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**SESSIONAL PAPER NO. 4 OF 2002 ON NON-PERFORMING
GOVERNMENT DONOR CREDIT WITH THE CO-OPERATIVE BANK
OF KENYA**

1. The following information is laid before Parliament, in accordance with the requirements of the Government Financial regulations and procedures, for consideration and approval.
2. Since 1969, through the Co-operative Bank of Kenya, the Government, with the assistance of several donors funded 20 projects aimed at benefiting the co-operative movement. These funds were channeled through the Bank on concessionary terms. However out of all the twenty projects only the Second Coffee Improvement Programme is currently making payments promptly. Loans relating to all the other projects, amounting to Kshs.1, 066,304,657.30 as at 31st December 2000, which are outlined in Appendix 1, are considered irrecoverable.
3. The main reasons which contributed to the non-performance of the loans are as follows:
 - (a) Mismanagement of the societies and unions through which the funds were disbursed and especially giving loans to people who

were not members, overstocking the stores with dead stocks, officials and employees giving loans to themselves for purposes not related to the co-operative activities, lack of proper handing over between subsequent committees and abandonment of the co-operatives by the members;

- (b) Inability of the co-operatives to make payments on time, which adversely affected the farmers resource base and morale leading to the abandonment of the co-operatives;
 - (c) Poor record maintenance by co-operative unions and societies, thus making it difficult to trace individual borrowers; and
 - (d) The collapsing of most of the co-operatives which benefited from the loans.
4. The Cabinet has been briefed on these matters and noted the measures taken by the taskforce constituted to recover the debts, and the inability of these measures to yield positive results. The measures failed to provide positive results because of the following;-
- (a) Individuals identified as loanees denied liability on the grounds that they had already made payments to the Co-operative societies through deductions, which could not be proved due to lack of records;

- (b) Where societies were active the members denied liability on the grounds that they were not members when the funds were borrowed, and when pressure was applied to recover the funds members abandoned the co-operatives;
 - (c) Most of the societies did not own tangible assets and even where the societies had owned certain assets most of these assets had been vandalized or attached and sold by other creditors; and
 - (d) No tangible securities other than hypothecation of the stocks and farm produce had been obtained from the societies and unions.
5. The Cabinet also noted, with concern, that failure to recover these debts and the Bank's inability to make provisions for bad debts (being an agent) had left the Bank with overvalued assets, a matter, which has been of great concern to the Bank's auditors and the Central Bank.
6. The Cabinet agreed on the following actions in order to avoid further unnecessary costs in the administration and follow up of irrecoverable debts:-
- (a) The outstanding amount on all the non-performing Government Schemes be written off; and
 - (b) That any future lending through the Bank, which is not in line with the basic commercially accepted lending principles, be on agency

basis and on separate operation accounting basis.

7. The National Assembly is requested to note and approve the write off of the Kshs.1, 066,304,657.30 due from the Co-operative Bank to the Government as at 31st December 2000 and any additional interest accrued to date.

8. Once Parliamentary approval is granted the Government, jointly with the Co-operative Bank, Auditor General and the Coffee Board of Kenya will constitute a write off implementation committee which will ensure that only irrecoverable debts are ultimately written off.



CHRISTOPHER M. OBURE, EGH, MP
MINISTER FOR FINANCE

24th October 2002

APPENDIX 1 OLD NON-PERFORMING GOVERNMENT DONOR LOANS.
SUMMARY

ANNEX	SCHEME	OUTSTANDING BALANCES
1	Intergated Agricultural Development Project	109,119,437.20
2	USAID CO-OP Crop Production	44,632,971.50
3	New Seasonal Credit Scheme	203,205,835.85
4	Crop Production Credit Scheme	224,036,348.35
5	DANIDA Farm Inputs supplies scheme	62,220,231.60
6	Cotton Produce and Processing Project	136,579,466.75
7	National Poultry Development Project	4,077,099.90
8	Smallholder Coffee Development Project	178,451,852.85
9	Special Rural Development Project	15,012,643.30
10	Machakos Intergated Development Project	11,877,090.10
11	International Coffee Organisation - Dairy	10,594,405.55
12	KFW GENERAL	25,558,343.75
13	Co-operative Development Fund	30,816,654.35
14	Dairy Development Fund	10,122,276.25
		1,066,304,657.30