

REPUBLIC OF KENYA
MINISTRY OF FINANCE



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SESSIONAL PAPER NO.4 OF 1999 ON NON-PERFORMING GOVERNMENT DONOR CREDIT WITH THE CO- OPERATIVE BANK OF KENYA

1. The following information is laid before the National Assembly for consideration and approval.
2. Since 1969, through the Co-operative Bank of Kenya, the Government, with the assistance of several donors has funded 20 projects aimed at benefitting the co-operative movement. These funds were channelled 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 nineteen projects, amounting to Kshs. 964,653,116.60 are now 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;

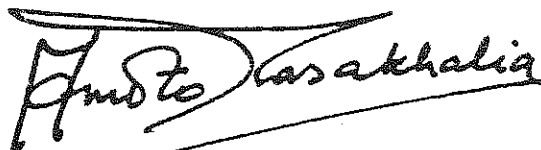
- (b) Inability of the co-operatives to make payments on time, which adversely affected the farmers resource base and morale leading to the abandonment of the co-operatives;
- (c) Poor record maintenance by co-operative unions and societies, thus making it difficult to trace individual borrowers; and
- (d) The collapsing of most of the co-operatives which benefitted from the loans.

4. The Cabinet has been briefed on these matters and noted the measures taken by the Ministry of Co-operative Development, the Co-operative Bank and the Provincial Administration, and the inability of these measures, and others, to yield positive results. The measures failed to provide positive results because of the following:-

- (a) Those who were identified as loanees denied liability on the grounds that they had already made payments to the Co-operatives 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 vandalised 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 total amount of Kshs.964,653,116.60 (as at 31st December 1995) in respect of 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 operational accounting basis.
7. The National Assembly is requested to note and approve the write off of the Kshs.964,653,116.60.



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