

NEW OPPORTUNITIES FOR CO-OPERATIVES
Theme: Shared Leadership and Membership Communities

**An Analysis of the Socio-Economic Impact of the New Integrated National Transport
Policy: The Case of 14-Seat Transport SACCOS in Kenya**

A Research Paper by:

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Abbreviation and Acronyms

ATC	Accounting Technician Certificate
CIC	Co-operative Insurance Company
CPA	Certified Public Accountant
KUSCCO	Kenya Union of Savings and Credit Co-operative
MOCD&M	Ministry of Cooperative Development and Marketing
SACCOs	Savings and Credit Co-operatives
PSV	Public Service Vehicle

Abstract

Paratransit is a mode of transport that operates parallel to an organized, usually large scale government or government subsidized transport system. Paratransit is the main public transport in Kenya and it is estimated that it controls 80 per cent of the public transport. The number of “matatus” is estimated at eighty thousand; twenty and sixty thousand, in Nairobi and upcountry, respectively. Seventy per cent of the “matatus”, which are commonly referred to as “Nissans” and valued at ksh.50 billions/USD 625millions are 14-seater vehicles.

The intention of the Legal Notices No. 161 of 2003, No. 83 of 2004 and No. 65 of 2005 was to regulate the public transport sector as part of the Integrated National Transport Policy (INTP), while the National Road Safety Action Plan (NRSAP) was meant to restore order, reduce accidents, increase passenger safety, reduce conflicts and safeguard private investment in the public transport sector. Other objectives were, to facilitate the transition of the paratransit business from the informal to the formal economy, increase employment opportunities and inculcate a culture of respect for the motor sector regulations.

The Government’s preferred strategy to tame this sector and reap the expected benefits was to direct all current and potential paratransit operators to upgrade their 14-seater vehicles to high capacity of more than 25 seats and to establish matatu SACCOs, as a condition for licensing of their vehicles to operate as public service vehicles. The formulation and implementation of this policy was top down, rather than bottom up. Inadequate stakeholder consultation and consensus-building during policy formulation and implementation resulted in low understanding of the policy, low ownership and low implementation. Individual paratransit operators and existing Matatu SACCOs that are operating predominantly 14-seater *matatus* are fiercely resisting these preconditions terming them, insensitive, draconian, too expensive to implement and likely to force them out of business.

The purpose of this study therefore, was to analyze the socio-economic impacts of the integrated National Transport Policy, on the 14-seats transport SACCOs, in Kenya.

Shared leadership, is understood to be participatory decision-making, and is part of participatory democracy. It has been argued that to achieve participatory democracy in the co-operatives, leadership needs to be less formalized and hierarchical and, move towards being defined by its ability to mobilize the energies and commitments of people through the creation of shared values and shared understanding, with the aim of framing, bridging and broadening ownership in the leadership process. This study, concludes that, leadership in matatu SACCOs in Kenya, is generally concentrated in the top leadership, with most organizations enforcing a structure that is hierarchical and concentrated in the hands of the chairperson, executive committee and, the Board of Directors, in that ascending order.

The manner and extent to which, members of co-operatives participate meaningfully in the governance and management of their organizations has, for a long time, been considered a critical element in their success and sustainability.

It has been recommended that in order to build effective systems of members' participation that are adapted to representative and direct systems of decision making, co-operatives need to consider restructuring the organization away from the bureaucratic, pyramid-shaped hierarchy to, a flatter structure with more delegated authority and responsibility.

This Study indicates that membership communities are loosely defined and without strong voice in the governance and management of their matatu SACCOs.

1.0 Introduction

Kenya, is an African country, it is situated right across the Equator, and has a wide coastline and a strategic port on the shores of Indian Ocean that, serves as the commercial seaport for many countries in the Eastern and Central Africa region. Kenya's top economic pillars have, for many decades, been agriculture and tourism. Kenya's geopolitical positioning in the region is that of the largest economy, the biggest tourist destination, most industrialized, the largest population and with the highest number of qualified professionals.

1.1 The Emergence of Paratransit in Kenya

Public transport is the main mode of transport for people and goods in Kenya, it has been asserted that this is because the majority of citizens cannot afford to buy and maintain their own private vehicles. This is true for both urban and rural areas. Studies¹ indicate that from the early 1900s, until 1973, the public transport landscape in Kenya was dominated by a few multinational bus companies such as, the Overseas Trading Company (OTC) and Kenya Bus Services (KBS), these had their roots in Britain, the colonial power.

During this time, public transport system was well organized, well coordinated and regulated. Bus companies were licensed and paid taxes to the Government. Buses were assigned specific routes and travelled on a strict time-table. Travelers knew when a bus would arrive and leave a given station. In a nutshell, the Kenyan public transport system was orderly and disciplined during this period. Paratransit is a mode of transport that operates parallel to an organized, usually large scale government or government subsidized transport system². In Kenya, parallel to this organized public transport system, individual entrepreneurs operated an informal public transport system, using cheaper vans and minibuses to ferry people along much less regulated routes to, from, and through the city. Historically, paratransit operators have lower overheads and operating costs and therefore, charge relatively low fares, have no strict travel schedules,

¹Risper Orero and Dorothy McCormick. Organisation of Paratransit in Nairobi: Voluntary Vs. Mandatory Savings and Credit Co-operatives. Institute for Development Studies, University of Nairobi. Revised 13 December 2010.

² Ibid.

travel faster on both designated and non-designated routes, pick up and drop passengers at designated and non-designated stop points, and operate nearest to where majority of the low income population lives. They are therefore popular modes of transport, particularly in the urban and peri-urban areas, where they serve low income earners. Paratransit vehicles are therefore known by popular names such as *matatu* in Kenya, *dala dala* in Tanzania and *taxi* in South Africa. A *matatu* is a public service vehicle (PSV), with a seating capacity of not more than 25 passengers, inclusive of the driver³. *Matatus* entered the public transport system in Nairobi, from 1950s, first as pirate taxis, these were not licensed but they were tolerated⁴.

A presidential decree of 1973, legalized *matatus* as a form of public transport in Kenya, perhaps as an avenue for indigenous people to share in the lucrative public transport market and indeed as a nationalistic way of indigenizing the economy. This move resulted in an exponential growth of the paratransit business in the country. However, the vehicles used were poorly maintained and prone to accidents because, they were often unroadworthy, employed unqualified drivers, did not have a strict code of practice, and generally disregarded national and city traffic regulations. Indeed, it is noted that Paratransit vehicles acquired notoriety for the careless manner in which they were driven, perhaps partly due to stiff intra competition (within paratransit operators) and inter-competition (between paratransit and formal transport operators).

As more and more people began to appreciate the emerging business opportunities offered by paratransit vehicles, particularly in the mid-1970s and early 1980s, individuals who could not afford to purchase their own vehicles to operate in the paratransit business or did not want to engage in the challenges of managing their own vehicles, started forming transport co-operatives. By 1984, the Government had approved the registration of 8 transport co-operatives⁵. The four active transport co-operatives in Kenya, by 1987, were :Nakuru Transport Co-operative (Rift Valley Province), Limuru Transport Co-operative in Limuru Town (Central Province), Kapropita Transport Co-operative in Kabarnet (Rift Valley Province) and Kisumu Transport Co-operative in Kisumu (Nyanza Province).

³ Republic of Kenya. The Traffic Act Cap 403 of Laws of Kenya. 1993.

⁴ Ibid.

⁵The Co-operative College of Kenya. Basic Co-operative Knowledge: Types, Organization and Functions of Co-operatives. 1987.

Transport co-operatives did not grow with time, despite, Government support, this was as a result of mismanagement and competition from private public service vehicle operators in the paratransit industry. It was not until the mid-1990s that, private paratransit operators started to come together to manage routes, save and borrow money through *matatu* Savings and Credit Co-operatives (SACCOs) and in the process restoring some order, self-regulation and safety. These measures, translated into increased passenger comfort, a decrease in road accidents, intra and inter industry competition and conflict, and, increased profitability. The *matatu* SACCO sub-sector was, however, a small fraction of the paratransit sector in Kenya and therefore their overall impact remained minimal except, in attracting Government attention to a new way of operationalizing the paratransit business, and thus restoring order, to what was a chaotic sector.

The Kenyan Government has since the 1970s, made a number of unsuccessful attempts to regulate the sector. To streamline the public transport system in Kenya, and particularly to tame the *matatu* madness, the Government of Kenya enacted the Traffic Act Cap 403(1993). However, most of the legal provisions of the Act were not complied with, prior to 2003, due to bad governance, corruption and general disregard of the rule of law. The effect of this was an increase in fatal accidents due to overloading, disregard of traffic regulations, poor vehicles maintenance, careless driving, lack of standards and stiff competition.

Legal Notices No. 161 of 2003, No. 83 of 2004 and No. 65 of 2005 are part of the most comprehensive attempt by the Government to regulate the public transport sector as part of the Integrated National Transport Policy (INTP) and National Road Safety Action Plan (NRSAP). Perhaps the most decisive and most successful, albeit temporary, Government attempt to regulate the public transport sector was the implementation of the Legal Notice No. 161 of 2003 – popularly referred to as “Michuki Rules” after the then Minister for Transport, Mr. John Michuki enforced it zealously, but by 2009 it was business as usual, a few years after the Minister had left the ministry.⁶

⁶Oreoro, et al.

1.2 Co-operatives in Kenya

Kenya has a long history of co-operatives, indeed, the first cooperative in Kenya, the Lumbwa Farmers Cooperative Society, was established in 1908 in the Rift Valley. However, the Kenya Farmers Association, registered in 1923, is recorded as the first, legally registered cooperative. Over time, cooperatives in Kenya have developed in number and types.

Co-operatives have made tremendous social, economic and environmental impact worldwide, in Kenya for instance, cooperatives have permeated almost every corner of the economic sector, with almost 8 out of 10 people or close to 8 million individuals being members of or, are dependent on co-operative business enterprises⁷. If one was to juxtapose the population of Kenya, which by 2009 stood at 38,610,097⁸, then one can conclude that the cooperative sector is fundamental in the development of Kenya. The International Co-operative Alliance (ICA), has ranked Kenya, number seven in the world and, number one in Africa, in terms of the number, size and contribution of co-operatives to development⁹.

The contribution of co-operatives to the GDP is estimated to be 45 per cent¹⁰ while, on national savings and deposits, the contribution is 31 per cent. Further, cooperatives have a commanding market share for instance in coffee (70%), dairy (76%), pyrethrum (90%) and cotton (95%)¹¹. The turnover for the whole co-operative sector, in 2007, was Ksh24.3 billion (USD 323.4 million) out of which, Ksh14.4 billion (USD\$192 million) and Ksh8.4 billion (USD\$112 million) were contributed by the SACCOS and the agricultural cooperatives, respectively¹².

By 5th July 2010, there were 12,632 registered cooperatives with over 7 million members. About 45 per cent of the cooperatives are SACCOS and, command a total saving of 250 billion Kenya shillings¹³. Majority of the SACCOS are flourishing, viable and boast of huge savings¹⁴. Marketing cooperatives play an important role in the socio-economic development of the country; however the greatest contributors are the financial cooperatives such as SACCOS,

⁷Republic of Kenya, Ministry of Co-operative Development and Marketing. Annual Report, 2010.

⁸Government of Kenya. Kenya National Bureau of Statistics. Annual Census. 2009

⁹International Co-operative Alliance. 2008

¹⁰ Chambo, S.A, Mwangi; M.&Oloo.O (2008)An Analysis of the Socio-Economic Impact of Cooperatives in Africa and their Institutional Context, Nairobi, International Cooperative Alliance and the Canadian Cooperative Association

¹¹ Ibid. 2011

¹² Wanyama, F.O. Surviving Liberation: The Co-operative Movement in Kenya. ILO. 2009

¹³ Ibid.

¹⁴ Ibid.

KUSCCO, Co-operative Bank of Kenya and Co-operative Insurance Company. In the matatu SACCOs, 2NK, 4NTE and Molo Line, are among few 14-seat matatu SACCOs which are financially strong. 4NTE, for instance, has been posting good performance over the last three years, as indicated by the dividend payout to the members of well over 30 per cent annually¹⁵

1.3 Shared Leadership

The three main styles of leadership, which include participatory democracy (shared leadership), autocratic and laissez-faire, may be exercised by leaders and managers in the running of their businesses. Co-operatives, as democratic organizations, lay importance on shared leadership, a style which allows members to control the organization and to participate in decision making and in the running of the organization through a democratically elected board¹⁶. However, this type of leadership is dwarfed by bureaucratic leadership because, majority of the cooperatives in Kenya, must adhere to regulatory frameworks developed by the government. Participatory democratic (shared leadership) structures are essential for members seeking to create responsive and successful organizations which reflect their needs and vision¹⁷. Despite the relative success of the co-operative enterprises and the Co-operative Movement in Kenya, little research has been carried out on the level of shared leadership and the extent to which it has contributed or constrained success of cooperatives.

In this study, shared leadership is understood to be participatory decision-making as part of participatory democracy. Shared leadership is about governance in the structure of cooperatives, 'where members are the supreme authority, and commit and involve themselves in decision making while, the board provides leadership and formulates policies which, are executed by the chief executive officer through, delegation to the subordinates.

It has been argued that, to achieve participatory democracy in co-operatives, the leadership of the organizations, need to be less formalized and hierarchical and, move towards being defined by their ability to mobilize the energies and commitments of members, through the creation of shared values and shared understanding, with the aim of framing, bridging and broadening

¹⁵4NTE SACCO. Annual Report. 2010

¹⁶ ICA. Statement of Co-operative Identity. Machester. 1995.

¹⁷ Centre for Study of Co-operatives, University of Saskatchewan. Making Membership Meaningful: Participatory Democracy in Co-operatives. Saskatoon, Canada. 1995.

ownership in the leadership process¹⁸. Such a shift in leadership orientation would, require co-operatives to develop a vision corresponding to the needs of members, that moves towards the new society, a peaceful society of citizens based on free cooperation of individuals, and a peaceful community where people, society and nature coexist in harmony¹⁹. This shared leadership was found to be lacking, in the majority of the newly registered 14-seat matatu SACCOs, as they lacked structures on the ground .The SACCOs, had members and board members, who did not clearly understand their role; it was adduced that this was because the cooperative business was a new concept and therefore minimal pre-cooperative education had been provided. To make the matter worse, some SACCOs had board members who lacked a common vision, others had only a few or no workers and some had make -shift offices at the bus parks. Ultimately, even with SACCOs and board members in place ,it was the old business as usual with no clear plans on how to move to high capacity vehicles .

This study concludes that, leadership in matatu SACCOs in Kenya, is generally concentrated in the top leadership, in an organizational structure that is hierarchical and concentrated in the hands of the chairperson, executive committee and the Board of Directors, in that ascending order.

1.4 Membership Communities

The manner and extent to which members of co-operatives participate meaningfully in the governance and management of their organizations has for a long time been considered a critical element in their success and sustainability. It has been recommended that, in order to build effective systems for members' participation, that are adapted to representative and direct systems of decision making, co-operatives need to consider restructuring the organization away from the bureaucratic, pyramid-shaped hierarchy, to a flatter structure, with more delegated authority and responsibility²⁰.

¹⁸ Centre for Study of Co-operatives, University of Saskatchewan. Making Membership Meaningful: Participatory Democracy in Co-operatives. Saskatoon, Canada. 1995.

¹⁹ Ibid.

²⁰ Ibid.

It is due to the overall success of co-operatives in Kenya and particularly the SACCOs that some individuals, in 1993 were motivated to invest in paratransit around Nyeri and Karatina to establish the first matatu SACCO in Kenya – 2NK SACCO. These individual entrepreneurs were operating minibus vans between Nyeri, Nairobi and Karatina, hence the 2 N and K route. They competed fiercely and their individual profit margins and market shares shrunk as a result of frequent accidents, increased wear and tear, lost time and lost business. They initiated dialogue amongst themselves and the officials of the Ministry of Co-operative Development and Marketing and gradually realized that they could individually and jointly benefit more through collaboration, instead of competition, shared leadership instead of individual leadership, and membership community rather than individual enterprise. The success of the 2NK SACCO inspired other individual paratransit investors into voluntarily forming *matatu* SACCOs across all the major towns and rural trading centers of Kenya, from the mid 1990s²¹. This study however, indicates that membership communities are loosely defined and do not have a strong voice in the governance and management, of their matatu SACCOs.

1.5 Statement of the Problem

Paratransit is the main public transport in Kenya, it is estimated that it controls 80 per cent of the public transport. The number of “matatus” is estimated at eighty thousand; twenty and sixty thousand in Nairobi, and upcountry, respectively. Seventy percent of the “matatus”, which are commonly referred to as “Nissans” and are valued at ksh.50 billion/USD 625million, are fourteen-seat “matatus”²²

The intention of the Legal Notices No. 161 of 2003, No. 83 of 2004 and No. 65 of 2005 was to regulate the public transport sector as part of the Integrated National Transport Policy (INTP) and National Road Safety Action Plan (NRSAP), and to restore order, reduce accidents, increase passenger safety, reduce conflicts and safeguard private investment in the public transport sector²³. Other objectives were to facilitate the transition of the paratransit business from informal to formal economy, increase employment opportunities and inculcate a culture of

²¹2NK SACCO. Brochure, 2009.

²² Nation Media Group. Daily Nation. 19th October 2010

²³ Interview with Mr., Deputy Chairman, Transport Licensing Board

respect for sector regulations²⁴. The Government's preferred strategy, to tame this sector and reap the expected benefits, was to direct all current and potential paratransit operators to upgrade their 14-seat vehicles to vehicles with more than 25-seats and to establish matatu SACCOS, as a condition for the licensing of their vehicles to operate public service transport. The formulation and implementation of this policy was top down, rather than, bottom up. Inadequate stakeholder consultation and consensus-building during policy formulation and implementation resulted in low understanding of the policy, low ownership and low implementation²⁵. The individual paratransit operators and existing Matatu SACCOS that are operating predominantly 14-seat matatus have fiercely resisting these preconditions terming them insensitive, draconian, too expensive to implement and likely to see them out of business.

The purpose of this study was to analyze the socio-economic impact of the integrated National Transport Policy on the 14-seat transport SACCOS in Kenya.

1.6 The Purpose of the Study

The focus group of this study comprised five distinct categories: (i) individual entrepreneurs who are members of matatu SACCOS in Kenya (ii) elected leaders of matatu SACCOS in Kenya (iii) employees of matatu SACCOS in Kenya, and (iv) stakeholders in the public transport including officials of the Ministry of Transport in Kenya, and (v) stakeholders in the co-operatives sector including officials of the Ministry of Co-operative Development and Marketing in Kenya.

The gap in knowledge that this study sought to fill was the low level of research on the impact of the Government policy directive that, all paratransit matatu operators form or join matatu SACCOS, as a condition, for obtaining an operating license. Although there are several studies focusing on the public transport sector, the research team is aware of only one study²⁶ that is closely related, but which focus more on business strategies that the matatu SACCOS are adopting in order to succeed rather than, how the policy, is impacting on the matatu SACCOS.

The new knowledge generated from this study includes, but is not limited to:

²⁴Ministry of Transport. Integrated Road Safety Action Plan. 2003

²⁵Co-operative College of Kenya. Validation Workshop on this study. August 2011

²⁶Orero and McCormick. Ibid.

- (i) Inadequate stakeholder consultation and consensus-building during policy formulation and implementation, borders on autocratic leadership as opposed to shared leadership, this has resulted in low understanding of the policy, low ownership and low implementation;
- (ii) Low understanding of the policy had created a loophole for some non-paratransit operators to establish matatu SACCOs on strategic transport routes, with the sole aim of controlling the business of paratransit investors whom, they target to recruit as SACCO members on payment of unrealistic charges and levies;
- (iii) Low pre-co-operative education of paratransit operators has resulted in the formation of many matatu SACCOs across Kenya without adequate levels of shared leadership and, membership communities that are brought together by a shared appreciation of the values and principles behind co-operatives;
- (iv) The government had attempted to introduce shared leadership in co-operatives through The Co-operative Societies Act of 1997. The Act, although donor driven through the Structural Adjustment Programmes, attempted to democratize and liberalized the co-operatives in order to make them autonomous, self-reliant, self-controlled and commercially viable institutions²⁷. The government relaxed strict government control to pave way for shared leadership to realize benefits for members. However, the relaxing of controls only exacerbated autocratic leadership in cooperatives, and led to some co-operatives serving only the interest of their leaders. Eventually, some co-operatives became dormant while, others collapsed due to such reasons as, gross mismanagement by officials, theft of cooperative resources, spilt of viable cooperatives into smaller ineffective units, failure of employers to surrender members' deposits to cooperatives, failure to hold elections, nepotism in hiring and firing and, conflict of interest²⁸. The finger to this problem, it was pointed out, was the lack of proper preparation of the members about the freed governance structures under the new law²⁹. To arrest these problems, the government re-introduced control through Cooperative Societies (Amendment) Act of 2004³⁰

²⁷ Wanyama, F.O. Surviving Liberation: The Co-operative Movement in Kenya. ILO. 2009

²⁸ Wanyama, F.O. Surviving Liberation: The Co-operative Movement in Kenya. ILO. 2009

²⁹ Ibid.

³⁰ Ibid.

- (v) The policy requirement for paratransit operators to invest in higher capacity vehicles, as a condition for being licensed, is viewed as draconian and un-called for, indeed, many individual operators and paratransit SACCOs claim that they do not have sufficient capital for investment, without recourse to investment funds from outside sources;
- (vi) Successful matatu SACCOs significantly contributed to employment creation, savings mobilization, access to credit, restoration of sanity and order, increased profitability and comfort in the paratransit transport system in the major cities and urban centers in Kenya; however, they need to be supported through a facilitative policy and legal framework. These should be formulated through consultation and consensus building;
- (vii) Any policy and or legal framework, with impact to reverse the gains made by matatu SACCOs in Kenya since mid the 1990s, is likely to result in a situation where existing investors reduce or withdraw their investment completely. The new potential investors may also be discouraged thus, resulting in an urban and peri-urban transport crisis, massive job losses, reduced savings mobilization, reduced access to credit and reduced funds for investment. Such a scenario, may lead to increased poverty and, the consequences of poverty such as crime and delinquency, especially, among young people who, dominate the public transport sector;
- (viii) The majority of matatu SACCOs claim that, they do not have their own capacity to transit from the 14-seat matatus, to the higher capacity vehicles (over 25 seats) unless they receive external financial support;
- (ix) To avoid a crisis in the public transport sector, as a result of reduced participation by the paratransit operators, the sector needs to mobilize between 50-70 billion Kenya Shillings, in order to transit successfully from the current 14-seat vans to the 26-seat minibuses.
- (x) Gender representation is low in the matatu SACCOs

1.7 The Study Questions

This study was based on the following ten questions:

1. How many registered 14-seat PSVs SACCOs were there in the country, and, in the main towns?

2. How many 14-seat PSVs SACCOs had been registered since 1st January 2011 in the main towns?
3. What was the level of membership and gender representation in the registered 14-seat PSVs SACCOs in the main towns?
4. What was the level of the share capital and share contribution of the members of the registered 14-seat PSVs SACCOs in the main towns?
5. What was the level of loan to members in the registered 14-seat PSVs SACCOs in the main towns?
6. How many employees were employed in the registered 14-seat PSVs SACCOs in the main towns?
7. What were the new policy implications on the registered 14-seat PSVs SACCOs?
8. What was the qualification and experience of the board members in the registered 14-seat PSVs SACCOs in the main towns?
9. Had pre-cooperative education been offered to board members of the registered 14-seat PSVs SACCOs in the main towns in the provinces?
10. What business strategy was in place to comply with the new transport policy?

1.8 Data Collection Methods

1.8.1 Research Design

The study adopted a descriptive survey design, which is defined by Gay³¹ (1981:155) as the attempt to collect data from some members of a population, in order to determine the current status of that population, with respect to one or more variables. Gay further asserts that it determines and reports the way things are and commonly involves assessing opinions towards individuals and organization; procedures and attitudes. According to Best and Kahn³² a descriptive survey is concerned with the conditions that are in existence, opinions that are held, processes that are ongoing, effects that are evident and trends developed. It concerns the present,

³¹Gay, L. Education Research Competencies for Analysis and Application. 2nd Edition. Columbus: Oluo Melil. 1981.

³²Best, J.W and Kahn, J.V, Research in Education(7th ed)New Delhi; Prentice- Hall. 2003.

although it considers past events and their influences on the current condition. Wiersma³³, stresses further that, it concerns gathering facts and obtaining pertinent precise information concerning the current status of phenomena and whenever possible, drawing conclusion from the facts discovered. The main towns of the eight provinces were purposively sampled. 30 per cent of matatu SACCOs in each main town were randomly sampled, (Kisumu, Kericho, Eldoret, Nakuru, Nyahururu, Nyeri, Muranga, Thika, Embu, Meru, Machakos, Kitui, Mombasa, Starehe (Nairobi), Nairobi East, Langata and Dagoretti).

1.8.2The Cases

This study used Savings and Credit Co-operatives SACCOs) as the unit of measurement and analysis. Seventy eight SACCOs that mainly operate 14-seat vans were visited and the study team, interviewed some of their members, elected leaders and employees. Co-operatives are member-owned and member-controlled, private sector self-help enterprises that are run on democratic principles. Members are the supreme authority of their co-operatives; they make major policy decisions and set the strategic direction. They elect their leaders from amongst themselves and delegate the necessary authority to act on their behalf. The views and business orientation of members are therefore the major deciding factor on the extent to which, a given policy is implemented in a co-operative and ultimately, its success or failure. The elected leaders of a co-operative are the carriers of the vision of the co-operative and their ability to share the vision and motivate their members is critical to the success of the co-operative. Their views therefore, are important and indispensable. As technical operators and business advisors, the competence, commitment and ethical disposition of employees can make or break a co-operative. The opinions of the employees are therefore important in making any assessment about the status of a co-operative enterprise.

Also interviewed were fifteen district co-operative officers (DCOs), who are employed by the Ministry of Co-operative Development and Marketing. Their main responsibility is the promotion, support and regulation of co-operatives within their area of operation. Both the

³³Weirsm, M. Research Methods in Education. An Introduction (6th Ed).Boston. 1995

SACCOS and the DCOs, were carefully selected, to form a representative sample of SACCOS and DCOs across the 8 provinces of Kenya.

1.8.3 Data

Secondary data was collected from previous studies, Government documents, reports from matatu SACCOS, newspapers and internet sources. Teaching staff of the Co-operative College of Kenya were utilized as enumerators to administer the questionnaires and to conduct face to face interviews with respondents. The research assistants were trained and given the opportunity to clarify all issues before being released to the field.

A total of 78 matatu SACCOS and 15 DCOs completed the questionnaires. The data collected was processed and cleaned before being input into the SPSS programme, for computer analysis.

1.8.4 Data Analysis

Data analysis was carried out in three main steps: (i) the quantitative data that was collected using questionnaire was processed and analysed using the SPSS statistical software (ii) the qualitative data that was collected through interviews was analysed using topical cluster methods where, similar information was grouped together and analysed using expert knowledge of the transport and co-operative sectors in Kenya, and (iii) the comments and opinions of stakeholders were directly incorporated into the research report.

The outputs from data analysis included absolute numbers such as the number of members in a given matatu SACCO, measures of central tendency including frequencies and averages, and graphical representations such as bar graphs and pie charts.

1.8.5 Data Interpretation

Data interpretation was done after data analysis and presentation in graphical forms. The interpretation was mainly based on statistical trends, based on the quantitative data that was collected, the views of opinion leaders from the qualitative data, and expert knowledge of the research team.

Data interpretation is presented in form of findings, conclusions and recommendations. This interpretation is deemed to be accurate, valid and reliable, particularly after presentation and feedback from a broad cross section of stakeholders in a stakeholders' consultative forum.

1.8.6 Stakeholders' Validation Process

This research was designed in such a way that the data collected from the field was analysed, interpreted by the research team and validated by stakeholders. This was deemed important and necessary in order to enhance the validity and reliability of the results, and the conclusions of the study.

A stakeholders' consultative forum was organized in form of a two-day research validation workshop. The validation workshop was an important platform for stakeholders to comment on the findings, in relation to what they know and experience, provide additional information to solidify any information considered inadequate, and to provide an opinion on the interpretation of the data by the research team.

The stakeholders' validation workshop was particularly pertinent because it was a platform for triangulation of the field data and its interpretation by the research team. The forum gave opportunity to paratransit operators, cooperative leaders, paratransit regulators and regulators of the co-operative sector, based on their practical experiences and expert knowledge, to comment on the data collected from the field and the interpretation provided by the research team.

The stakeholders' validation workshop provided valuable information that was incorporated into the final research report and this paper.

1.8.7 Writing the Final Research Report

The final research report, presents the data and opinions of the paratransit operators, matatu SACCO owners, and regulators of the transport and co-operative sectors. The report also

contains the opinions and proposals of the research team mainly in the form of conclusions and recommendations.

The final research report was written in three main stages: (i) developing and adopting an appropriate report format and structure (ii) drafting and presenting the draft research report for peer review at the Co-operative College of Kenya, and (iii) incorporating stakeholders' comments after the validation workshop. This systematic and rigorous process was followed to ensure the widest possible scrutiny and comment of the research process, outputs and opinions before, the report is circulated to the public and/ or published.

1.9 Context: Forces Shaping the 14-Seat Matatu SACCOS

The positive and negative response of paratransit operators, and matatu SACCOS in particular, to the new policy regime that requires paratransit operators to upgrade their vehicles from 14 to more than 25-seat capacity, as a condition for licensing with effect from 2010, continues to be shaped by a myriad of forces. These include: inadequate consultations amongst policy level actors and the operators, fear of financial loss among paratransit operators, low SACCO membership and weak capital base, inadequate technical capacity, poor leadership, and invasion of the sector by non-paratransit operators out to make money from genuine operators.

Fear of financial loss among paratransit operators is a key factor that has driven them to establish and form matatu SACCOS, merely to comply with Government requirement although many of them do not understand nor agree with the policy requirements. Consequently, in 2010, there was a proliferation of newly registered matatu SACCOS in Kenya.

2.0 Theoretical Framework

This study is anchored on two main theoretical streams: one, that institutions set the rules that govern the internal operations of business firms as well as their wider business environment³⁴, and two, that the survival and vitality of co-operatives cannot be guaranteed by narrow goals of growth and profit only but rather, by a diversity that attracts innovation and flexibility, that is

³⁴Oreoro and McCormic. Ibid.

necessary for co-operatives to be responsive to the changing needs of their stakeholders and, the environment³⁵.

2.1 Institutions, regulations and regulation

Orero and McCormick note that the International Labour Organization (ILO) introduced the concept of the informal sector in Kenya in 1972, explaining that the informal sector consists of semi-organized, unregulated activities, which are largely undertaken by the self-employed³⁶. They note that, both formal and informal institutions have been found to affect paratransit operations, formal institutions being mainly public/Government institutions set up to regulate the performance of the paratransit sector. Some of these public institutions include, but are not limited to, the Kenya Roads Board (KRB), Transport Licensing Board (TLB), Registrar of Motor Vehicles (RMV), Driving Test Centre, the Traffic Police and Local Authorities. In addition, they argue that much as these regulatory institutions have come up with many policy and legal regulations for the paratransit sector, their enforcement has been below par and this laxity has led to non-compliance by the paratransit operators.

The private institutions in the paratransit sector include Matatu Owners' Association (MOA), Matatu Welfare Association (MWA) and route-based matatu savings and credit co-operatives (SACCOs). The latter, provide an economic platform through which members save their daily incomes, invest in secondary support services such as petrol stations and insurance, organize route operations, address welfare concerns of the members, and provide members with easy access to credit for welfare and investment in the transport and other sectors.

Due to lax regulation by public institutions and the attendant non-compliance by paratransit private institutions, cartels emerge in the paratransit sector in many developing countries in order to stave off competition from other operators in the sector³⁷.

³⁵ This is based on the theory of paradigm shift in co-operative organization and management as articulated in J.G. Craig. *Paradigms and the Theory of Co-operation* (1989) and in G. Morgan. *Images of Organization* (1986).

³⁶ ILO. *Employment Income and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva, International Labour Office. 1972.

³⁷ Scalar, E., J. Touber and C. Alexander. 'Rethinking Privatization: The Case of Urban Transportation in Nairobi, Kenya'. Association of Collegiate Schools of Planning, Annual Meeting, 20th October 2007, Milwaukee.

It is within this institutional framework that the Government of Kenya, introduced the National Integrated Transport Policy in 2003, to tame the matatu sector and bring back order, predictability and reduce accidents within the paratransit sector.

2.2 Paradigm Shift in Co-operative Organization and Management

A paradigm is a mindset, or a set of fundamental beliefs and assumptions that provide order and coherence in our perceptions of what is and how it works, a lens through which we view everything³⁸.

Co-operatives are essentially socio-economic private sector business enterprises. To capture their social and economic nature, cooperation has been defined as the free and voluntary association of people to create an organization, a co-operative, which they democratically control, providing themselves with goods, services and or livelihoods rather than profiting from others, with equitable contribution of capital and acceptance of a fair share of risks and benefits arising from the joint activity³⁹.

It has been further stated that the essential nature of cooperation includes self-help, voluntary nature, mutual aid, democratic autonomy, service motivation instead of profit, and education⁴⁰. The conceptual values of cooperatives are operationalized in organizational forms called co-operatives, whose operations and organizational behavior is guided by co-operative principles⁴¹. A co-operative is an autonomous association of persons, united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise⁴².

The values of cooperation have over the ages been ideologically interpreted in diverse ways, resulting in differing practices of cooperation in different socio-economic and political

³⁸ J. G. Craig. Ibid.

³⁹ J. G. Craig and Saxena. 1984.

⁴⁰ Lambert, Paul. 1963

⁴¹ ICA. Ibid.

⁴² ICA. Statement of Co-operative Identity. Manchester, 1995.

environments. Helm⁴³ argues that cooperativism as an ideology represents various images of the ideal social and economic order and the means of achieving them. These images are explained in four schools of co-operative thought: the co-operative commonwealth; the cooperative enterprise; the co-operative sector; and the socialist.

Co-operatives in Kenya, and indeed in most developing countries, are modeled on the co-operative enterprise school of thought that, seeks to increase economic productivity through modified capitalism in which individuals form a business, contribute capital, and manage it in the most efficient manner to afford providing of services and or goods to satisfy the needs of their members and give them a reasonable return on the investment⁴⁴.

The theory of paradigm shift emphasizes the need for a shift from the dominant mechanistic paradigm that is characterized by control from the centre (top down), through directives towards an emerging paradigm, characterized by a leadership form that values consultation and fosters innovation through continuous learning and adjustment⁴⁵. The theory of paradigm shift in co-operatives calls for a shift from the mechanical (directive) to holographic (democratic) organization and management principles because it represents a shift from autocracy to pluralism and democracy which are the basis of the logic of cooperation⁴⁶.

In essence, the theory of paradigm shift posits that, to achieve their stated goals, public sector regulatory institutions should formulate and implement policy and legal regulations through consultations, rather than through top-down directives, because this runs counter to the democratic and voluntary nature of co-operatives.

⁴³Helm, 1968.

⁴⁴Kirianki M'Imanyara. Organization and Management of Co-operatives in Developing Countries: The Case of Kenya. York University, Canada. 1991.

⁴⁵ See J. G. Craig (1989), G. Morgan (1986) and Kirianki M'Imanyara (1991). Ibid.

⁴⁶Kirianki M'Imanyara. Ibid.

3.0 Summary of Findings, Conclusions and Recommendations

Registration of the SACCOs

In the provinces, and indeed, the whole country, majority of the SACCOs were registered in 2010 and 2011 as evident from the increased number of SACCOs registered. The fact that there was more registration of the SACCOs in 2010/2011, does not indicate an attitude change of the investors towards complying with the new transport policy that requires investors in the industry to either join or form SACCOs or companies.

The study suggests that the newly registered SACCOs should be vetted afresh in order to identify the “shell” (non-functional) SACCOs and rehabilitate or weed them out as circumstances warrant.

Membership

The membership of women in the SACCOs was low, a majority of the SACCO’s had slightly above twenty members while, a few had fifteen to twenty. In majority of the SACCOs, there were very few or no women members. However, in a few of the SACCOs, the number of women was high.

Low membership of women in SACCOs, and their representation may be attributed to the fact that there were few women investors in the industry. Perhaps the low numbers are due to the compliance requirements, harassment from police and “gangs”, stiff competition, high operational risks, high capital requirements and the disorganized manner in which the players manage the business.

Board membership

It was found that majority of the SACCOs had six to twelve board members while, a few had five to six members. The number of board members within the SACCOs is within the threshold stipulated in the Cooperative Act Cap 490.

It was also established that women were not adequately represented in the board. In some of the SACCOs there were very few or no women, which is contrary to Kenya's constitutional requirement of one third representation of women in all public offices.

On the composition of the board, it was noted that affirmative action should be taken. One way of doing this is to enact by-laws for inclusion and gender representation. In addition, it would be prudent for more entrepreneurial training to be offered to women, so as to influence their attitude towards investing in the "matatu" industry.

Low membership, women's membership and board membership in the SACCOs may be solved through aggressive recruitment of the members by the board. There should also be more capacity building in business and cooperative education by the board, MoCDM and other stake holders; this may go a long way in improving members' recruitment. The SACCOs should also improve on their performance through effective and efficient shared leadership, in addition to aggressive marketing. The board of the SACCOs should also look for strategies to diversify their routes and thereby attract more members to the sector.

Capital, Loan and monthly share contribution

Majority of the SACCOs were weak in terms of the loans granted and the capital base but there were also some few strong SACCO's. For instance, some SACCOs had not granted any loans to members while, a few had granted loans to the tune of millions in Kenya shillings. However, many SACCOs, had experienced high monthly members' share contributions while, a few had experienced low monthly share contribution. At the country level, monthly share contribution was low.

Weak capital base and low loans granted to members, in the majority of the SACCOs, may be attributed to the fact that, majority of the SACCOs were newly registered hence, the low disbursement of loans and capital contributions. Low monthly members' share contribution may be attributed to low patronizing of the SACCOs. However, high monthly contributions in some SACCOs may be attributed to the increasing need for fast capital formation, to enable the members' access loans from the SACCOs.

The low loans and capital base, in the SACCOs, may be solved through aggressive recruitment of the members by the board. More capacity building in business and cooperative education by the board, MoCDM and other stake holders could also go a long way in improving members' recruitment. The SACCOs should also improve on their performance through effective and efficient management, and shared leadership, in addition to aggressive marketing. The board of the SACCOs should also devise strategies for diversifying their routes, in order to attract more members, and make the PSV sector more attractive for new vehicles and owners. The Government agency (TLB) should conduct fair and impartial safety operations, since constant and continuous checks affect the incomes of the SACCOs.

Management of PSVs and routes

Many SACCOs were managing very few PSVs and routes. The low number of PSVs and routes managed by the SACCOs may be due to low membership, and the low numbers of investors in the industry because of many compliance requirements, harassment from police and "gangs", stiff competition, high operational risks, high capital requirements and the disorganized manner in which the players manage the business. These factors have scared away both male and female investors. In addition, there is need to expand the routes outside the regions in which the SACCOs are currently operating.

The SACCOs should embark on the recruitment of more members through aggressive marketing, upholding shared leadership and effective and efficient management and thus making the membership meaningful. In addition to this they should ensure the better performance of their SACCOs.

Employment in the offices and Bus Park

Many SACCOs had one to two employees employed to work in the offices. However, a few had more than two employees while others did not have any. At the bus parks, many SACCOs had slightly more than one employee.

The low employment level in the offices may be attributed to the fact that majority of the SACCOs were new with no functional offices. During data collection, it was observed that many SACCOs had “make-shift” offices at the bus parks, simply for compliance sake. Some do not even have furniture and records.

It is important for a business to have core staff if it is to run effectively and efficiently. Therefore, the SACCOs without managers, accountants, credit officers and other staff should recruit as needs arise. It is also critical for any organization to have an operating office so as to serve the members in an effective and efficient way. Physical office is one of the requirements during the registration of any cooperative, hence any SACCO without an operating office should operationalize the office and the MoCDM should ensure this is done.

Experience in Co-operative Management.

Majority of the SACCOs had chairmen, vice chairmen and treasurers of the board with one to two years experience in cooperative management while, a few had board members were without any experience.

This may be attributed to the fact that majority of the SACCOs were recently registered and may not have attracted people with cooperative management experience.

To strengthen the SACCOs’ management, more capacity building in cooperative management, with emphasis on shared leadership, and making membership meaningful by accredited organizations should be offered to the members, board and staff. In the area of capacity building, development partners and stakeholders should come on board to assist, through providing resources.

Pre-cooperative Education

It was found out that majority of the SACCOs had board members with pre-cooperative education while a few had none. This may be attributed to the fact that many of these SACCOs were formed in a hurry, to beat the registration deadline.

More capacity building in cooperative management, with emphasis on shared leadership and making membership meaningful by accredited organizations, should be offered to the members, board and staff, in order for them to understand the cooperative model.

Awareness of the new policy and business plan

Majority of the board members of the SACCOs were aware of the new transport policy and had sensitized the members. However, there were a few board members who were not aware of the policy and had not sensitized their members. Many SACCOs, had business plans of moving to higher capacity vehicles while others did have any plan.

Although some SACCOs had business plans, these were not backed by financial ability as the SACCOs had a weak capital base which could only attract few financiers. Without mitigating measures, this poses a threat to the survival of the SACCOs as the new transport policy is fast beckoning. This means that, step by step, the 14- seat PSVs will be put out of business through natural attrition, and with the common bond gone, the SACCOs will definitely collapse, This would have impacts that include, loss of employment for drivers, conductors and SACCO staff, in addition to high loss of income to the investors.

More awareness of the implications of the new transport policy should be brought to the attention of board members, the members and other stakeholders in sensitization workshops.

Implication of the policy

Majority of the SACCOs agreed that if the policy was implemented as it is, many SACCOs would wind up. However, a few disagreed with that assertion. Many SACCOs viewed the policy as a threat to their business because the 14-seat matatus are being phased out through ensuring that there is no new registration.

It was suggested that the following strategies can be used by SACCOs, to make a smooth transition to the proposed policy:

1. Aggressive capitalization by the members;
2. Apply for loans from banks or other financial institutions;

3. The SACCOs could merge to strengthen the capital base. This means the board should be ready to sacrifice their leadership positions in the merging SACCOs; and,
4. Form transport co-operatives

The un-economical 14-seat transport SACCOs should be encouraged to form transport cooperatives. It is important to note that this model of transport cooperatives is rare in Kenya. One SACCO (2NK) has attempted it by operating high capacity buses which are owned by the SACCOs, parallel to the core model, of managing the 14-seat vehicles. Managing buses for a cooperative is a tall order⁴⁷. However, elsewhere in the world, transport cooperatives have thrived. In Israel⁴⁸, the Egged Transport Cooperative Society Ltd, the largest bus cooperative which is been government subsidized; was formed in 1933 through merging of small bus cooperatives and subsequent merging in 1942, 1951 and 1961. Today, it controls about 55 per cent of the public transport services and is a big employer. The cooperative also operate in Bulgaria, Poland and has formalized entry into Netherland by December 2011.

The SACCOs could make use of the findings and recommendations of this study, to advocate for the policy amendment to allow the fourteen-seat “matatu” to operate outside the Central Business District, of the major cities and in the rural areas. This would save fourteen-seat “matatu” SACCOs from collapsing hence making membership meaningful.

Assistance to comply with the new policy

Majority of the SACCOs wanted to be assisted with loans to enable them buy higher capacity vehicles. However, others wanted more education to be offered especially in the area of cooperative management.

The fact that majority of the SACCOs wanted to be assisted to comply with the new policy through more loans and co-operative management education, indicates that, they appreciate the role of cooperatives in the mobilization of resources. In addition to this, if assisted with loans they are willing to move from low to high capacity vehicle.

⁴⁷ Interview with Mr. Kahiro, Chairman of 2NK SACCO

⁴⁸ Internet Source: <http://en.wikipedia.org/wiki/Egged>.

The government and financial institutions could come up with low-cost financing products to enable the SACCOs acquire higher capacity vehicles. In addition to this, more capacity building in cooperative management should be offered.

Investment

It was found out that many SACCOs had invested elsewhere especially in shares, insurance agencies and in petrol stations. A few had not invested elsewhere, hence, were only depending on the income from the 14- seat PSVs as their core business.

The fact that many SACCOs have invested in alternative businesses does not cushion them from eminent collapse as their survival depends on the membership which, depends on the PSVs as a common bond; with the common bond gone, members will automatically withdraw from the SACCOs.

The SACCOs should focus on their core business and lend more to the members to enable them buy higher capacity vehicles or form transport co-operatives

Qualification of office workers

It was found that a few of the SACCOs had employed managers, accountants, credit officers and other staff while others had not. It was also found out that, few SACCOs had managers with qualifications ranging from form four, degree, diplomas and CPA certificates; had accountants with qualifications such as CPA; had employed credit officers with form four certificates; and had employed other staff with four certificates.

The fact that SACCOs had qualified managers, accountants, credit officers and other staff, while some did not have any, implies they were not attractive enough to professionals with high qualifications. This may be attributed to the fact that these SACCOs were new and their survival was uncertain.

It is important for any business to have core staff for it to run effectively and efficiently therefore, the SACCOs without managers, accountants, credit officers and other staff should recruit them, but on a needs basis.

Critical Conclusion

The critical conclusion from the findings is that due to lack of visionary and shared leadership, low capital base, low loan to members, insufficient sensitization about the policy and pre-co-operative education and management and the phasing out strategy of the low capacity PSVs which are the common bond, the survival of the 14-seat transport SACCOs in Kenya is a “ticking time-bomb” that may be exploding in the next few years. The fact is that, any business with weak capital cannot be able to exploit any opportunity to the full. This fact explains why since the advent of the policy implementations in November 2010, close to 100 per cent of the SACCOs have not bought any higher capacity PSVs. At the same time, since no new low capacity PSVs are being registered and due to the fast aging and grounding of the low capacity PSVs, the fleet managed by the SACCOs is getting thin day by day. In addition to this, the SACCOs are likely to lose members very fast due to high erosion of the common bond. This means that day by day, SACCOs are losing critical source of income constraining further the capital base. The result of this is that the SACCOs ability to grant loan to members will be continuously eroded resulting in further loss of members. This will be the last punch that will consign the SACCOs to the business oblivion as the strength and survival of any co-operative depends on active membership and shared visionary leadership. This will result in massive unemployment, loss of investment in the 14-seat transport SACCOs and ultimately creeping in of poverty.

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