consultants as required. It will additionally have major responsibility for project monitoring and evaluation, and reporting to donor agencies.

1.1.4. Ministry of Cooperative Development

The Ministry will continue to support the movement with both technical and financial resources. MCD cooperative officers and auditors currently provide supervision and audit services to a large number of societies. In addition, the Ministry also compiles useful statistical information on the movement. Ministry policies have been most effective in stimulating movement growth while at the same time imposing necessary operational controls.

Its present focus is an developing a standard society accounting system, a most urgent need for all KUSCCO afiliates. MCD and KUSCCO coordination on this and similar efforts is a vital element for overall project success.

1.1.5. Kenya / Nordic Cooperative Development Programme

The Nordic Programme is scheduled to provide 4 resident advisors to KUSCCO for a period of three years beginning June 1980. Three advisors will be posted to the bookkeeping centres to assist KUSCCO in:

1. development of organizational and administrative procedures, performance standards and job duties and responsibilities,
2. development of improved accounting systems, including mechanized accounting, and
3. training of bookkeeping centre staff. The fourth advisor will provide technical expertise to KUSCCO senior management to:

1. prepare and implement a plan to improve the performance of the bookkeeping centres,
2. develop and implement accounting, recording, and control systems and,
3. develop and implement a training program for staff of KUSCCO and primary societies.

In addition the Nordic Programme will provide the following financial support to KUSCCO for the three year period:

Center staff	- KSh 800,000
Equipment	KSh 350,000
Printing/staff training	KSh 150,000
	1,300,000

Discussions held with the Nordic Programme have indicated that the focus of their assistance will mesh nicely with the assistance requested in this proposal. The Nordic Programme is principally designed to upgrade the bookkeeping centre operations, currently the primary service of KUSCCO and one in dire need of assistance. The proposal project will, at the same time, improve KUSCCO's internal management capabilities.

1.1.6. Konrad Adenauer Foundation

The KAF will continue to provide financial support to KUSCCO each year through 1982 according to the following schedule:

1980	KSh	380,000
1981		280,000
1982		212,000
Total	KSh	872,000

KAF funding is principally used to support KUSCCO's training program for primary society leadership and staff. Continuation of this support is necessary for KUSCCO to provide the essential member education services. The proposed project will assist KUSCCO staff to improve and diversify current training practices.

..1.7. African American Labor Center

The AALC has provided support to KUSCCO in various forms over the last 5 years. Present AALC development focus is on promotion of rural societies. A workshop has been proposed for 1980 composed of union officials, government ministries, and employers to develop a comprehensive strategy for rural

development. Based on the outcomes of that workshop, AALC would possibly be in a position to provide further assistance to KUSCCO, most likely in terms of salary support for field staff working with rural societies and/or for member education programs. Initial efforts would focus on promotion of societies among salaried employees of the large plantations and could possibly begin by late 1980. This effort, if implemented, would be fully supported by AALC; none of the projects or KUSCCO's own resources would be directed to this activity, due to the severe financial constraints currently facing KUSCCO.

1.1.8 USAID

It is proposed that USAID provide funding to support :

1. the costs of technical assistance to be provided to KUSCCO,
2. a portion of KUSCCO's operating and administrative costs, and
3. commodity costs

It is also expected that USAID will monitor project implementation, provide technical backstopping, and participate in the project evaluation.

1.2. Design Strategy

In Section A-2, the project objectives are detailed.

As shown the objectives are classified into four major areas:

General Management
Financial management
Staffing,
and Services,

reflecting KUSCCO's major areas of weakness.

The basic strategy to be used to achieve each principal Objective is described below:

1. General Management Systems

- Review and analyze current systems, identify system deficiences.
- Identify system outcome desired.
- Review model systems used in Kenya or elsewhere for application to KUSCCO.
- Define functions and tasks required to be performed.
- Establish procedures to perform functions and tasks at minimally acceptable levels.

Prepare description of system operation ; review with KUSCCO management committee and relevant staff.

- Finalize system description
- Train staff
- Implement
- Monitor. Revise as necessary.

2. <u>Financial Management Systems</u>

- Define and adopt (by KUSCCO Management Committee required financial management policies including:
- Standards for budgeting and control
- Elimination of operating defici
- Control of KUSCCO liabilities
- Cost-recovery service pricing
- Required format, content, and frequency of operating and financial reports.
- Fund management control
- Internal and external auditing

Establish Financial Systems Task Force of KUSCCO staff and advisors.

Identify existing problems and needs.

Develop systems; to include

- Guidelines
- Flow charts
- Operating standards and procedural instructions.
- Forms design
- Documentation and record-keeping requirements

- Review system with KUSCCO Management Committee and relevant staff.
- Finalize system
- Train staff
- Implement
- Monitor. Revise as necessary.

3. <u>Staffing</u>

3.1. Recruitment/new staff

- Implement proposed salary structure for cooperative organizations (as contained in KUSCCO Financial Plan).

- Prepare performance-based job descriptions.
- Identify potential sources of candidates.
- Advertise position. Screen responses.
- Identify candidates for personal interview.
- Interview candidates, Select.
- Post. Initiate orientation.
- Provide training as required.

3.2. Upgrading-Replacement/Incumbents

- Prepare performance-based job requirements for each position.
- Assess incumbent capabilities to meet requirements.
- If trainable, identify training required.
- Implement training. Re-assess. Retain or dismiss.
- If not trainable, dismiss. Replace with qualified staff following established recruitment and selection procedures.
- Appraise employee performance semi-annually.

4. Services

4.1. Systems Design Implementation.

- Review and analyze current system, identify deficiences.
- Identify system outcomes designed
- Review model systems used in Kenya or elsewhere for application to KUSCCO.

- Define functions and tasks required to be performed.
- Establish procedures to perform functions an tasks at minimally acceptable levels.
- Prepare description of system operation; review with relevant staff.
- Finalize system description
- Train staff
- Implement
- Monitor. Revise as required.

4.2. Feasibility Studies

- Identify service priorities of member societies.
- Design feasibility study, to include means to:
  - Measure demand
  - Quality /Quantity of service required.
  - Cost factors
  - Income potential
- Establish criteria to determine feasibility.

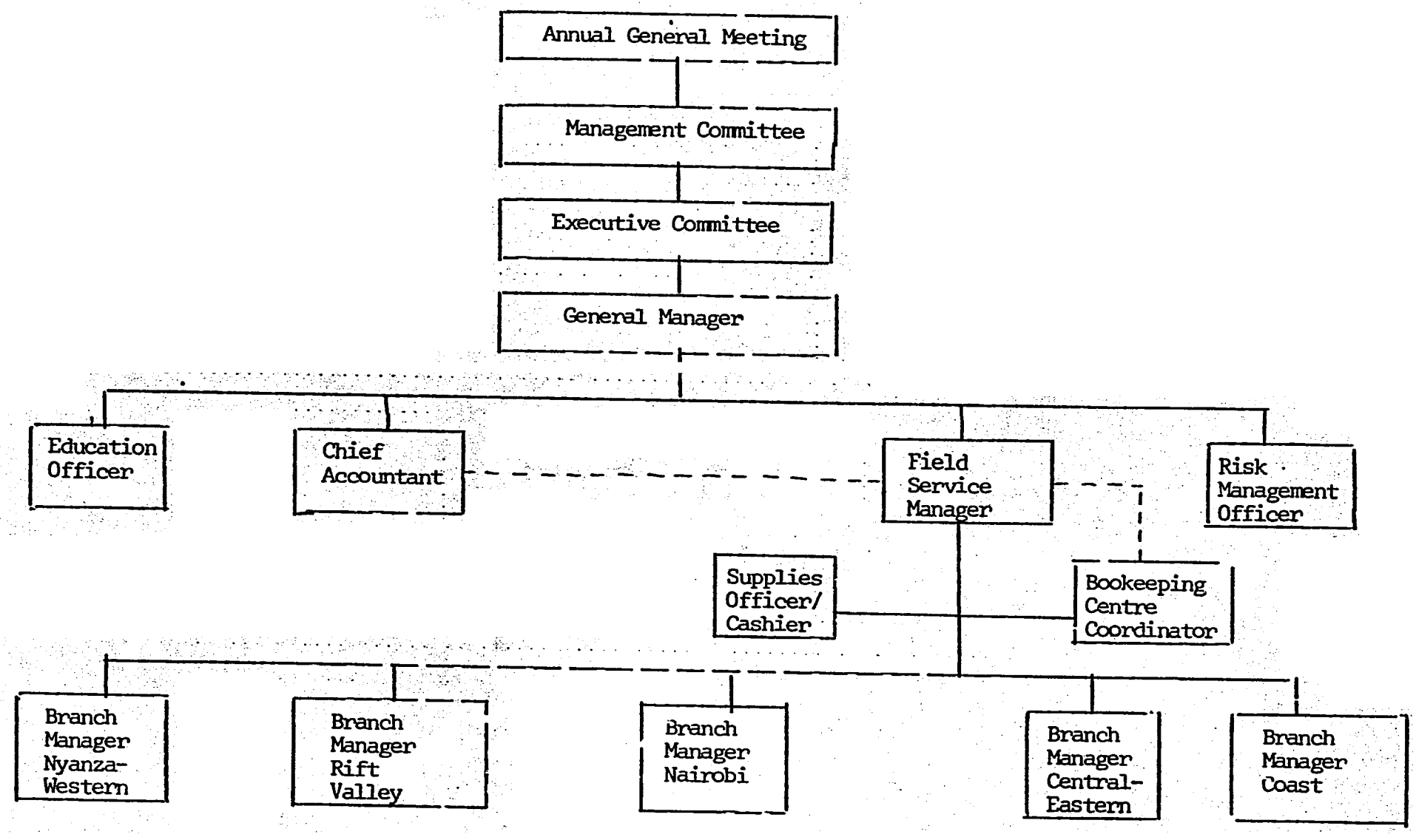
- Conduct study among sample of member societies.
- Analyze results. Determine feasibility of KUSCCO modifying/developing service.
- Identify various options/means to provide service.
- Review study findings, and options with KUSCCO Management Committee.
- Make decision to provide / not provide service.

2. Implementation

2.1. Organizational Structure

The project implementing institution will be KUSCCO; it will have primary responsibility to ensure that the stated project objectives are achieved. In order to facilitate effective implementation, a new organizational structure has been proposed, incorporating the new positions resulting from this project. One of the problems affecting KUSCCO's operation has been the lack of an intermediate management structure; as a result nearly all matters must be handled directly by the General Manager. Current weaknesses in KUSCCO staff have precluded effective delegation of authority and responsibility. The proposed structure includes senior level staff to whom specific areas of operational responsibility can be assigned, allowing the General Manager to perform his legitimate management functions.

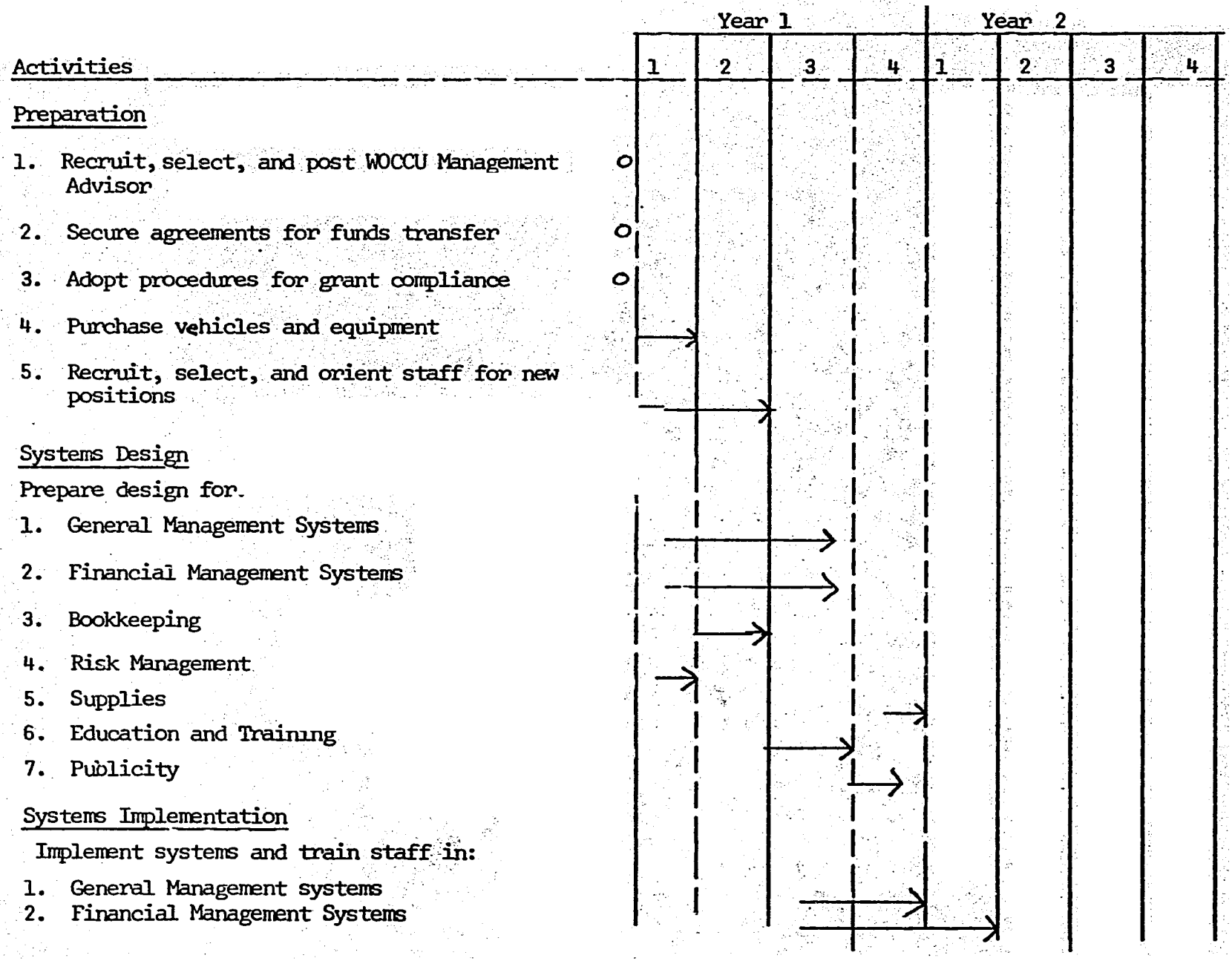
PROPOSED KUSCCO ORGANIZATION CHART

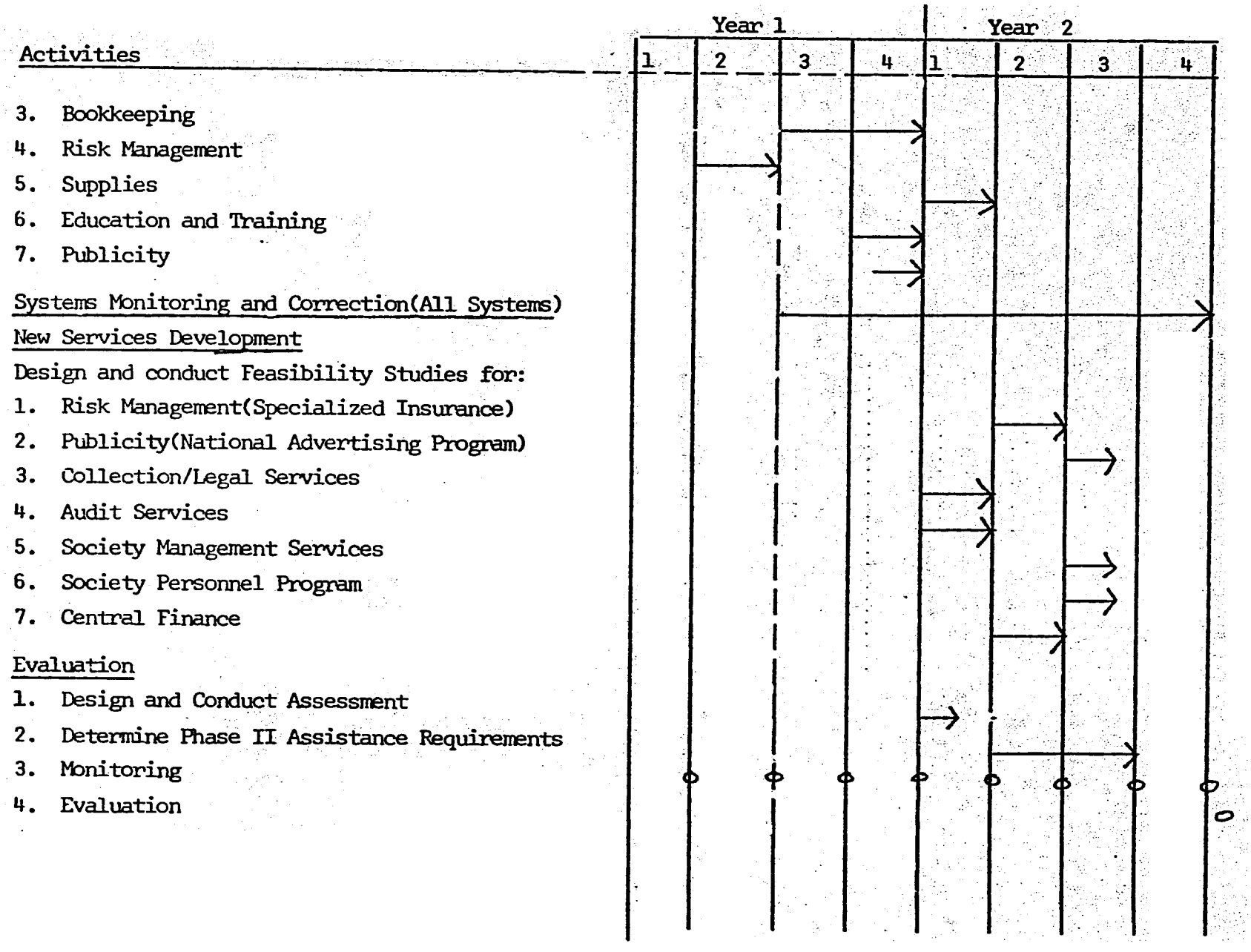


2.2. Implementation Schedule

The project is presently envisioned to be implemented according to the schedule shown in Table D-1. Alternative schedules may be developed by the cooperating organizations as the project unfolds; this would not affect ultimate achievement of the stated objectives. USAID will be appraised of proposed changes as they develop.

TABLE D-1 . IMPLEMENTATION SCHEDULE




Year 1
Year 2
Activities
1
2
3
4
1
2
3
4
3. Bookkeeping
4. Risk Management
5. Supplies
6. Education and Training
7. Publicity
Systems Monitoring and Correction(All Systems)
New Services Development
Design and conduct Feasibility Studies for:
1. Risk Management(Specialized Insurance)
2. Publicity(National Advertising Program)
3. Collection/Legal Services
4. Audit Services
5. Society Management Services
6. Society Personnel Program
7. Central Finance
Evaluation
1. Design and Conduct Assessment
2. Determine Phase II Assistance Requirements
3. Monitoring
4. Evaluation

2.3. Project Monitoring

A project coordinating committee, composed of a representative of each cooperating organization will be formed to monitor project progress. Meetings will be held quarterly, or more frequently as required, to assess KUSCCO's operational and financial performance against this project design and any planning documents that may be subsequently prepared by KUSCCO and the Advisors. Where problems are identified that inhibit achievement of stated objectives, or that imply modification of project design, a detailed analysis and recommended actions will be prepared, with, if necessary, the assistance of WOCCU Global projects, and submitted to the KUSCCO Managerment Committee and USAID. Complete monitoring reports, using Global Projects reporting-by-objectives format will be submitted to USAID and other cooperating organizations quarterly.

2.4. Disbursement and Control Procedures

The Global Projects Office is funded in part by an AID Specific Support Grant. The Credit Union National Association (CUNA) has maintained contractual relationships with USAID since 1963 to provide technical assistance to credit union movements in the developing world. Both CUNA and WOCCU will provide administrative and technical backstopping to this project.

2.4.1. Disbursements

Projects funds will be disbursed in the following manner:

1. USAID will provide project funding to CUNA per the grant agreement.

2. CUNA will provide funds to KUSCCO to support projected operational costs as detailed in the Financial Plan and the technical assistance costs.

3. Amounts advanced and reimbursed will be made by CUNA on the basis of audited quarterly financial statements submitted by KUSCCO.

2.4.2 Controls

The Project Coordinating Committee will review the quarterly and final audited statements submitted by KUSCCO as the basis for reimbursements. Assuring compliance with the terms and conditions of the grant and the financial plan will be the responsibility of the KUSCCO Executive and Management Committees. Variance of up to 15% in line items will be permitted at management discretion as long as total expenditure targets are not exceeded. Approval by the Project Coordinating Committee and WOCCU advisor will be required for any variance above 15%. In no case may total expenditure exceed the budgeted amounts unless balanced by increased income. Grant compliance reports will be submitted by KUSCCO to CUNA

In addition, audits performed on CUNA, as a U.S. government grantee, are available to USAID to ensure proper use of project funds.

2.5 Requested Waivers

2.5.1. Procurement

A waiver is requested to allow the purchase of two right hand-drive vehicles. Specific models will be determined subsequently, based upon estimated usage and cost considerations.

A waiver is also requested to allow the purchase of all other commodities not available in the U.S. or Kenya at reasonable cost from third country suppliers.

2.5.2. Travel

A blanket waiver is requested to allow WOCCU staff to travel to the project for consultations, technical assistance, and evaluation purposes as required. The USAID/Kenya mission will be provided with appropriate advance notice of each visit.

EVALUATION AND MEASUREMENT

3.1. Evaluation Process

The system developed and utilized by WOCCU/Global Projects for field projects includes three components:

monitoring, assessment, and evaluation. Project monitoring, described above, provides information to continually chart progress and promptly identify and resolve problems.

Project assessments are carried out annually or bi-annually as a joint undertaking of all project participants, intended to measure success in achieving interim objectives, and to identify modifications required in either the project design or implementation plan. It is recommended that an assessment be carried out in the fourth quarter of year 1 involving, at a minimum, KUSCCO, ACOSCA, WOCCU/Global Projects and USAID. The assessment would be based upon this project design and planning documents subsequently developed. In addition, the assessment team would attempt to identify the need for, and feasibility of, implementing a Phase II project.

Project evaluations are conducted upon completion of the project to measure success in achieving project purposes and outputs, identify factors related to their achievement

or non-achievement, and identify implications for the design and implementation of subsequent projects. It is recommended that an evaluation be completed at the end of year 2, involving the assessment participants, plus, if deemed useful, an external evaluator, jointly selected by the cooperating organizations. The project will be evaluated against the qualitative and quantitative changes expected in KUSCCO performance as described below.

A final note relates to the basic purpose of evaluations, from the perspective of WOCCU/Global Projects. The principal beneficiary should be the institution evaluated. The evaluation should have an operational orientation, serving as a feed-back mechanism to lead to better organizational planning and implementation. Accordingly, most of the information required should be available from the institution's established information and reporting system. Evaluations that have primarily a research orientation are usually costly, particularly to the institution since it requires gathering data that would otherwise not be collected, and of little operational utility.

Savings and credit societies have a well-defined purpose, providing savings and credit services to their members. The objectives of this and any other credit union development project is to enhance the movement's ability to realize this purpose. Attempts to quantify project impacts on specific target groups are interesting, but often futile. The more significant measure is whether or not a self sufficient cooperative financial system has been established whose services are being used by an increasing portion of the population.

3.2. Measurement / Logical Framework Matrix

The developmental changes resulting from the project are summarized in the following logical framework matrix. Additional targets and indicators may be developed by the cooperating organizations as the project proceeds through implementation.

LOGICAL FRAMEWORK MATRIX

1. Inputs

A. Narrative Summary

1. Technical assistance in the design and implementation of management systems, financial systems, and service delivery systems, and design and analysis of new

service feasibility studies.

2. Four senior level staff positions added to KUSCCO.

3. On-the-job training and skills development programs for KUSCCO staff.

4. Financial assistance to support a portion of KUSCCO operating costs, technical assistance costs, and cost of required commodities.

B. <u>Implementation Target</u>

1. WOCCU/Global Projects Management Advisor recruited and posted by start-of-project (SOP)

2. Staff recruited and selected for four senior positions by Year 1/ quarter 2.

3. Strategy for specified number and type of training programs prepared by Year 1/ quarter 2. Implementation continuous

4. USAID funding received per project budget.

C. <u>Means of Varification</u>

1. Monitoring reports

2. Audit reports of KUSCCO, CUNA

D. Important Assumptions

1. Qualified management advisor obtainable by SOP.

2. Qualified candidates for senior staff positions obtainable at proposed salary level.

3. USAID project approval received, funds authorized, grant agreement signed by 1 March 1980.

II. Outputs

A. Narrative Summary

1. All required management and financial systems designed and implemented.

2. Trained KUSCCO management and staff

3. New services feasibility determined.

B. Magnitude of Outputs

1. Management and financial systems : Planning, Accounting, Budgeting, Internal Auditing, Personnel, Office management, Information and Reporting.

2. Staff: All staff capable of meeting objectives and requirements of position.

3. New Service Feasibility Studies: Legal Service, Audit, Management Services, Central Finance.

C. Means of Verification

1. Monitoring reports.
2. Notes to audit reports.
3. Minutes of Executive and Management Committee meetings.

D. Assumptions

1. All inputs provided according to implementation schedule.
2. Appropriate controls and policies adopted and implemented by KUSCCO management committee.

III Project Purpose

A. Narrative Summary

To improve the institutional capabilities of KUSCCO to manage its internal operations, provide existing services to member societies, develop a sound capital base, and operate on a balanced budget basis.

B. End of Project Status

1. Management:

KUSCCO functioning in a planned operations environment, meeting internal and external output targets, and requiring minimal external technical assistance for the performance of day-to-day management tasks.

2. Finance:

—Projected earned income trend achieved

—No unplanned operating deficits

—Share capital/KSh 1 million

3. Services:

- Bookkeeping:

  —Number of members served 71,000

  —90% of societies up-to-date (enrolled 6 mos)

- Risk Management

  —75% of societies meeting participation standards

  —400 societies in program

- Supplies

  —80% of societies using KUSCCO supplies

- Education and training

  (Indicators to be determined during operational planning)

- Publicity

  Indicators to be determined during operational planning)

x 156

C. Means of Verification

1. KUSCCO annual financial and activities reports.
2. Project evaluation report.

D. Important Assumptions

1. New staff hired will be fully qualified and motivated sufficiently by potential KUSCCO career oppotunities and proposed levels of remuneration.
2. KUSCCO Executive and Management Committees will exercise effective supervision and control of staff operations and reporting.
3. Member societies will perceive and respond to improved KUSCCO management and services delivery.
4. Ministry of Co-operative Development will support and encourage society participation in KUSCCO services and full payment of charges due.

IV. Program or Sector Goal

A. Narrative Summary

The program goal is to increase the number of societies whose institutional, financial and other development needs are being met by KUSCCO, leading to expanded and improved financial and development services provided by affiliated societies to their individual membership.

B. Measures of Goal Achievement

1. Significant increases in the number of societies participating in KUSCCO services.
2. Member societies financially supporting most KUSCCO operations.
3. Increased affiliation rate of societies to KUSCCO.
4. Expanded savings, credit, and related services provided by affiliated societies to their membership.

C. Means of Verification

1. Project assessment and evaluation reports.
2. KUSCCO reports, financial statements.
3. Savings and credit society reports on total membership served, savings mobilized, lending activity by sectors, and related community development activities.

Qualitative and quantitative objectives to be achieved in these areas will be determined during project planning and will be updated as necessary during implementation. Appropriate standards against which project goal achievement can be evaluated will be determined after initial baseline and market studies are concluded. These will identify the specific societies and service markets which KUSCCO should develop in order to achieve the project goals on a cost effective basis.

D. Important Assumptions

1. General economic conditions will permit continued economic progress and operation of co-operative savings and credit societies.

2. Constructive government and co-operative sector relations will continue.

3. Development in other sectors, including agriculture, services, small business, construction, etc., will permit absorption of investment funds mobilized from local savings by societies.

E. Financial Plan

The financial plan of the KUSCCO Management Development Project is detailed in the following summary budgets and working papers.

USAID is requested to provide gap financing of KUSCCO's planned 1980 and 1981 operating deficits. This will be a contribution to the total operating budget of KUSCCO, rather than funding for specific line-items. Thus KUSCCO will be responsible for reporting on the total project and maintaining all expenditure items within the financial plan guidelines; integrated financial management of all revenue and cost items will be greatly facilitated. USAID contributions represent 26% of total KUSCCO expenditure in 1980, declining to 23% in 1981.

Note: K.A.F. has indicated that its contributions may be spread throughout the 1980-1982 period. Accordingly, KUSCCO's deficits could be increased in 1980 and decreased in 1981. The total amount of requested USAID financing would not be affected, though its scheduling during the eight quarters of the project will require subsequent adjustment.

Budget No 1

USAID Contribution Summary

(US Dollars)

Cost Category	1980	1981	1982	Total
KUSCCO Administration and operations Budget No. 2	76,442	80,915	-o-	157,357
Commodities Budget No. 3	36,314	-o-	-o-	36,314
Technical Assistance Budget No. 4	78,905	89,651	50,799	219,355
Total	191,661	170,566	50,799	413,026

Budget No. 2

KUSCCO FINANCIAL PLAN 1980-1982
(KENYA SHILLINGS)

INCOM	1980		1981		1982	
Earned Income		996,073		1,561,990		2,230,438
Dues	399,366		509,303		631,511	
Service charges	392,625		798,336		1,271,808	
Risk Management	154,744		192,444		230,144	
Stationery	44,838		55,907		66,975	
Central Finance	(5,500)		(4,000)		20,000	
Sundry	10,000		10,000		10,000	
Grants		503,040		350,000		350,000
KAF *	328,040		-		-	
NORDIC Project	175,000		350,000		350,000	
TOTAL PROJECTED INCOME :		1,499,113		1,911,990		2,580,438
EXPENDITURE		2,034,204		2,478,394		2,579,777
Personnel costs	1,118,043		1,441,298		1,484,534	
Travel	188,700		229,320		252,252	
Training	40,000		50,000		25,000	
Office Expenses	234,300		255,400		278,000	
Affiliation & Represent.	73,000		75,050		87,200	
Finance costs	121,000		121,000		121,000	
Other costs	259,161		306,326		331,791	
SURPLUS (DEFICIT)		(535,091)		(566,404)		661
USAID GRANT REQUESTED		535,091		566,404		-
US DOLLAR EQUIVALENT (KSh 7 to US$1.00)		76,442		80,915		-

Budget No. 2.1

KUSCCO BUDGET WORKING PAPERS 1980-1982

(KENYA SHILLINGS)

	1980	1981	1982
Personnel costs: Salary, Housing Allowance & NSSF	1,118,043	1,441,298	1,484,534
General Manager	84,642	96,618	99,517
Field Services Manager	49,410	67,344	69,364
Chief Accountant	49,410	67,344	69,364
Bookkeeping Coordinator	31,848	42,872	44,158
Risk Management Officer	41,244	53,678	55,288
Education Officer	41,244	53,678	55,288
Cashier/Supplies Officer	13,026	26,474	27,268
Personal Secretary	18,207	19,677	20,267
Copy Typist II	8,055	13,203	13,599
Receptionist Typist	8,055	13,203	13,599
Branch Managers:			
Nairobi	46,878	54,081	55,703
Coast; Rift Valley(2)	69,660	85,744	88,316
East/Central (1)	30,012	34,713	35,754
Nyanza/Western (1)	30,012	34,713	35,754
Bookkeepers:			
Senior (0/3)	19,539	78,789	81,153
Bookkeepers(8)	120,300	155,064	159,716
Juniors (25/22)	319,086	364,760	375,703
Copy Typist I (5)	58,383	82,900	85,387
Drivers (3/5)	50,820	66,015	67,995
Messengers (3)	21,100	22,824	23,509
Watchman	7,112	7,604	7,832

Budget No. 2.1

	1980	1981	1982
Travel	188,700	229,320	252,252
Per diem	64,200	87,120	95,832
Public Transportation	19,000	19,200	21,120
Vehicle Op. and Maintenance	81,000	96,000	105,600
Insurance	22,500	25,000	27,500
Licenses	2,000	2,000	2,200
Training	40,000	50,000	25,000
Materials	30,000	30,000	10,000
Programs	10,000	20,000	15,000
Office Expenses	234,300	255,400	278,000
Rent	156,000	172,000	190,000
Water & Elect.	3,800	4,200	4,600
Printing & Stationery	17,500	18,500	19,500
Post & Tel.	40,000	42,000	44,000
Repairs & Maint.	15,000	16,500	17,500
General	2,000	2,200	2,400

Budget No. 2.1

	1980		1981		1982	
Affiliation & Representation		73,000		75,050		87,200
ACOSCA dues & mtgs.	20,000		15,000		20,000	
KNFC dues	10,000		10,000		10,000	
Committee expenses						
Travel	10,000		11,000		12,100	
Sitting Allow.	8,000		8,800		9,600	
Publicity	20,000		25,000		30,000	
Entertainment	5,000		5,250		5,500	
Finance costs		121,000		121,000		121,000
Society borrowings	111,000		111,000		111,000	
Bank charges	10,000		10,000		10,000	
Other costs		259,161		306,326		331,791
Bookpg. mach.serv.	30,000		31,500		33,100	
Audit & Superv.	15,000		15,000		15,000	
Depreciation						
Vehicles	60,000		60,000		60,000	
Furn.&Equip.	16,000		18,000		20,000	
Bookpg.machines	96,000		128,000		144,000	
Workers insurance	22,161		28,826		29,691	
Contingency	20,000		25,000		30,000	
TOTALS		2,034,204		2,478,394		2,579,777

Budget No. 3

Commodities and Equipment Budget

Cost Category	K.shs.
1. Vehicles (2) @ 80,000	160,000
2. Filing Cabinets (10) @ 4,000	40,000
3. Typewriters (6) @ 4,000	24,000
4. Desk calculators (12) @ 600	7,200
5. Film Projector (1) @ 12,000	12,000
6. Desks (10) @ 800	8,000
7. Chairs (20) @ 150	3,000
	254,200
U.S. Dollars @ 7.00	36,314

Budget No. 4

Technical Assistance Budget
Summary

Cost Category	1980	1981	1982	Total
Personnel	34,284	50,629	13,474	98,017
Travel	19,500	2,600	20,000	42,100
Consultant	11,000	17,000	12,000	40,000
Other	14,121	19,792	5,325	39,238
	78,905	89,651	50,799	219,355

Budget No. 4.1

Technical Assistance Budget

Working Papers

	1980	1981	1982	Total
Cost Category				
Personnel				
Salary	19,239	27,448	7,342	54,029
Fringe Benefits	5,195	7,411	1,982	14,588
Allowances				
Housing	6,400	10,800	3,000	20,200
Education	3,450	4,600	1,150	9,200
	34,284	50,259	13,474	98,017
Travel				
Local				
Internal Transport	400	600	200	1,200
Per Diems	1,600	2,000	400	4,000
International				
Relocation (Travel, Temporary Lodging, Baggage)	17,500	____	19,400	36,900
	19,500	2,600	20,000	42,100

	1980	1981	1982	Total
Consultant				
Training, Consultation, Feasibility studies (ACOSCA)	6,000	12,000	2,000	20,000
Consultations (Global Projects)	5,000	5,000	5,000	15,000
Project Evaluation			5,000	5,000
	11,000	7,000	12,000	40,000
Other				
Supplies/Communications	1,500	2,000	500	4,000
Contingency	500	500	200	1,200
Indirect (overhead)	12,121	17,292	4,625	34,038
	14,121	19,792	5,325	39,238
Total	78,905	89,651	50,799	219,355

F. Conditions

1. Supportive Resources

As detailed in KUSCCO's financial plan, technical and financial resources are expected from a number of sources. The KAF has a continuing agreement with KUSCCO through 1982 to provide the level of resources indicated. The Kenya/Nordic Cooperative Development Programme has had a working relationship with the Ministry of Cooperative Development for more than a decade. Prior efforts were directed towards the establishment of agricultural marketing cooperatives. Having achieved relative success in that area, the Nordic Programme has now turned its attention to savings and credit societies. A project agreement for this effort has been formalized between the Nordic Programme and the GOK.

The Ministry of Cooperative Development, as part of its mandate, will continue to provide auditors and other trained personnel to supervise and control the activities of savings and credit societies. ACOSCA will continue to provide technical support to its member national associations, fulfilling its leadership role in the African savings and credit movement. The administrative and technical backstopping to be provided by WOCCU/Global Projects is funded from a separate AID Specific Support Grant.

The possible contribution of AALC has been briefly discussed but has not been included in project estimates.

The financial resources available to KUSCCO are based upon projections of the income trend line for the past five years. Income has shown a steady linear growth; for the duration of the project the most likely prospect is that this trend will continue with moderate upward modification.

2. Government of Kenya Approval

This project proposal is being submitted to the Ministry of Cooperative Development for review and approval. The KUSCCO Management Committee will coordinate the efforts to obtain any additional approvals and clearances required of the GOK. Since specific mention is made in the Kenya Development Plan 1979-1983 of the need to support and assist the development of KUSCCO, it is expected that GOK approval will be expeditiously obtained.