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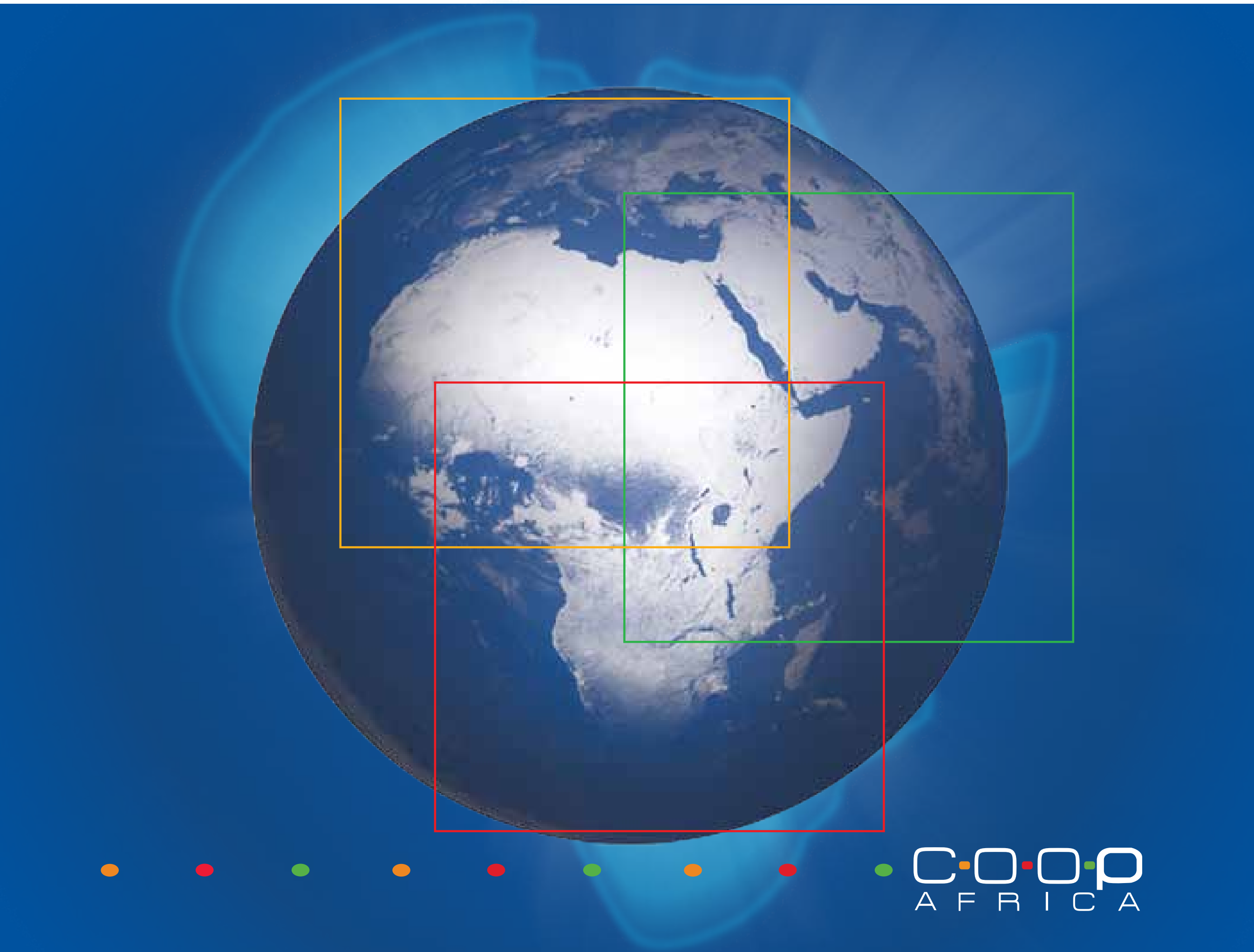
Coop[AFRICA] Working Paper No.3

African cooperatives and the financial crisis

Emma Allen and Sam Maghimbi



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List of Abbreviations

GDP	Gross Domestic Product
ICA	International Cooperative Alliance
ILO	International Labour Organization
IMF	International Monetary Fund
SACCO	Savings and Credit Cooperative
SME	Small and Medium sized Enterprises
UN/DESA	United Nations Department of Economic and Social Affairs
UNECA	United Nations Economic Commission for Africa
WCSDG	World Commission on the Social Dimensions of Globalization
WOCCU	World Council of Credit Unions

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Executive summary

The volatility occurring in global financial markets noted from mid 2007 onwards has brought with it serious and long term consequences, including escalating unemployment, loss of income and foreclosure of enterprise, for real economies across the world. To put the economy on a more stable and equitable growth path, imbalances in the financial system need to be corrected with priority given to generating outcomes that are both socially and economically efficient. Organizations, such as cooperatives, could make an important contribution to this due to the synergies they create that can support a territory's resilience to external shocks. Moreover, cooperatives are typically motivated by long term gains, rather than short term yields. Therefore, their investment strategies tend to be less risky than conventional investment strategies.

This paper therefore considers how cooperatives, particularly financial cooperatives and cooperatives in the agricultural sector in Africa are managing the current crisis. As a way forward, the paper provides an analysis of the triggers of the crisis and considers how economies throughout the world are being affected, with attention given to cooperatives in Sub-Saharan Africa.

It is found that cooperatives are being affected by reductions in global demand and volatility in commodity markets, as these factors have potential to undermine the income of members. It is expected that unemployment and the number of people in extreme poverty will increase substantially, with individual producers likely to the worst affected by the financial crisis in Sub-Sahara Africa. Given this context, cooperatives need to closely monitor their operations to ensure that their net worth does not deteriorate.

There is evidence to suggest that cooperatives may be exercising caution in responding to the loan requests of members. For instance, loans portfolios of savings and credit cooperatives grew at an average of 12 per cent, which is lower than growth rates of previous years (35.3 per cent in 2007; 21.2 per cent in 2006). It was reported that some SACCOs have been scaling down loans associated with export commodities in order to protect themselves from potential loss. There is also evidence that marketing cooperatives that sell export commodities have suffered from the global downturn and required government assistance to enable continuing provision of services.

1. Introduction

The volatility occurring in global financial markets noted from mid 2007 onwards has brought with it serious and long term consequences for the real economy, including:

- escalating foreclosure or downsizing of enterprise leading to increase in unemployment;
- volatility in commodity markets that entails loss of income and decreasing in household budgets;
- increased vulnerability of women and youth due to declining household budgets.

In order to cushion the impact of the global financial crisis, African countries are beginning to develop policies to mitigate the impact. For example, the Tanzanian Government has announced a stimulus package that will, among other measures, channel funds to finance and agriculture sectors in order to cover losses suffered by cooperatives and companies that bought crops from farmers but failed to sell the products abroad due to the crisis.

The need for a coherent focus on the nature and consequences of the financial crisis is to be underscored, especially as empirical analysis reveals that financial volatility has implications for income distribution and labour shares. The World Commission on the Social Dimensions of Globalization (2004:89) noted that increased mobility in financial markets had been accompanied by increasingly frequent incidence of financial crisis in developing countries. The report further stressed that gains associated with trade and financial liberalization may be undermined by volatility and crisis.

During previous times of crisis, cooperative forms of enterprise have shown resilience. Indeed, it seems that cooperatives in developed countries are enduring this crisis better than their commercial counterparts (Birchall & Hammond Ketilson, 2009). Emerging literature indicates that there are many innovative cooperative ventures in Africa, but that cooperatives on the whole are still developing (Pollet, 2009). Given the developmental status of cooperatives in Africa, this paper considers whether they have elements that are either inherent or developing that can help to mitigate the impact of shocks for their members. Based on this premise, this working paper therefore considers how cooperatives in Sub-Saharan Africa, are faring in the current crisis.

1.1 Previous crises and cooperatives

Cooperatives were borne out of a situation of crisis. Indeed, the very way in which cooperatives were founded leads on to wonder if cooperatives could play a role not only in mitigating the impact of crisis for members, but also contribute to a reconstruction efforts that see a more stable and sustainable economic environment emerge. The idea of improving the socio-economic situations through mobilization of ‘self-help’ is central to the history of cooperatives. For example, the urban and agrarian distress associated with the industrial revolution saw the birth of two distinguishable cooperative financial models (Birchall, 1997: 11). Both were located in Germany, one served the needs of those in rural agriculture and the other served the needs of urban dwellers.

From 1848 onwards Raiffeisen began to be involved in finance in rural Germany. Raiffeisen’s initiatives were motivated by agrarian distress and the indebtedness of smallholder agriculturalist. In rural areas, shortage of capital was making farmers vulnerable to takeovers and input costs. Initially Raiffeisen sought to provide loans to farmers through raising capital from philanthropists. It was not until 1862 that the farmers themselves became members of the credit cooperatives (the General Union of Rural Co-operative Societies)[1] (Birchall, 1997: 13).

In 1850 Schulze-Delitzsch pioneered cooperative urban finance, after realising that lack of access to credit, especially access on favourable terms, was major problem for the workers and the self-employed. Large industry and lack of access to finance was squeezing the self-employed out of the market. In this model members provided the cooperative with working capital. Tchami (2007: 7) notes that these ‘cooperatives were based on self-help in its purest form; that means that no outside intervention at all, not even from the State.’

Both models were inherently local and focused on mobilising self-help through the pooling of assets. Success of cooperative finance has seen savings and credit cooperatives formed the world over. The main advantages seen here relate to increased access to finance based on equitable terms, which increases social protection of members and mobilizes self-help and collective responsibility.

In today’s society, cooperative financial institutions hold a considerable market share, with the IMF estimating that across all banking sector assets in developed countries, the market share of cooperative finance was equivalent to 14 percent in 2004 (Hesse & Cihak, 2007). Previous research on cooperative finance during crisis indicates that they tended to fare better than investor-owned savings and loans institutions, as they pursue more conservative investment policies (Hansmann, 1996; Chaddad & Cook, 2004). For instance, analysis from the IMF indicates that cooperative banks in developed countries tend to be more stable than commercial banks, especially during financial crisis, as their investment patterns tend to be less speculative and returns are therefore less volatile (Hesse & Cihak, 2007). Cooperative finance in developed countries tends to have a supply of funding that is more stable and less responsive to monetary policy and market rates. Cooperative finance also tends to offer comparatively lower fees than other types of commercial banks, which not only helps to increase access of the poor to credit, but also reduces the cost of remittance transfers (Schenk, 2007; also see www.woccu.org).

[1] General Verbanf Landlicher Genossenschaften.

While today's conditions are quite different from those that prevailed during the birth of the cooperative movement, consideration of the mechanisms that were put in place to manage social and economic volatility may be relevant for the current era. For instance, there is a great need to mobilize capital – particularly in developing countries – that is based on equitable terms, in order to promote development of small enterprise in urban and smallholder farming in rural areas. Moreover, there is need for other services that facilitate activities associated with production that would benefit from greater economies of scale and increased connectedness to value chains, especially those activities associated with purchase of agricultural inputs, transportation, marketing and sale of produce. This problem stresses the need for forms of credit and organizational support that address the needs for credit, while facilitating increased economies of scale in the value chain (Motiram & Vakulabranam, 2009).

1.2 Methodology

In mid 2009 the consequences of the global financial crisis were still unfolding in Sub-Sahara Africa. Subsequently, data on the impact of the crisis was limited and understandings of its severity and implications were still being derived when data was collected for this study. In order to overcome data constraints, researchers approached the study from an explorative angle and therefore sort to undertake semi-structured interview with key informants from the cooperative movement in Africa. Interviewers were undertaken between June and July 2009 in Tanzania and Kenya, with representatives from Botswana, Ethiopia, Kenya, Lesotho, Rwanda, Swaziland, Tanzania, Uganda and Zambia. In total, one focus group and ten key informant interviews were undertaken.

In addition, researchers have examined of other sources, including articles reported in newspapers and reports released by the ILO, the International Cooperative Alliance (ICA), the World Bank, the United Nations Department for Social and Economic Affairs (UN/DESA), the International Monetary Fund (IMF), the Overseas Development Institute (ODI), the United Nations Economic Commission for Africa (UNECA), as well as reports and working papers published by other analysts.

1.3 Guide to the working paper

Section one of the paper has provided an introduction and discussion on previous crises and cooperatives. The methodological approach undertaken in the current study was also outlined. The following section provides an overview of the crisis, considering the trigger of the global financial crisis, growth trends and the impact of the global financial crisis and the consequences of global financial crisis in Africa. The paper then discusses cooperatives in Africa, focusing on financial cooperatives and cooperatives in agriculture. Finally, recommendations and conclusions are provided.

2. Overview of the crisis

2.1 The trigger of the global financial crisis

Stimulus for contemporary economic booms has increasingly come from speculation focused on the short-term appreciation of assets values, rather than long-term yield on assets (Patnaik, 2008). These booms are characterized by sharp swings in asset prices, which have implications for productive investment, aggregate demand, employment and output in the real economy. The transformations brought forth by globalization and financial liberalization destabilized traditional Keynesian strategies for managing aggregate demand. This has seen boosts to aggregate demand increasingly driven by private expenditure (via increased leverage) rather than public expenditure. To illustrate, since the turn of the century gross private capital flows have been equal to more than 20 per cent of global GDP, while before 1990 these flows were less than ten per cent of global GDP (van der Hoeven & Lubker, 2007:23).

The resultant volatility occurring in global financial markets noted from mid 2007 onwards has brought with it serious and long term consequences, including escalating unemployment, loss of income and foreclosure of enterprise, for real economies across the world.

In the lead up the crisis, the global economy had been sustaining strong growth. Emerging markets had achieved all time lows on sovereign bonds and had been out-performing mature markets for four consecutive years. The international financial system was characterized by low interest rates and had ample liquidity, which provided a context that saw investors assume additional risk. This risk was to some degree offset by the use of asset backed securities, such as collateralized debt obligations and/or commercial mortgage backed securities (World Bank, 2008: 61). However, the actual risks associated with these practices were considerably undervalued. The underestimation of risk translated to the relaxation of lending practices, particularly in the US housing market. This saw credit made available to riskier segments of the market - the so-called 'sub-prime' loans market (Juniper & Mitchell, 2008: 7). The assumption was that housing prices would remain stable and that options for re-financing on the basis of increasing property values would remain available. However, in 2006 housing prices began to deteriorate, which undermined equity and thus exposed risk, subsequently foreclosures began to rise.

This undermined the value of financial assets based on these mortgages (mortgage backed securities), which had been given investment grade status by credit rating agencies. Concurrently, insurance provided in the speculative market through credit default swaps, which offered holders a guarantee against loan default, were also written against many of these risky mortgage loans. As a result, many financial insurance providers were unable to honour their obligations.

Subsequently, the quality of the asset backed securities associated with the sub-prime loans was downgraded substantially and the cost of issuing such securities increased as markets realized the veracity of the underlying risk (World Bank, 2008: 61). Uncertainty caused bond spreads between the interbank interest rates and returns on government securities to widen. This had serious consequences for investment banks and hedge funds in the speculative economy, which were motivated by high yield investment opportunities. These institutions had borrowed large amounts in order to purchase mortgage-backed securities based on sub-prime loans. Access to credit for speculative investment in the interbank began to slow and investor confidence began to fail. This allowed crisis that began in financial markets of developed countries to begin to have implications for real economies across the world. Enterprises in the real economy began to have difficulty accessing the working capital essential for enterprise sustainability.

To offset the rise in bond spreads, governments associated with mature markets began to use monetary policy to increase liquidity and restore confidence. However, the turbulence in financial markets saw spreads across both mature and emerging markets - especially those relating to non-investment grade corporate bonds (high yield, high default) - rise, while investment grade corporate bonds remained relatively stable (World Bank, 2008: 62). This meant that credit conditions remained tight for riskier investments.

Mainstream analysts had underestimated the degree of risk to which the financial sector had been exposed due to the relaxation of lending practices, particularly in the US housing market. However, the warnings were there. For instance, UN/DESA (2007: 79-80) had warned of the great vulnerability of the financial and economic system, and likelihood of major a financial crisis that would lead to a crisis in the real economy, with the US sub-prime mortgage market as the most likely trigger. In 2005 more cautious banking systems, such as the cooperative banking system, had issued risk alerts warning of the dangers of venturing into riskier segments of the market and the impact that this would have on net worth (NUCA, 2005).

The failure of market participants to exercise due diligence and failure of policy makers and regulators to realize the extent of the risk associated with activities in financial markets has had global repercussions. The consequences of these events have cut through to the real economy. For instance, small and medium size enterprises, which provide a major source of employment globally, are likely to encounter increased levels of vulnerability, associated with decreased access to credit markets (especially due to their reliance on external finance) and weak demand related to failing confidence.

While these events have alarming implications, they should be seen within the context of long term trends occurring in the market over the past three decades. [2] For instance, financial institutions have transformed and taken on different functions. Commercial banks have trended away from operating as intermediaries between household depositors and firm borrowers, to behaving in a way akin to brokers.

[2] The series of events that have now places many of the world's economies in recession should be seen within the overall growth trajectory of the global economy. For instance, the processes which sustained growth in the US could not have occurred if China and other Asian countries had not run massive current account surpluses which fostered an accumulation of savings and foreign reserves that propped up exchange rates and flooded financial markets (Godley, Papadimitriou & Zezza, 2008: 2).

Globalization has been accompanied by financial liberalization, which has seen the reform of many policies that would have previously insulated national economies from crises elsewhere in the world. Shocks in financial markets have increasingly triggered economic crisis in real economies.

2.2 Growth trends and the impact of the global financial crisis

The turmoil in global financial markets has had dramatic implications for economic growth in developed countries and developing countries, with most countries now reporting that they've entered into in a recession. China and Japan have been hit by falling demand for exports, which has subsequent implications for exports of resource rich countries. The first UN/DESA monthly briefing for 2009 reported that:

> At the start of 2009, credit markets remain constrained, asset and commodity prices have deflated, and global trade is seriously depressed as industrial production has moved sharply into negative territory. Unemployment rates are up throughout the developed world and prospects in developing countries are getting dimmer by the day. The threat of a prolonged depression remains very real (UN/DESA, 2009a).

By September, the UN/DESA monthly briefing reported that the global economy was showing signs of recovery, but that risks and uncertainties remained (UN/DESA, 2009c). It was noted that employment growth, private investment demand and consumer demand needed to accelerate in order to ensure that progress remains steady. It also noted that a major food crisis was imminent in East Africa.

Economies the world over have seen high levels of uncertainty, declining asset values and consumer demand falling. The economic down turn has had implications for employment and progress towards poverty reduction the world over. Analysis from the ILO's Key Indicators of the Labour market (KILM) indicates that between 2007 and 2009 up to 61 million additional people may become unemployed and up to 222 million additional workers are likely to fall into extreme poverty (ILO, 2009).

The events in global financial markets have compelled governments to play a vital role in stimulating demand, in order to minimize the transfer of consequence from activities in the nominal economy to the real economy. The crisis has seen governments in developed countries step in to prevent the collapse of the financial sector, in an attempt to restore confidence and circumvent the subsequent impact that recessions have on enterprise and households. Many governments have also launched job creation programmes and targeted cash transfer programmes. Interest rates have been lowered in many countries in an attempt to improve lending conditions in the interbank, rather than being tightened to control inflationary pressures (largely due to volatility in commodity prices).

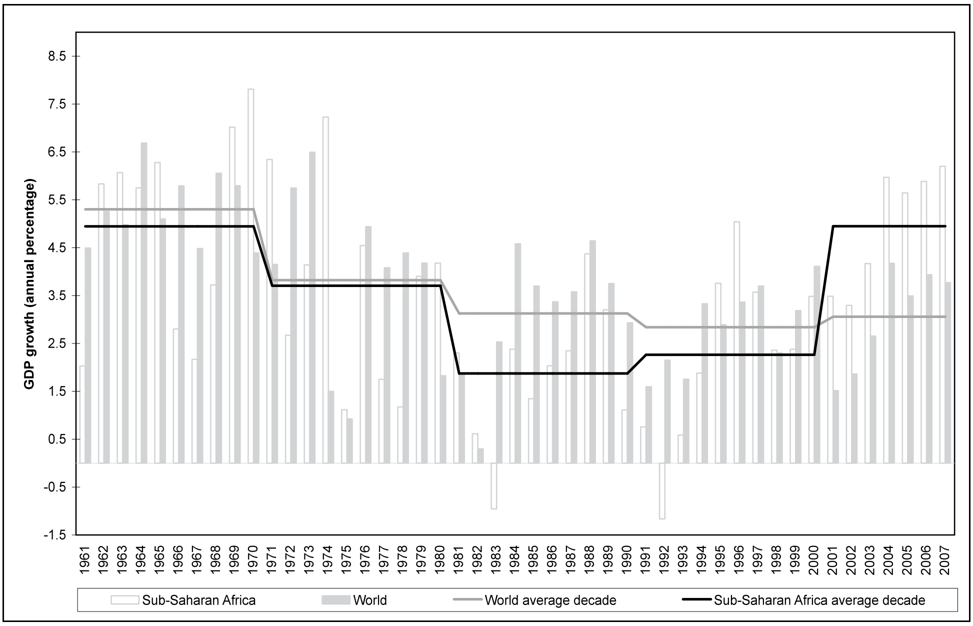
It is clear that interventions should be focused on medium and long term developmental goals and that stimulus packages put forward be accompanied by a comprehensive framework for managing taxation and future investment sources. The international community have shown strong commitment to delivering support to developing nations to ensure their continued growth and development. Strong coherence and coordination between national and international policies is needed if stimulus packages are to restore confidence and correct imbalances in financial markets.

Notably, analysts have long questioned the sustainability of the current global growth trajectory, highlighting problems associated with continued reliance on consumer demand from the US and relaxation of credit regulation. The high commodity prices associated with export growth have benefited many developing countries, but have also entailed imbalances and indebtedness for many households, business and institutions in developed economies (UN/DESA, 2009d). In 2005 UN/DESA's World Economic Situation and Prospects documented that global imbalances posed a potential threat to sustained growth and called for a rebalancing of the growth, investment and savings and regulation of financial markets (UN/DESA, 2009e). In 2007 US sub-prime mortgage market was identified as the most likely trigger for destabilization of financial markets. The update of the World Economic Situation and Prospects in mid 2009 indicates that growth in developed economies has been undermined and that developing countries were also being hard hit by capital reversals, increasing borrowing costs and the collapse of commodity prices (UN/DESA, 2009d).

Over the past decade global growth and growth in Africa has been strong, partly due to increasing demand for primary resources, increased agricultural output (particularly in East Africa), growth in manufacturing and political stability. As figure 1 below illustrates, the favourable outlook saw external investment increase and the GDP grow to levels not seen since the 1960s.

[3] Less than $1.25 USD per day.

Figure 1: GDP growth for Sub-Saharan Africa and the World, 1961-2007



Source: World Bank (2009) World Development Indicators, World Bank, Washington D.C., Online database; also see van der Hoeven & Lubker, (2008).

However, instability in global financial markets has seen this rate decline, bringing it inline with average global growth rates over the last decade in the medium term. Growth in 2008 was estimated at 5.4 percentage points for developing countries and 4.7 percentage points in Sub-Sahara Africa. For 2009 UN/DESA (2009d: 2) forecasts that that growth will slow to 1.4 percentage points throughout the developing world and -0.4 percentage points in Sub-Sahara Africa. It is expected that developing economies will be growing strongly in 2010.

2.3 The consequences of global financial crisis in Africa

Africa's low level of integration into global financial markets isolated it from the immediate impacts of the global financial crisis. Extensive bail out packages for banks have not been announced in Africa and few firms held assets associated with the global financial crisis (Louis, Leonce & Taufik 2009). It is believed that financial institutions in Sub-Sahara Africa had little direct exposure to the US sub-prime market. However, the exposure of the private sector to these financial markets remains to be understood. Despite low level involvement the factors that triggered the global financial crisis, the continent will not be spared from the spillover effects associated with the financial crisis. Technological advances, trade and financial liberalization, along with regulatory reforms aimed at enhancing economic integration have decreased barriers to markets of developing countries throughout the world.

Moreover, countries in Sub-Sahara Africa are currently facing multiple challenges. Many countries are still recovering from the food and oil shocks in 2008; many are still recovering from political crises; many continue to struggle with environmental hardship. The consequences of the global financial crisis therefore add an additional layer of burden to many economies that are already stressed.

The main ways that Africa is being affected by the global financial crisis include reduction in global demand, volatility in commodity prices and indirect effects associated with potential reductions in aid, equity inflows, reductions in foreign direct investment (FDI), tighter external financing contexts and reduced remittance transfers. For instance, many sources of private capital have reduced their activities in the developing world, including Sub-Sahara Africa (UN/DESA, 2009d: 3; Louis, Leonce & Taufik, 2009). Due to the credit crunch in 2008, there were no bond issues in foreign currency in 2008 in Africa and this has seen several countries (Kenya, Uganda, Tanzania) delay the sourcing of funds for infrastructure development or source finance from local markets rather than international financial markets. Demand for African commodities is decreasing and prices are falling. The IMF (2009: 3) noted that countries in Sub-Sahara Africa are in a weaker position than other development countries because of the high prevalence of poverty and reliance on commodity exports.

There is evidence of the actualization of downward trends in the economy. For instance, net portfolio equity inflows fell between 2006 and 2007 by 4.9 billion USD, largely due to instability in financial markets (World Bank, 2008: 150). This trend is set to continue throughout 2009. Analysis of net FDI inflows reveals a climb from 2.3 per cent of GDP in 2006 to 3.0 per cent of GDP in 2007. However, the increase was largely due to one off purchase of a 20 per cent equity stake in South Africa's Standard Bank by the Industrial and Commercial Bank of China.

In Ethiopia, export earnings during the 2008/09 financial year fell 40 per cent lower than expected (UN/DESA, 2009b). In Uganda, FDI inflows fell by 5.5 per cent over the same period. Ethiopia, Djibouti, Somalia and Uganda are in need of food aid as a combination of drought and volatility in prices leaves farmers vulnerable (UN/DESA, 2009c). Some other countries, such as Egypt, expect that growth will continue, with a probable growth forecast of 4.7 per cent. The Government of Malawi expects annual growth to reach 7.9 per cent for 2009 (UN/DESA, 2009b). Unemployment is increasing in most Sub-Saharan countries, but inflation rates are declining.

For many African countries, commodity exports have been major drivers of growth (Louis, Leonce & Taufik 2009). In lead up to the crisis, export in agricultural products increased, however growth in Africa was essentially driven by the commodity boom in oil and minerals. While these industries are not considered to be highly labour intensive, retrenchment of staff has been considerable. For instance, 27 per cent of mine workers in Zambia lost their jobs (see Box 1). Botswana saw GDP for 2008/09 decline by 20.3 per cent (compared to 2007/08) due to reductions in mining output.

Despite growth that was driven by a commodity boom, the consequences of the crisis are likely to manifest in increasing vulnerability of smallholder agriculturists households. Reduced global demand has seen commodity prices fall, therefore reducing the income of smallholders, which then has implications for the ability of smallholders to access and repay credit. In Tanzania, it was reported that produce marketing facilities (e.g., cooperative unions) were experiencing difficulties associated with decline in global demand and had failed to sell all produce abroad. Tanzania has accessed $336 million USD from the IMF's Exogenous Shocks Facility to cushion such impact.

While some measures to mitigate the impact of the crisis have been announced in several Africa countries, if these strategies are to mitigate the impact of the crisis, their effective administration and timely implementation is to be underscored. Importantly, if the affects the global financial crisis continues without intervention, gains made in human development and poverty reduction could be lost.

Box 1: Zambia and the financial crisis

Zambia has made considerable economic and social gains over the last decade. For instance, real GDP growth has been strong and its positive performance has seen GDP per capita increase from $315 USD to $918 USD in 2007 (Ndulo, et al., 2009: 2). This has increased opportunities in the labour market and allowed government to increase commitments to poverty reduction.

Growth in Zambia has been attributed to economic reform and investment from bilateral and multilateral donors (Ndulo et al., 2009). In 2006 official development assistance (ODA) accounted for approximately 13.2 per cent of GDP, while foreign direct investment (FDI) accounted for 5.7 per cent of GDP (Ndulo, 2009: 5). There are now indications that one of the consequences of the financial crisis in Zambia is a slowing of FDI, apparent in project delays and in the down scaling of projects. ODA has however remained constant.

Growth in the Zambian economy has also been associated with rising copper prices; therefore the collapse of the copper price in the third quarter of 2008 created an immediate shock (Ndulo, et al., 2009). Reaction to the down turn in the economy saw approximately 8100 mine workers (27 per cent of all mine workers) become unemployed. It is likely that this will have implications for the revenue of service providers, particularly small and medium enterprises (SMEs) including cooperatives that operate within the copper belt. Spillovers associated with rise in unemployment, such as increased loan delinquency - of both the unemployed workers and SMEs - is expected.

The global financial crisis has occurred at a time when many countries in Africa were developing and strengthening their growth and development strategies after a long history of stagnant growth, with few gains on increasing the standard of living.

Moreover, the Human Development Index for Sub-Saharan Africa reveals that progress has been relatively static. Indeed, Africa is the only region in the world that has seen poverty rise over the last three decades. Analysis of GDP growth and employment growth between 1998 and 2004 also reveals stagnation, suggesting a situation of jobless growth, which has implications for poverty reduction (Nkurunziz, 2007:169). Progress has been made since the turn of the millennium, however it is now realized that this progress could be jeopardized as the reality of the economic downturn is realised. Furthermore, many countries in Africa do not have well-functioning safety net programmes that can be up-scaled quickly to increase social protection during crisis.

The above mentioned factors will see employment, along with household income decline. For many Africans the consequences associated with the global financial crisis could be a tipping point for their poverty situation. To further illuminate the potential consequences that may follow the financial crisis, the ILO has undertaken scenario analysis of the global employment situation (ILO, 2009). Findings reveal that in the most pessimistic scenario the number of Sub-Saharan workers in extreme poverty could increase by 9.2 per cent or 37 million by 2009 - up from 59.0 per cent or 168 million people in 2007 (see table below).

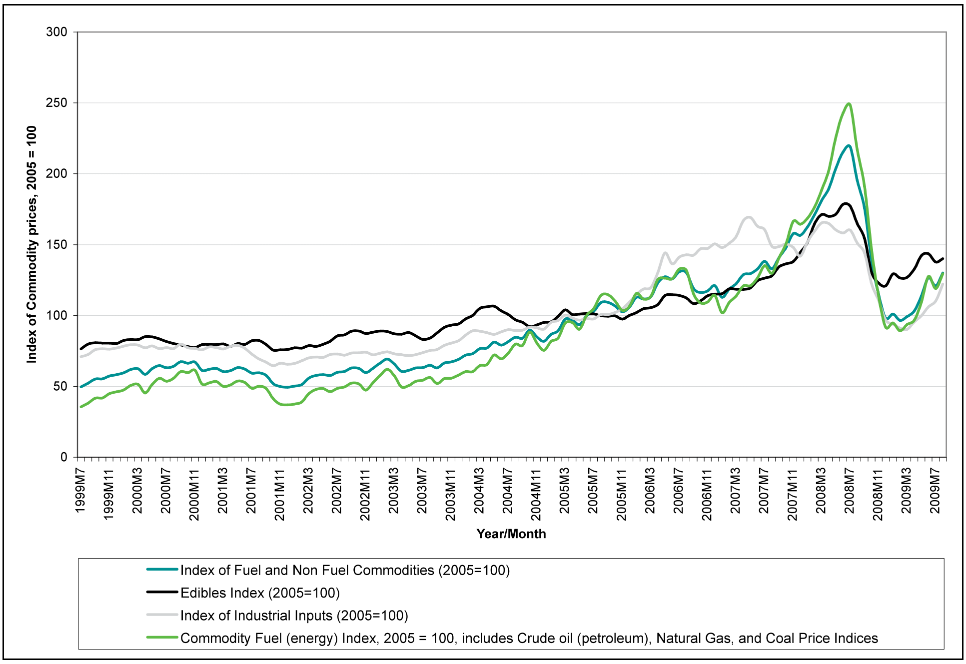
Table 1: Forecasts for aggregate increases in working poverty ($1.25 USD per day)

Region	2007	2008	2009
Sub-Sahara Africa (millions)	168 million	Up to 187 million	Up to 205 million
Sub-Sahara Africa (rate)	59.0 per cent	Up to 63.8 per cent	Up to 68.2 per cent
World (millions)	651 million	Up to 765 million	Up to 873 million
World (rate)	21.9 per cent	Up to 25.4 per cent	Up to 28.7 per cent

Source: ILO (2009) Key Indicators of the labour Market (6th edition), International Labour Office, Geneva.

As mentioned, growth in Africa has been affected by recent fluctuations in food and energy commodity prices, which have now been counterbalanced by subsequent price falls. While prices have increased consistently from 2002, it is unlikely that the recent fluctuations could be explained by demand and supply imbalances alone (see figure below) (Chandrasekhar & Ghosh, 2008; Islam & Buckley, 2009). Such short term fluctuations have consequences for producers and consumers. Short term price fluctuations and lagging supply response make it difficult for those in agriculture, particularly small producers, to benefit. Retail prices in most developing countries are still recovering from these fluctuations.

Figure 2: Index of commodity prices



Source: IMF (2009) Primary Commodity Prices, IMF, Washington DC., Online database. Also see Chandrasekhar & Ghosh (2008).

In the three years prior to February 2008, global food prices rose by 83 per cent (Islam & Buckley, 2009: 2). The rising cost of food contributed to inflationary pressures and the global food crisis seen in 2007/08 (see figure above). The rise in food prices can be attributed to many structural factors, including the declining trend in agricultural investment, increasing incomes in emerging economies and agricultural trade practices in some developed economies, as well as declining growth in yields of major crops, rising cost of inputs and increasing demand for bio-fuels. There is also evidence that speculative behaviour in commodity futures contributed to price increases and worsened the food crisis in the spring of 2008.

The forces of recession have seen decline in agricultural commodity prices and decline in demand. Such volatility is harmful for development, especially in Sub-Sahara Africa due to the lack of capacity of those countries to absorb external shocks. This decline has created spillover affects, as fall in demand has meant that facilities associated with the marketing of agricultural produce have failed to sell products abroad. This directly impacts on the ability of these organizations to repay their loans, access new loans and provide services. Developing countries experiencing this situation will require government to provide timely responses that can mitigate the consequences of this situation.

In general, horticultural exports have suffered, particularly the cut flower market. The market has experienced lower prices and lower demand for flowers, which has required producers to seek out new markets, down scale production and diversify crops.[4] For countries such as Kenya, which provides one third of the European Union's demand for cut flowers, the implications of decline in demand will impact severely on household budget of producers (Mwega, 2009: 16).

The consequences of the global financial crisis will be experienced differently by each national economy in Africa. Despite heterogeneity of impact, it is likely that the situation of many poor households in Africa will deteriorate both in long and short-term. It is therefore important that governments actively try to reduce the consequences of the global financial crisis within their respective countries. This is especially urgent as strategies that households employ to respond to shocks may also have long-term consequences. For instance, poor households may respond to shocks in ways that see their vulnerability increase and long term productivity decrease. To illustrate, the undermining of household income can see children withdrawn from school in order to engage in economic activities to support their family (Beegle, Dehejia & Gatti, 2006). Alternatively, there are some mechanisms, such as membership with a cooperative that may mitigate vulnerability.

3. Cooperatives in Africa

In order to understand how cooperatives in Africa are experiencing the global financial crisis, one first needs to understand what a cooperative is, as well as the current state of cooperative development in Africa – the strengths, weaknesses and challenges that cooperatives face.

A cooperative is generally considered to be an enterprise with broader aspirations and objectives than other corporate forms. More specifically, a cooperative is:

> an autonomous association of persons united voluntarily to meet their comment economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (ILO, 2002).

Like all forms of enterprise, cooperatives create opportunity for income generation, employment, increase the availability of goods and services, and contribute to economic growth. What sets cooperatives apart from other forms of private enterprise is found in their connection to community, underlying values, ethics and democratic principles (ILO, 2002). Cooperatives are an instrument that mobilises self-help. Decisions taken by cooperatives tend to balance the need for profitability with the broader economic and social development needs of their members. This is

[4] It is also worth mentioning that harsh environmental conditions in Sub-Sahara Africa have hindered growth. The agricultural sector in East African countries saw a slowdown in 2008 due to drought, which increased local prices and thus reduce purchasing power. Recent events have seen commodity prices fall and agricultural marketing facilities fall to sell products abroad due to the reduced global demand. Any fluctuations in the agricultural sector in Sub-Sahara Africa need to be carefully observed, as downturns have dramatic implications for food security and employment. To illustrate, the agricultural sector provides employment 65.9 per cent of people employed in Sub-Saharan Africa (ILO, 2008).

because members of cooperatives are also the clients or customers of cooperatives. The cooperative approach therefore tends to focus on sustainable development.

Many underestimate the extent of cooperatives, their membership, the jobs that they have created and the support that the cooperative approach has throughout the world. Ranging from micro-scale to multi-million dollar global enterprises, cooperatives are estimated to employ more than 100 million people and have more than 800 million individual members globally (ICA, 2009). In 2006, the world's top 300 cooperatives were estimated to have an annual turnover of US$963 billion, which is equivalent to the GDP of Canada. In Kenya 303,455 people are directly employed by cooperatives and up to 16.5 per cent of the population indirectly derive their livelihood from the increased demand and associated opportunities to provide goods and services to cooperatives (Pollet, 2009).

Cooperatives have traditionally been concentrated in sectors concerned with agriculture, finance, housing, wholesaling and retail. However they are also found in industries such as childcare, tourism, utilities, transport, health care, schools and many others. Nevertheless, agriculture and finance remain the dominant activities of cooperatives throughout the world. In Africa cooperatives are most commonly found in the agricultural sector and in financial services. Prevalence varies according to the particular structure of the national economies, though in general agricultural cooperatives represent 40 to 60 per cent of all cooperatives within a given country, and cooperative financial institutions represent 30 to 50 per cent of the cooperative movements in given country (Pollet, 2009).

Farmers in the agricultural sector can use cooperatives and other member based organizations to achieve greater economies of scale, in order to mitigate the impact of fluctuations in export prices and input costs. These functions are important, especially given recent volatility in commodity prices and falling demand.

Research from the IMF (Hesse & Cihak, 2007) found that cooperative financial institutions tend to be more stable in times of crisis, as their investment patterns use the capital of members in ways that best serve their long term needs and interests. They have a lesser tendency to invest in high risk financial markets when compared to other forms of commercial banks. It is therefore thought that their comparative stability, under both average and extraordinary conditions, can help to mitigate crisis impact for members and clientele, especially in the short-term.

Recent research indicates that approximately seven per cent of the African population are affiliated to cooperatives (Pollet, 2009). The research indicates that while cooperatives are large in number and represent an organized movement, the movement suffers constraints that are related to lack of voice or effective representation in society. Pollet (2009) also found that specific social protection mechanisms associated with cooperatives in Africa are limited. For instance, there are some isolated initiatives of cooperatives that operate social programmes for orphaned and vulnerable children.

It is noted that elements of the cooperative model decrease vulnerability of the individual by sharing risk among a group of individuals. Cooperatives are also inclusive of the poor. Financial cooperatives, such as Savings and Credit Cooperatives (SACCOs) can provide loans to members to help meet costs of schooling or to smooth shocks in household budgets. SACCOs also help to meet the needs of farmers for credit throughout the agricultural cycle. This creates need for bridging finance, in order to access agricultural inputs, as well as finance for daily living requirements. Access to finance creates opportunity for farmers to purchase services and infrastructure that increase agricultural productivity.

To date there have been few reports on the media that mention how cooperatives are faring in the financial crisis. It was reported that the Uganda Cooperatives Transport Union had difficulty in accessing credit. However it seems that this is due to the poor financial state of the cooperative and mismanagement of funds rather than an impact of the financial crisis. For example, it was reported that the union borrowed approximately $250,000 USD from Barclays in order to purchase vehicles, however the funds were channelled into operational expenses (Butagira & Mashoo, 2009).

There have been reports that the Cooperative Bank of Kenya did not reach its targeted subscription when it was listed on the Nairobi Stock Exchange. The Cooperative Bank of Kenya, which was until recently owned by the cooperative movement, was publicly listed on the stock market in November 2008. It only filled 81 per cent of its targeted subscription, which is the first under-subscription on the Nairobi Stock Exchange in recent times (Mwega, 2009: 9; Wanyama, 2009: 12). It was reported that poor performance was most likely related to the slump in investor confidence and constrained credit markets.

3.1 Financial cooperatives in the crisis

Over the past two decades a particular type of cooperative finance – the savings and credit cooperative (SACCO)[5] – have been widely embraced throughout Sub-Sahara Africa (Develtere & Pollet, 2008: 53). The SACCO movement in Sub-Sahara Africa has been increasing in popularity and now comprises between 30 to 50 per cent of all cooperative enterprises and provides financial services to 8.81 per cent of the population in Sub-Sahara Africa (see tables below) (Pollet, 2009: 7; WOCCU, 2009).

[5] In French – COOPEC - cooperative d'Epargne et de Credit

Table 2 : Membership and Financial Statistics of Credit Unions (including SACCOs) for selected countries in Sub-Saharan Africa between 1999 and 2008

Year	Countries	No. Of SACCOs	Union Members	Savings	Loans
1999	27	5,072	2,417,492	$605,347,370	$457,949,706
2000	27	3,267	2,135,463	$525,944,752	$457,562,550
2001	27	3,359	1,995,753	$494,443,631	$445,477,530
2002	13	4,406	3,065,797	$751,918,941	$767,829,953
2003	19	6,528	5,918,101	$1,424,590,542	$1,251,829,636
2004	15	7,351	4,201,043	$1,482,811,458	$1,302,678,148
2005	22	7,468	9,602,714	$2,089,673,987	$2,138,442,995
2006	24	8,237	13,145,565	$2,673,645,047	$2,592,153,025
2007	22	11,849	15,123,110	$3,490,844,677	$3,506,076,133
2008	22	18,220	20,116,921	$4,387,563,971	$3,748,738,399

Source: WOCCU (2009) Statistical Report

The most successful SACCOs in Sub-Saharan Africa are those with members who are in the formal sector. As with all other forms of cooperative finance, if the incomes of members are jeopardised in the financial crisis, the net worth of the cooperative may suffer. As a large number of SACCOs serve rural areas involved with agriculture, the recent fluctuations in commodity prices may see some spillover effects for SACCOs. For instance, members may require additional finance due to falling profit.

Table 3: Membership and Financial Statistics of Credit Unions (including SACCOs) for selected countries in 2007

Country	Credit unions	Members	Penetration rate	Savings	Loans
Benin	68	1,408,200	31.44%	105,547,179	125,223,260
Burkina Faso	61	1,263,303	16.18%	119,025,822	111,143,273
Cameroon	191	229,765	2.23%	125,974,932	77,833,150
Cote d'lvoire	31	1,762,227	16.92%	208,224,508	77,474,712
Gambia	89	29,337	3.17%	6,193,719	4,776,340
Ghana	318	229,952	1.68%	69,088,546	49,344,709
Guinea-Bissau	13	20,878	2.48%	583,394	453,252
Kenya	3,990	4,000,000	19.11%	2,109,896,053	2,280,083,977
Lesotho	141	33,339	2.62%	1,458,649	233,447
Malawi	64	73,849	1.03%	8,412,632	7,254,625
Mali	116	1,256,900	20.93%	103,337,013	141,986,860

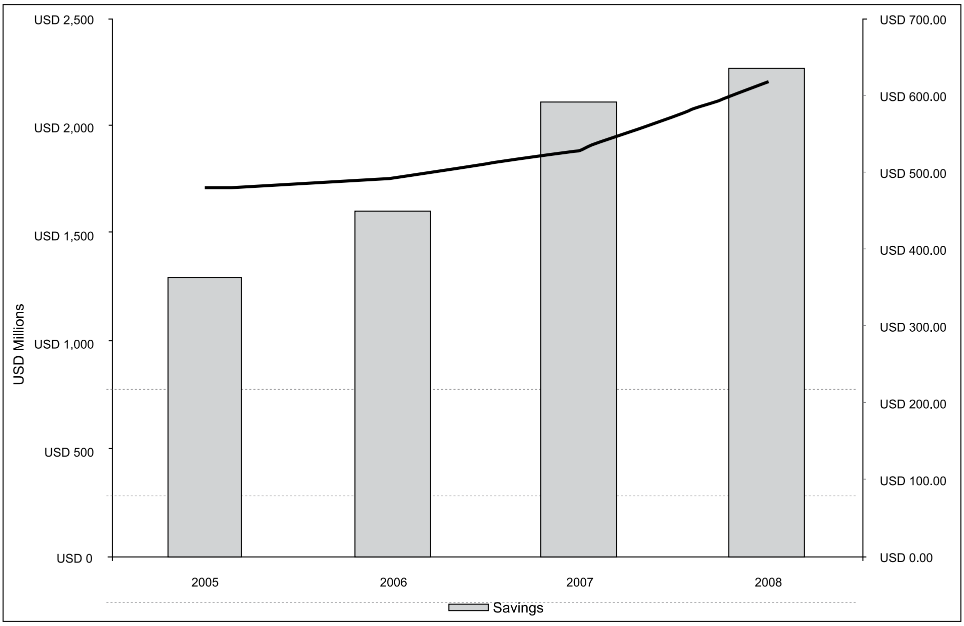
Mauritius	100	73,000	8.17%	N/A	N/A
Niger	116	365,398	5.44%	13,220,604	23,396,340
Rwanda	139	656,075	11.57%	115,170,553	109,530,086
Senegal	321	1,511,905	21.36%	232,937,972	276,515,254
Seychelles	1	10,620	18.70%	7,788,712	5,213,691
South Africa	34	13,575	0.05%	8,659,237	7,383,343
Swaziland	62	53,000	8.31%	50,104,302	36,554,689
Tanzania	3896	480,000	2.22%	29,511,252	24,251,349
Togo	67	711,787	21.87%	116,434,207	97,004,945
Uganda	1,970	860,000	5.73%	55,361,305	48,951,049
Zimbabwe	53	80,000	1.09%	3,914,086,	1,467,782

Source: WOCCU (2008) Statistical Report; Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population.

One of the main issues of SACCOs in Africa is associated with liquidity. Managing liquidity and capital levels, while meeting the needs of members for finance, has been one of the major ongoing challenges for cooperative financial institutions in Africa. This is connected with the model of cooperative finance in Africa, which essentially follows the three to one principle, based on member savings and shares. This means that loans are available to one in three members at any given time and that availability of loans rotates between members on this basis. Under normal circumstances if this model is managed effectively, it can continue to operate – as it has in Africa for some time.

However, in times of economic downturn, the functioning of the SACCO can be undermined if member's incomes are destabilized by volatility in the economy. This may see members' interaction with the SACCO differ. For instance, savings of members may deplete and demand for loans may increase. Given the ILO's forecast for increases vulnerable workers, it is likely that SACCOs will indeed experience such changes. The Kenya Union of Savings and Credit Cooperative reported that the consequences of the global financial crisis have led to reduced growth savings: 7.6 per cent growth in savings in 2008 compared to 31.2 per cent in 2007 (see figure below) (WOCCU, 2009). SACCOs in Kenya have reported increase in demand for loans, but have exercised caution in responding to requests. For 2008 loan growth was negative, at -13.2 per cent. The trends evident in Kenya have been seen in many other African countries.

Figure 3: Kenyan SACCOs' growth in savings between 2005 and 2008



Source: WOCCU (2009) Statistical Report

Growth in assets and growth in reserves was also negative for SACCOs in Sub-Sahara Africa for 2008. Reserves declined by an average of two per cent, and as much as 21 per cent in Malawi and 24 per cent in South Africa. Assets declined by an average of five per cent for the continent (WOCCU, 2009).

For 2008 savings in SACCOs across Sub-Sahara Africa grew by an average of 31.9 per cent, which is comparable to average saving growth rates for previous years. Loans grew at an average of 12 per cent, which is lower than growth rates of previous years (WOCCU, 2009). For instance, in 2007 loans issued by SACCOs grew by 35.3 per cent; in 2006 loans grew by 21.2 per cent. Growth in new membership has been steady. This suggests that SACCOs across Africa may be exercising caution in responding to the loan requests of members. Indeed, it was reported that some SACCOs have been scaling down loans associated with export commodities in order to protect themselves from potential loss.

Under normal circumstances, delinquency rates of SACCO loans can appear high, although much of this is due to delinquent loans associated with the agricultural cycle. However, the overall trends indicate that there have been additional burdens on households over the past 12 months. Importantly, the loan evaluation system and ability of members to repay within a specified timeframe has not always been considered sufficiently in the loan application process. The cooperative model of finance relies to a certain extent on the common bonds shared by members, which fosters a trust between members. While the common bonds are highly important for institutional stability, there is space to introduce further regulatory measures to enhance discipline, long term sustainability and ensure that the net worth of the SACCO is not undermined. However, many SACCOs in Africa are not computerized; many of those that are computerized are using systems that are outdated. For instance, in Kenya it was reported that some SACCOs were still using the DOS processing system, which has several flaws and can be corrupted. Upgrading the system would enhance the overall monitoring and transparency of its operations.

SACCOs that are associated with specific sectors of the economy that have been affected by the financial crisis have also been more severely affected. For example, recent volatility in commodity prices and falling international demand for exports, especially in industries such as the flower export market, has seen the income of members fall and requests for bridging finance increase. As the primary source of cooperative finance comes from member deposits, the falling income of members in various sectors of the economy has seen some SACCOs reporting need to ration their services and retrench staff.[6] Similar reports have also been noted by SACCOs associated with the tourism industry, which has also been hard hit by the global financial crisis.

SACCOs in rural and urban areas generally service populations with different characteristics and it is therefore likely that the consequences of the financial crisis will be felt differently in rural and urban SACCOs. SACCOs in urban areas are usually comprised of members who are employees of government, such as postal workers or teachers. In such SACCOs, the source of member income is relatively stable. However, it has been reported that there have been delays in the process of remitting some such SACCOs in Africa. In interviews undertaken it was suggested that this was due to interruptions to the lines of credit from abroad and that delays in remitting were being used by government to temporarily bridge finance. In Kenya such delays, which were at times up to two months in duration, were affecting the liquidity of SACCOs.

Many people who are members of SACCOs, particularly those in rural areas earn incomes that place them below their national poverty lines. If the income of these members are undermined than they become vulnerable to predatory lending from other sources of finance that do not have credit policies that are as stringent as those of SACCOs. In such cases, members often eventually call on their SACCO to help members to consolidate debt. In Sub-Sahara Africa, SACCOs get through to areas that other forms of lending don't manage to reach and don't always require the additional infrastructure that other lenders require for operations. They tend to lend on a short term basis, due to constrained capacity to lend on a longer basis. Interest rates can be comparatively low and loan recovery rates are also high. For instance, in Kenya 2002 loans for school fees and emergency loans were typically set at a monthly rate between 1.0 and 1.5 per cent (12 to 18 per cent per annum) on a declining basis and available for 12 months (Evans, 2002: 5).

[6] Interview with KUSSCO

Pyramid selling schemes have seen the capital of SACCOs depleted in various regions where they have operated (see Box 2). This means that equity that would have been in the SACCO was removed through these schemes and it also entails a long recovery period, as members slowly replace their savings. SACCOs that have been exposed to such schemes are in a vulnerable situation and have a reduced capacity to respond to shocks.

SACCOs are now experiencing increasing pressure as the general community fails to secure loans from other financial institutions. Representative bodies have urged SACCOs to exercise cautious in admission of new members and have stressed adherence to the savings first principle. Further, representative bodies have urged SACCOs to be alert to the demands of current members. In a climate where access to credit is poor, the access that the members of SACCOs have to credit may be bought by others. Furthermore, with wide spread poverty, a large informal economy and associated informal lending can provide the right climate for exploitative pyramid selling schemes to flourish. In such a context, it will be important for SACCOs to adopt and implement mechanisms to verify the validity and authenticity of loan application requests rigorously.

Box 2 : Fraudulent financial schemes and SACCOs

A society with wide spread poverty, a large informal economy and associated informal lending provides the right climate for exploitative pyramid selling schemes to flourish.

The Development Entrepreneurship for Community Initiatives (DECI) – A pyramid investment scheme in Tanzania

The DECI was a pyramid investment scheme that promised those recruited far more than it could ever deliver. DECI operated for over three years through secretive informal networks in Tanzania. As the majority of Tanzanians are excluded from the banking system (only 11 per cent of the population have a bank account; a further 2 per cent are serviced by SACCOs), the membership of DECI blossomed to an incredible 700,000 members. The scheme was eventually shut down by the Government in April 2009; however, the coupling of massive poverty and a large informal sector provides a situation where schemes similar to DECI can easily mushroom once again.

Pyramid selling schemes, just like speculation focused on the short-term gains rather than the long term yields, are inherently instable, and many who invest in the scheme are left in an even worse situation. As the impact of the global financial crisis begins to penetrate the economies of developing countries, an increasing number of financially desperate people may fall victim to such schemes. Indeed, many people have already gone into debt based on the promise of high yield investment opportunities, and in doing so they have failed to realize that the risks of these schemes are disproportionately high when compared to returns actually received.

How does this affect Cooperatives?

The existence of such a scheme affects cooperatives, particularly SACCOs in two main ways.

Firstly, SACCOs have seen an increase in demand for loans that have been fabricated. In such a context, it will be important for SACCOs to adopt and implement mechanism to verify the validity and authenticity of loan application requests rigorously. This situation has tested the loan authorization process of SACCOs and they have needed to strengthen their commitment procedure. However, inadequate staffing and lack of efficient and effective information management systems makes it difficult verify the authenticity of member loans in practice.

Secondly, this kind of initiative sees members either remove their savings or seek loans for investment in these schemes - instead of investing their savings with the SACCO. Members and potential members lured by high short term gains nay undervalue the reliability of long term investments made through SACCOs. If such schemes continue to mushroom, there could be consequences for the growth of sustainable financial systems that have the long term interests of their members at heart. Moreover, the scheme could eventually affect the asset quality of the SACCO and leave it in a situation where it has a reduced capacity of respond to shocks.

3.2 Cooperatives and agriculture

It is noted that individual producers are likely to the worst affected by the financial crisis in Sub-Sahara Africa. They are currently suffering reduced income due to volatility in commodity prices and decline in global demand. It is likely they will also experience greater difficulty in accessing loans as financial institutions become more risk adverse (as noted above).

Workers in the agricultural sector require access to finance to cover costs between harvesting periods. Access to finance creates opportunity for farmers to purchase services and infrastructure that increase agricultural productivity. It also means that they have access to a facility that can help them manage seasonal liquidity shortages and cover unforeseen expenses. Lines of credit can also be organized for storage of produce, which enables producers to sell their produce under more favourable market conditions (see Box 3).

Some countries in Africa organize the marketing of agricultural produce through cooperatives, while some organize the marketing of produce through associations or unions. For example, Tanzania organizes the marketing of produce such as coffee and tobacco through marketing cooperatives. In Tanzania there are over 2,500 crop marketing cooperatives (Maghimbi, 2009). In other countries, such as Kenya, the marketing of agricultural produce operates through associations and unions.

In Tanzania, it was reported that marketing cooperatives were experiencing difficulties associated with decline in global demand. Many cooperatives that bought crops from farmers failed to sell the products abroad due to the crisis. The government has therefore devised a strategy to ensure that marketing cooperatives will continue to be able to access finance from banks and continue to provide services to members. As cooperatives are an organized group, the government has been able to identify them as a target group for inventions that are intended to mitigate the impact of the financial crisis.

The announcement of the Tanzanian Government's stimulus package includes measures to increase the capacity of its Agricultural Input Trust Fund (AGITF) to respond to demand for credit from producers and their representative bodies. The danger is that if this plan is not implemented in a timely manner or managed effectively and efficiently, it will be an avenue that the consequences of the global financial crisis will be able to deeply penetrate Tanzania society. In order to ensure that this plan can work, AGITF needs to be adequately resourced with credit and human resources to ensure implementation. AGITF responsiveness to demands for loans and monitoring of loan recovery will be key factors in its effectiveness.

It is worth noting that many cooperative unions source funds from commercial banks to be able to provide their services to members, as SACCOs or cooperative banks in many countries currently don't have the capacity of provide such services. These short term loans are highly important as marketing cooperatives have generally not built strong financial capacity to buy members crops using their own resources. Indeed, access to liquidity has been an ongoing problem for many cooperatives involved in this process.

With the assistance of Tanzania Government, sources of external credit have now been guaranteed within Tanzania for the cooperative movement. However, this situation highlights the problem of dependency on external sources of credit for the liquidity needs of marketing cooperatives. As noted in Box 3, the excess liquidity of SACCOs could be more effectively used to serve the credit needs of cooperative members and subsequently decrease dependency on external finance sources. Moreover, this liquidity could be used to provide produce storage facilities that give farmers more power over the selling price of their crop.

SACCOs comprised for government employees have also been affected by volatility in commodity prices. In Africa public servants, such as educators and law enforcement officers often undertake additional economic activities, such as farming, to enhance their income. Due to the fall in commodity prices, some public servants have been increasingly taking leave from their duties in order to care for their secondary economic investments. It is likely that the consequences of the financial crisis will reduce their income and their capacity to save. Given the consequences that this can have for operation of the public system, and more specifically for educational attainment and school attendance of children, these observations deserve further consideration. SACCOs that serve public servants are in a primary position to join other bodies representing these workers in their advocacy activities.

Box 3 : Case study of Dunduliza

Dunduliza supports a network of 35 SACCOs with approximately 70,000 members in regions throughout Tanzania. One of the functions that Dunduliza undertakes on behalf of its members is the extension of finance to support agricultural processes. As part of this function Dunduliza provides input loans and loans to assist in storage of harvested produce to SACCOs in irrigated rice growing regions of Tanzania. Such services empower producers, as they are able to store and sell their produce at higher prices. Loans are provided to SACCOs within the network at a rate of 12 per cent per annum and SACCOs lend to members at between 16 and 24 per cent per annum.

Dunduliza supplies this service to members by accessing external sources of credit, as it currently does not have permission to act as a coordinating central bank for its network of SACCOs. That is, within its network, Dunduliza is not yet able to channel access liquidity that exists in some SACCOs to other SACCOs in need of liquidity. Dunduliza reported that there was approximately two billion TZS in excess liquidity within their network. There are several agencies that Dunduliza has worked with in order to provide this function to their members, including:

- The multi-donor Financial Sector Deepening Trust (FSDT)
- The Tanzanian Government's Agricultural input trust fund (AGITF)
- The Tanzanian Presidential Fund of the Central Bank of Tanzania

In June 2006 Dunduliza first applied to the AGITF for a loan for agricultural inputs worth 459 million TZS. They received half of this amount at an interest rate between 8 and 10 per cent in April of 2007. The process of gaining access to credit through AGITF encountered many difficulties. While it should be stressed that this was Dunduliza's first attempt to access such lines of credit, the time taken for processing and administration of this loan hampered the ability of Dunduliza to respond to their member's needs for loans. The funds for which Dunduliza was applying were needed by members in their network between August and September in 2006. The repayment of this line of credit was guaranteed by FSDT and the loan has now been fully repaid on time to AGITF.

Dunduliza was also successful in applying to the Presidential Fund of the Central Bank of Tanzania and received a loan of 200 million TZS at an interest rate of two per cent. However, the conditionality associated with this finance has constrained the responsiveness of Dunduliza to the demands of its members. For instance, the funds can only be used in three districts of Tanzania and the loan extended to borrowers should not exceed an interest rate of ten per cent.

The third line of credit, worth 953 million TZS, came directly from FSDT. The purpose of this loan was for storage of agricultural produce and the rate of interest was fixed at two per cent. Currently Dunduliza is in the process of applying for a fourth line of credit from FDST for this season's storage needs (worth 650 million TZS) and for additional finance (worth 300 million TZS) for business development activities.

While sources of external credit used by Dunduliza are currently stable, this situation highlights the problem of dependency on external sources of credit for liquidity needs of financial institutions and enterprise. To reduce vulnerability Dunduliza is in the process of becoming a microfinance institution, which will enable it to manage and distribute liquidity appropriately within its network, therefore reducing dependency on external revenue raising. In order to become a microfinance institution, Dunduliza must have 800 million TZS in equity. Dunduliza is therefore raising capital by offering affordable shares to members, which will ensure that the initiative has the benefits associated with member owned and controlled organizations.

4. Conclusions and recommendations

The failure of market participants to exercise due diligence and failure of policy makers and regulators to realize the extent of the risk associated with activities in financial markets has had global repercussions. The consequences of these events have cut through to the real economy. These events emphasize the need for a long awaited reform of the global financial architecture. The severity of the global financial crisis will be dependent upon the ability of the economy to withstand external shocks, which is related to macroeconomic stability and the capacity of institutions to devise and implement effective responses. In general however, it is most likely that the impact of the global financial crisis will take two to three years to dissipate.

The conclusions that can be drawn from the above brief analysis indicate that in times of crisis cooperatives tend to hold some advantages and offer society much needed services. However, cooperatives in Africa are not strong enough to insulate themselves from the subsequent economy-wide implications that have followed the global financial crisis. Analysis indicates that there are many innovative cooperative ventures in Africa, but that cooperatives on the whole are still weak and can only provide limited help in mitigating the impact of crisis for members. This is especially the case if member income is undermined. For some cooperatives, the elements that would mitigate the impact of the crisis have been weakened by internal political turmoil, government policy on cooperative development or have been affected by schemes within society that have undermined their net worth, such as the pyramid schemes.

Rising unemployment and increasing working poverty is affecting the incomes of cooperative members. Given that SACCOs tend to service a larger portion of those with low income, a deep and enduring recession and/or depression is likely to see increased delinquencies, with adverse implications for net worth.

Cooperatives are able to reach those in working areas that commercial banks don't service. For instance, SACCOs operate widely in rural agriculture in Sub-Sahara Africa. This is important due to the predominance of employment in agriculture across the African continent. The services of SACCOs can eventually provide vital credit to allow smallholders to cope with fluctuations. However, the depth of the crisis and availability of credit will affect the sustainability of SACCOs offering such services. There are indications that cooperatives are taking measures to reduce the amount of risk to which they are exposed. SACCOs are responding to member request for loans with caution.

There is a great need for greater cross border cooperation and coherence within financial markets. In this regard, the cooperative sector offers some interesting qualities. Firstly, cooperatives are governed by a set of universal principles that favour long-term gains over short-term returns. Secondly, cooperatives have developing national and international support structures that seek to enhance coherence and cooperation across borders. Given the current and increasingly frequent volatility in international markets, the relative stability of the cooperative model could offer greater security for those operating in the real economy.

In the meantime, SACCOs working with marketing cooperatives could also pursue the establishment of warehouse storage systems, which help to increase the income stability of those working in agriculture. Warehouse storage systems empower members of cooperatives in the marketing of produce and can protect against ebbs in commodity prices. Where such measures are not in place, it is important that steps be taken to remedy this situation. Economies of scale that can be achieved through cooperatives can act as a social protection mechanism.

Further, it will be important to build capacity of members through education and training to ensure that the financial decisions that are made by SACCOs support its long term sustainability. Similarly, it will be important to strengthen the regulatory framework associated with SACCOs to ensure that it is enabling and drives high standards. SACCOs need to strengthen their risk management system, to ensure that there is robust evaluation associated with purpose of borrowing and to ensure that members are not likely to default on loan repayments. In order to improve risk management, investments are needed in training of SACCO staff at the primary level. At the secondary and tertiary levels, it is important for unions and federations to strengthen the support services that they offer to SACCOs, including support for regulation as well as providing research on markets that can help SACCOs to make informed decisions. It would also be wise for cooperatives in high risk environments to spread the risk by diversifying the services that they offer and seeking to introduce people from different economic sectors within their membership.

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African cooperatives and the financial crisis

Emma Allen and Sam Maghimbi

The volatility occurring in global financial markets noted from mid 2007 onwards has brought with it serious and long term consequences for the real economy, including escalating foreclosure or downsizing of enterprise leading to increases in unemployment and volatility in commodity markets that entails loss of income and decreasing in household budgets. This paper considers how cooperatives in Sub-Sahara Africa are being affected by the financial crisis. The paper provides an analysis of the triggers of the crisis and considers how sectors of the economy, particularly those concerned with export markets and the financial sector have been affected by the crisis. The article draws focus on cooperative financial institutions and agricultural cooperatives, particularly those concerned with export markets.

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