African Cooperatives and the Financial Crisis

Emma Allen and Sam Maghimbi
Overview

• Motivation for the paper
  – The global financial crisis
  – Origins of cooperatives

• Overview of the crisis
  – Trigger, trends and consequences for Africa

• African cooperatives and the crisis
  – Financial cooperatives
  – Cooperatives in the agricultural sector
The pillars of cooperative enterprise

**Coop Values**
- selfhelp
- self responsibility
- democracy
- equality
- equity
- solidarity

**Coop Principles**
- voluntary and open membership
- democratic member control
- autonomy and independence
- education, training and information
- cooperation among cooperatives
- concern for community

**Coop Ethics**
- honesty
- openness
- social responsibility
- caring for others
Cooperative resilience

• During previous crisis, coops have exhibited resilience
  – *Example: Industrial revolution*

• Are coops exhibiting the same qualities during this crisis?
  – *Given the developmental status of African coops, how are they responding to the crisis?*
  – *Key informant interviews provided insight into this question*
The financial crisis

• Speculation focused on the short-term appreciation of assets values, rather than long-term yield on assets
  – Relaxation of lending practices
  – Underestimation of risk
  – Down grading of asset backed securities
  – Uncertainty and falling confidence
  – Slowing of access to credit

• Failure to exercise due diligence and realize the extent of the risk has had global repercussions.
The warnings were there...

- From 2005 UN DESA warned of the great vulnerability of the financial and economic system
  - the US sub-prime mortgage market identified as the most likely trigger for destabilization

- In 2004 credit unions in the US 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 of credit unions.
Consequences for growth and development in Africa

• Growth in Africa is currently being constrained by falling export demand, reduced net equity flows, fluctuations in commodity prices and much tighter external financing contexts

• Manifestation - increasing vulnerability of smallholder households and unemployment amongst workers in export commodities
  
  – 27% (or 8100) of mine workers in Zambia lost their jobs
Increase in the working poor

Projections for aggregate increases in working poverty ($1.25 USD per day)

<table>
<thead>
<tr>
<th>Region</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan</td>
<td>59 %</td>
<td>Up to 63.8%</td>
<td>Up to 68.2%</td>
</tr>
<tr>
<td>World</td>
<td>22 %</td>
<td>Up to 25.4%</td>
<td>Up to 28.7%</td>
</tr>
</tbody>
</table>

Source: ILO (2009) KILM

The number of Sub-Saharan workers in extreme poverty could increase by up to 9.2% or 37 million by 2009 - up from 59.0% or 168 million people in 2007.
The global financial crisis in Africa

- Implications of the global financial crisis is seeing the income of households reduced and gains in development now could be reversed.
- How are cooperatives in Africa being affected?
SACCOs and the crisis

• Managing liquidity and meeting the needs of members for finance
  – 1 to 3 system

• Destabilization of members’ income
  – Kenya Union of Savings and Credit Cooperative has already reported that the consequences of the global financial crisis has led to reduced savings and reduced capacity of borrow.
General trends

• Growth in assets and growth in reserves was negative for SACCOs in 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.

• Savings growth has remained consistent.
  – For example, savings in SACCOs across Sub-Sahara Africa grew by an average of 31.9 per cent in 2008, which is comparable to average saving growth rates of 30.6 per cent in 2007 and 27.9 per cent in 2006 (WOCCU, 2009).

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

General trends

• On average loans grew at a rate of 12 per cent across Sub-Saharan Africa – lower than previous years…
  – in 2007 loans issued by SACCOs grew by 35.3 per cent; in 2006 loans grew by 21.2 per cent.
  – demand for loans had increased, but that SACCOs had not responded to this increased demand for loans.
  – some SACCOs have been scaling down loans associated with export commodities in order to protect themselves from potential loss.
SACCOs and the crisis

• SACCOs associated with specific economic sectors affected by the financial crisis are experiencing spill-over effects.
  – *Tourism, commodity exports* – e.g., cut flowers

• Contextual factors also affect the ability of SACCOs to respond to shocks
Pyramid Schemes and SACCOs

• Pyramid selling schemes have seen the capital of some SACCOs depleted in various regions
  – leaving some SACCOs with reduced capacity of respond to shocks
  – Eg – Tanzania (DECI), Kenya…

• SACCOs are affected by:
  – Fabricated loans – testing SACCO loan authorizations
  – Members modify their savings patterns
Cooperatives in agriculture

• Volatility in commodity prices and decline in global demand is affecting the income of producers

• In Tanzania marketing coop are experiencing difficulties
  – Access to liquidity and volatility in commodities prices are ongoing problems for these coops
Closing comments

• Analysis indicates that:
  – economies of scale achieved through organizing into a cooperative decrease vulnerability
  – Cooperatives are adopting strategies to protect themselves from the crisis
  – but many cooperatives are weak and can only provide limited help in mitigating the impact of the crisis ...
  – this is especially the case if member income is undermined