

**Resilience of the Co-Operative Business Model
Some Reflections from Africa**

By

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1.0 Introduction

The world is witnessing an unprecedented crisis which has been termed by economists as the 'biggest of all time' (Krugman, 2009). The financial crisis, the consequent economic meltdown and recession is an outfit of the dominant capitalistic business model. It is the mother and father of the crisis because it was given all the opportunity to growth by policy makers, and it collapsed. It has become clearer now that there is nothing like a free world market and that it cannot alone stand out as the engine of growth of the global economy. Although the financial crisis and its consequences are an embarrassment to capitalism, it is very clear that, if capitalism is left unchecked, the world should expect bitter crises in the coming decades. Krugman (2009) argues that policy makers in the industrialised countries ignored the signals of the crisis, my position is that it was not mere ignorance, but it they were willing to give the capitalist business model chance of supremacy without recognition that the economy was left to the vulnerability of the 'shadow' and unregulated banking sector where trillions of dollars were tied up in long term non-performing assets (Krugman, 2009).

Different governments and even ordinary people are looking at the financial crisis and its related economic crisis as something different from the crises in the 1930s and those of the 1990s. These crises are left part of the theatre of the predominant capitalist business model. But all these crises are part of the history lessons telling us that extreme communism has collapsed and likewise, extreme capitalism will always collapse and the masses of world population will always suffer the consequences. The crisis should also give the right signals for governments to generate strategies on how they can work with the co-operative business model as a second best alternative and how the right balance should be kept between moderated capitalism and the co-operative business model. In this presentation, I have three arguments to make:

First, the economic meltdown is not independent of political and policy decision making of governments in the mature capitalist countries. Policy makers in those countries cannot blame it to the so-called blind market forces of supply and demand. They were warned about it and ignored it. Second, the capitalist business model has grown international. It is a worldwide mature economic system that drives world economy, politics and business through a globalized form of sources of raw materials and markets in search of super-normal profits across the globe

by making use of advanced science and technology. As such, its vulnerability will affect all countries at different stages of its development. One of its consequences is an increase of ‘redundant population’ and ‘disposable army of street children’ (Chachage, 2002) in developing countries where redundant population is absolute form of unemployment from birth, giving birth to children who cannot go to school and remain on the streets of big cities.

Third, the co-operative business model is challenged by two scenarios: first, it is not yet recognized by policy makers as a concretely reliable business model with different principles and ethics, and can offer long term solutions to crisis of capitalism. Second, the co-operative model itself has to demonstrate its resilience in international business in commodity trade, financial services and its own professionally recognized value-based management capacity management.

In this presentation, I will give highlights on the resilience of the co- operative model during the economic crisis; in the following areas of discussion: The conceptual framework of the co-operative business model, the main features of the African co-operative resilience and finally, we discuss the future of the co-operative business model globally.

2.0 **The Conceptual Framework of The Co-Operative Business Model**

The co-operative organization is principally resilient to the capitalist market system because it was born out of the crisis of capitalism itself. If it was a response business model, born out of that crisis, it is evolving into a new market system which has not been given practical recognition by world governments.

The co-operative model has two functioning but organically linked structures, the associative or the need and willingness for people to work together and the economic part of it, where people invest in a business to meet their economic aspirations including improvement of their conditions of life. The model starts with people to connect each other and concerning their won ideas about how they can improve their conditions of life. The formation of the business organization is guided by the initiative of social capital to which some researchers have called ‘the invisible glue’ (Moyo, 2009) of relationship that holds the co-operative economy together. The invisible glue which binds co-operators together, is at this stage, not based on money but on social relations.

The model can be illustrated by the following relational diagram:

Diagram 1: Social capital and economics



When a co-operative society is formed, it is already carrying a first form of capitalization in the name of social capital. So, when members start contributing the financial part of the organization, they are providing the means of enabling more social capital (Teodosio, 2008).

It is the co-operative business model where social capital is defined as an embedment of trust, norms, networks, obligations which enable people to act together more effectively in order to pursue shared objectives (Teodosio, 2008) and long term aspirations. The mobilization and formation of co-operatives in the context of competitive market economies is difficult, but it is necessary because it is needed for economic prosperity and equitable development. Although embedded in people's social relation, social capital is described as capital (Teodosio, 2008) because it can be accumulated over time and relied upon or drawn in future for achieving future objectives even during periods of crisis.

As an important qualification for the co-perative business model, it does not mean that social capital can be imposition membership by the government. Co-perative societies formed by government declaration will not survive because their formation is not a result of members' social relations (Carlsson), Second, after the formation of co-operatives and due to the

dynamics of competitive business, some leaders are swayed and become corrupt, losing touch of basic co-operative principles, values, ethics and the rule of law. such leadership will become a distortion to the co-operative way of conducting business.

3.0 Resilience of the Co-operative Model: Some Lessons from Africa

The co-operative business model is resilient in Africa and the world over. Since 1844, the co-operative business model has survived the onslaught of capitalism, colonialism, communism and globalization. When many African countries adopted central planning systems, some co-operatives went down, but did not die. they lost membership because the state declared that co-operatives were goods for everyone. This distorted the principles of voluntariness and democratic participation. but when African governments adopted liberalization, research evidence by Wanyama (2008) and Chambo (2008) shows they have remained critically useful to small farmers in Sub-Saharan Africa. The evidence available indicates that co-operatives are withstanding the onslaught of the financial crisis and the subsequent recession. The question is why are they salient?

There are five reasons why they are salient to the economic crisis. First, enshrined in the co-operative principles is the implementation and concretization of two forms of social capital and financial capital. The objective existence of a co-operative organization and the implementation of its enshrined principles, is the attainment of aggregate demand at reasonable prices of consumer goods and services and fair returns to investment (Birtchall and Kettison). This is a basic formation of the co-operative business model in all its transactions. Using this kind of value-based formulation, world business will not be guided by speculation and super profiteering, but rather by ethics of fair returns and fair prices.

Second, co-operatives have existed through evolution by adaptation to new situations in business by shifting from one activity to another. For example, some areas which were previously popular with cotton and pyrethrum, members have abandoned those crops to more market demanded commodities such as horticultural and food crops. The challenge in this process, is the structure of new markets where they occupy at the moment. This shift has given them a new opportunity due to on-going food crises as a result of climate change.

Third, co-operative societies have moved to primary levels of structure and business, addressing global market issues from that level. There is evidence that primary societies with proactive managers are navigating into world markets and growing very fast than those closed

up in traditional unions structure. The main point here is the fact that when co-operative business decisions are based at the members 'levels, there are transparency on market prices and open communications on quality standards required by world markets. Such 'soft' factors of development (Moyo, 200) like governance, the rule of law and continues emphasis on mutuality, reinforced the development of TRUST as critical factors to social capital development.

Fourth, is the growing of financial services in the form of savings and credit co-operatives. First members have realised that in order to survive the competition in commodity markets, they needed mutuality in the financial services markets. The growth of savings and credit co-operatives in Africa is therefore part of a long term response mechanism of pitfalls of the world capitalist business model. One important aspect of the growth of savings and credit co-operatives, is their clear path to the growth of co-operative banking as a worldwide financial systems as they continue building bankable populations in their membership.

Fifth, the co-operative business model has a structure and process of governance which allows shared skills in leadership, business management and democracy. Where in other business models, critical leadership skills are a monopoly of a few large shareholders, the co-operative business model allows the exploitation of full leadership potential of its membership. This has given some of the co-operatives, advantages of ethical and entrepreneurship leadership of world quality and standards.

4.0 The Future of the Co-operative Model

Co-operatives are part of a predominant capitalist model of doing business, but doing business differently. The current resilience and the success of the co-operative model should be seen in two perspectives: first, is the competence of the co-operative model on its own right as a people-based business carried out ethically using principles of humanity and fairness. Second, the co-operative model is surrounded by the predominant capitalist model based on speculation and the request for super profits through unregulated practices.

When we consider the second perspective, we see quite a number of challenging limitations of the growth of the co-operative model of doing business. First, co-operatives doing the marketing of internationally demanded commodities such as cotton, coffee and tea are seriously affected by the financial meltdown. The international markets have declined drastically. Second, savings and credit co-operatives based on capitalist owned plantation

economies such as sugarcane, coffee, tea and minerals are grossly affected by the international crisis because of demand contraction.

In general, the co-operative business model is surrounded by the capitalist business model in many areas of its business. Permanent solutions to the crisis and future sustainability of world economies will depend on the following:

First, world government leaders should give open support to the expansion of the co-operative business model. There is every reason to cast reasonable doubt on the future of the capitalist model on its own. Second, co-operatives should go international. We should begin to see the development of international co-operative bank allowing the networking of global co-operative banks and insurance in all practical ways. Third, we should see the expansion of world co-operative trade performed on the principles and values of co-operation and mutuality of enterprise development. Fourth, the ICA should go ahead in creating professional management structures to sustain the world co-operative enterprise system.