

The Potential of the Social Economy for Local Development in Africa: An Exploratory Report

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Abstract

The Social Economy is increasingly attracting the interest of policy makers and scholars alike, thanks to its capacity to tackle key social and economic issues. While the importance of the Social Economy has been recognised by the EU, its role in supporting local development in other continents is still widely overlooked.

This exploratory study provides an overview of the Social Economy in Africa and its potential for local development, focusing in particular on specific types of social economy organisations in four African countries: farmer-based-organisations in Ghana, agricultural co-operatives in Morocco, and a variety of community-based organisations in Ethiopia and Kenya.

This study reveals that the Social Economy is a growing segment of the African economy, and that it substantially contributes to improving the wellbeing of local communities. However, some barriers to its development remain, including weak legal frameworks and inadequate policies; weak governance; and poorly developed managerial practices.

Executive Summary

This publication contains the results of an exploratory analysis of the potential of the social economy for local development in Africa.

The first part of the study is devoted to a description of the social economy and its potential for local development, while the second part focuses specifically on the African context by providing an overview of the social economy in Africa and four more in-depth case studies from four African countries: Ethiopia, Ghana, Kenya, and Morocco. Each case study reflects a particular scholarly approach and standpoint, as these chapters were written by four different researchers who live or have worked in the countries they analyse. The final section provides a set of policy recommendations addressed to international actors and practitioners and to the European Union in particular.

I. Social Economy and Local Economic Development

From the 1980s onwards, the idea that local communities can serve their own needs through social economy organisations has gained momentum globally, as it has become clear that economic and social development cannot arise solely from the growth of investor-owned enterprises. In many countries, organisations of citizens have emerged as an important player in addressing the needs of local communities. In Europe, they have mainly developed to produce welfare services and integrate disadvantaged people to work; in developing countries they have emerged in various fields such as the delivery of micro-credit schemes, the construction of infrastructure, and the supply of community services thanks to the mobilisation of local communities or the support of external actors.

Different conceptual approaches have been adopted to describe this type of citizens' mobilisation. In Europe, there has been a revival of the "social economy" concept, which stresses the mission of the organisation, the primacy of workers over capital, and the implementation of democratic management models. The social economy includes organisations that aim to benefit either their members or the community in which they operate. As such, it typically comprises co-operatives, mutuals, associations, foundations, and, more recently, social enterprises.

In the search for innovative paths of economic development that can support social inclusion and balanced economic growth, the social economy is an extremely compelling development paradigm. Indeed, following the failure of neo-liberal strategies to address the widening gap between the North and the South of the world, the attractiveness of the social economy and of a different approach to development has recently increased.

This alternative approach conceives development as a social process driven by various factors (including economic, social, historical, and cultural ones). In this context, the social economy can provide local communities with the institutional tools to organise and harness their assets and resources and deploy them for their own social and economic development.

Historical analysis of the social economy provides evidence of the crucial role performed by these organisations in supporting development and, especially, in empowering vulnerable people, often with limited resources at their disposal. The beneficial impact of the social economy on social and economic development can be seen from various perspectives: social economy organisations support inclusive and sustainable growth; contribute to reducing poverty; generate new employment; contribute to a more balanced use and allocation of resources; and have a role in institutionalising informal organisations.

II. The Social Economy in Africa

The term “social economy” is not widely used in the African context. The literature very rarely refers to organisations with the features described above as being part of the African “Social Economy”, and the term social economy is not part of the language commonly used by policymakers and researchers in many African countries.

However, this does not mean that these countries do not have a social economy. On the contrary, one could say that Africa is the continent in which the social economy plays the most prominent role, as all African countries count a large number of organisations pursuing both social and economic objectives and many activities, including the production of general-interest goods and services, are managed collectively.

Indeed, the widespread development of organisations that share many of the features of the social economy is not a new phenomenon in Africa. Traditional groupings embodying the African spirit of “ubuntu” or “umoya” have existed across the continent throughout history to address specific social and economic needs. At the same time, when organisational forms that are typical of the social economy in the European context (co-operatives above all) have been “imported” into Africa they have often been imposed from the top down, in effect changing their nature and emptying them of those democratic and participatory characteristics that defined them as “social economy” organisations in the first place.

In light of these considerations, the “social economy” concept can be applied to a continent like Africa only if its boundaries are revised in order to account for the rich and relevant tradition that exists in African countries. To this end, rather than defining the social economy based on the legal forms that compose it in Europe (co-operatives, mutuals, etc.), it would be best to adopt a normative approach, focusing on the two key features that have explained the success of the social economy across and beyond Europe: the fact that these organisations arise in response to the needs of a given community, and the fact that they have a collective nature or identity.

Along these lines, the boundaries of the social economy in Africa can be redefined so as to *include* informal organisations supporting mutual self-help at the local level and *exclude* organisations that are exclusively externally driven

and financed (such as, for example, foreign NGOs). According to this categorisation, the social economy can be regarded as a subsystem of the universe of formal and informal not-for-profit organisations that operate in Africa.

The African social economy is analysed, for the purposes of this exploratory study, through the lens of four country-specific case studies, which are briefly summarised below.

Ethiopia

The most widespread forms of social economy organisations in the country are co-operatives, mutual aid societies, and associations. Most of these organisations are member-based institutions that are inclusive in their nature, open to individuals who have a shared set of goals, and participatory in their governance system.

Co-operatives are more involved than the other types of social economy organisations in local economic development and poverty reduction: one example is the crucial role played by agricultural co-operatives in improving market access and financial services to the rural poor. Co-operatives also have a closer interaction with government bodies compared to mutual organisations and associations, as they are strategic grassroots partners in the implementation of national development and poverty reduction policies.

Mutual aid organisations and associations, on the other hand, occupy a prime position in the area of social integration, and closely work with non-governmental organisations and donor agencies. A higher proportion of mutual aid organisations and associations in Ethiopia work on the provision of traditional insurance services or safety-nets and caring for vulnerable groups (e.g., orphans, elders and people with special needs).

Overall, the social economy sector in Ethiopia is a growing segment of the economy that attracts the interest of governmental, non-governmental and donor agencies because of its focus on social development and poverty reduction. As such, social economy organisations are main partners that implement development policies and programs by governmental, non-governmental and donor agencies.

Ghana

Like most African countries, Ghana counts a large number of organisations pursuing both social and economic objectives, which are owned and controlled by the individuals using their services. Yet, it is difficult to provide a reliable estimation of the magnitude and importance of Ghana's social economy since many of these user-owned organisations are informal entities (i.e. they are not legally recognised or registered with other national institutions). Information and data about formal organisations also appear to be scattered and scarce. However, many formal organisations are registered with three apex organisations, which represent the only known official sources of aggregate data and information about what can be defined as the Ghanaian social

economy. These apex organisations include: Ghana Co-operative Credit Unions Association (GCCUA), Ghana Co-operative Susu Collectors Association (GCSCA) and Ghana Co-operative Council (GCC).

These three main apex organisations comprise over 600,000 individuals. Additionally, according to the Ministry of Employment and Social Welfare, there are approximately 3,000 NGOs registered in Ghana, and tens of thousands of registered self-help groups and associations.

Farmer-Based Organisations (FBOs) are currently the most widespread and popular organisational forms throughout rural Ghana. In addition to agricultural co-operatives and traditional community-based schemes for mutual support, rural Ghana counts approximately 7,000 between formal and informal FBOs, which comprise approximately 245,000 member-farmers. The services provided by FBOs are mainly intended to help smallholder farmers share the risk and reduce the costs associated with agricultural production and commercialisation. Over the last decade, Ghanaian FBOs have been receiving increasing support from government and donor agencies. Pro-FBO policies in rural Ghana have been commonly justified by the need to trigger the development of “inclusive agri-business”. Ghanaian FBOs are thus increasingly recognised as key organisational forms for the promotion of economically profitable and socially responsible rural ventures. Although FBOs are widespread in Ghana (numbering approximately between 6,000 and 7,000), they are still relatively small (35 members on average) and young (seven years old on average), and their contribution to the development of inclusive agribusiness remains highly contested, as most Ghanaian FBOs appear to face problems of market access or elite capture.

Kenya

Kenya has a diverse set of organisations that can be considered within the scope of the social economy, and they all play an important role in enhancing social inclusion.

During the pre-colonial era, associational activities were mainly based on a culture of reciprocity. With the onset of colonialism, specific legislation was passed to provide an impetus for the reorganisation of these activities and the growth of a more formal social economy sector. This reorganisation process was continued with the post-colonial government after Kenya’s independence in 1963. The sector was then further strengthened when the *Harambee* movement, epitomising the Kenyan version of African Socialism, was formalised.

The *Harambee* culture is a unique Kenyan institution, rooted in the African tradition of mutual responsibility and reciprocity. It derives its values from traditional communities where efforts were pooled in activities to develop the community or assist each other. In time, *Harambee* has come to symbolise both micro and macro self-help aspects of local development. Initially beneficiaries contributed cash, materials or communal labour to government-initiated projects that included the laying of water pipes and providing labour for rural access roads. The concept evolved quickly as communities started

initiating major projects of their own, such as schools, health centres, and colleges.

To this day, the social economy in Kenya gets much of its impetus from *Harambee* culture. The Social Economy sector encompasses a variety of actors, ranging from formal organisation types with a clear registration regime to informal groups without any legal recognition.

The largest share of the social economy in Kenya is composed of religious organisations. The presence of these organisations is particularly felt in the marginalised areas of Kenya, where they make a great effort in assisting vulnerable people through initiatives such as health care, education, and infrastructure development, among others. They also address religious, ethnic and political tensions, helping local communities achieve a better understanding of each other, and through their advocacy efforts have helped facilitate the rise of a multi-party democracy in Kenya.

Another important component of the social economy in Kenya is the co-operative movement, which is the most organised social economy actor in the country and employs (directly or indirectly) over 250.000 people. Kenyan co-operatives play a crucial role in enhancing food security, building social capital, and promoting social and economic welfare, in addition to contributing to the country's gross domestic product.

Morocco

Forty four percent of the population of Morocco lives in rural areas. With a GDP per capita which is 60% lower than the overall GDP per capita, the rural population is significantly impoverished. Further exacerbating the problem, access to resources in the desert and mountain regions of Morocco is severely limited. In response to the lack of formalised markets and institutions, a strong social economy sector has emerged, particularly in the southwest corridor of Morocco.

The social economy in Morocco has largely evolved due to the cooperation between the government, local development associations, international donors and state agencies, to form and rapidly expand the co-operative movement across multiple sectors in agriculture and fisheries. Co-operatives have become the most viable form of organisation that can mobilise and empower rural populations facilitating their integration into the market. The co-operative movement spans a large portion of the rural economy, including the poultry, dairy, meat, sugar, and fish sectors.

The success of co-operatives in growing the social economy has not come without its setbacks however. Due to the lack of education and business acumen in rural areas, co-operatives are generally managed by local elites from the city. As a result of poor member education, co-operative members have very little knowledge of the democratic underpinnings that co-operatives are supposed to rely on. Instead, they view their involvement as they would any job, content with the earnings they receive and not taking an active role in elections or major decisions. Gender plays an important role as well, as male-dominated co-operatives tend to award members with a greater voice

compared to female co-operatives due to the patriarchal structures prevalent in rural Moroccan society.

Co-operatives in the Argan oil sector are successful examples of how co-operatives can contribute significantly to local economic development, social equity, and environmental preservation outcomes, provided that the co-operative principles are not implemented rigorously, but are adjusted to local conditions. Through employing women, the co-operative movement has improved the social status of women and strengthened social capital. Although women do not exercise their voice in election matters or salary increases, they speak up as a group on matters such as increasing supply of raw materials or increasing membership. Described as a "union", the female membership is capable of having a voice that is rarely heard in traditional Muslim societies.

III. Recommendations

This exploratory study confirms that the social economy is a growing segment of the African economy and that it substantially contributes to improving the wellbeing of local communities. Nevertheless, much more work would need to be done in order to have a comprehensive assessment of the state of the social economy in Africa.

What is abundantly clear even from this preliminary analysis is that the social economy cannot be artificially transplanted from one context to another, but must be adapted to (and indeed can take on very different forms in) different environments. In any context, though, appropriate legal frameworks and policy measures play a key role in creating an environment that is conducive to social economy growth.

A development policy aimed to supporting the social economy should thus have as one of its primary objectives the promotion of legal frameworks that clearly define and treat each organisation type according to its specific nature. For instance, in order to tap the full potential of co-operatives, co-operative legislation must be flexible enough to permit co-operatives to spontaneously arise and operate in whatever industry they prove useful rather than limiting them to specific sectors or imposing them on unwilling local communities as a tool to boost production.

External actors, including governments and public agencies, can also play a key role in supporting the growth of the different types of organisations that comprise the social economy, beyond providing financial support. Overall, the available evidence suggests that a key factor explaining the success of development programmes aimed at fostering the social economy is that support should be channelled directly to social economy organisations and it should be based on the interests and needs of those organisations.

Another key factor in driving the growth and impact of the social economy is the availability of competent and specialised managers and sound governance structures for social economy organisations. Development policies should thus support research on management practices and governance models as well as

targeted training programs, increasing in particular the capacity of African colleges and universities.

Table of Contents

Introduction.....	10
1. Defining the Social Economy	13
2. Social Economy and Economic Development: a Theoretical Perspective	15
3. The Social Economy in Africa.....	20
4. National Case Studies	26
4.1. The Social Economy in Ethiopia (by Gashaw Tadesse Abate, Euricse and University of Trento)	26
4.2. The Social Economy in Ghana (by Gian Nicola Francesconi, IFPRI)	35
4.3. The Social Economy in Kenya (by Richard Ochanda, University of Trento and EURICSE)	44
4.4. The Social Economy in Morocco (by Zahir Dossa, MIT)	52
5. Conclusions and Policy Recommendations.....	61
5.1 Key conclusions and lessons learned	61
5.2 General Policy Recommendations.....	62
5.3 Specific Policy Recommendations for the European Union.....	64
References	67

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Introduction

From the 1980s onwards, groups of citizens have voluntarily initiated new economic activities with the goal of providing services to the disadvantaged and to their communities at large. In most cases, these are services that are often neglected by public actors and are not of interest to conventional private business.

This trend has led to the re-emergence of associations, co-operatives and mutual aid societies, and to the development of new enterprises pursuing social aims (often named social enterprises) – a phenomenon that has taken place worldwide, cutting across countries characterised by different levels of economic development, democratisation, and welfare systems. The growth of these types of organisations accelerated after the 2007 crisis, which confirmed the need to search for credible alternatives to the mainstream economy.

These organisations of citizens have emerged in very diverse contexts and perform different functions. In Europe they have mainly developed to produce welfare services and integrate disadvantaged people to work; in developing and post-transition countries they have emerged in various fields of interest to local communities, such as the delivery of micro-credit schemes, the construction of infrastructure, and the supply of community services thanks to the mobilisation of local communities or the support of external actors.

These activities have often developed into new types of enterprises that challenge the main assumptions of conventional economic theory about the predominance of self-interested agents and the conceptualisation of enterprises as profit-maximising mechanisms. These initiatives were initially established on a voluntary basis but they have evolved into stable organisations that provide continuous and often innovative services (Becchetti and Borzaga, 2010).

The definitions and notions used to conceptualise this bottom-up mobilisation of groups of citizens vary to a significant degree at the international level.

In Europe, there has been a revival of the *Social Economy* concept, which first appeared in France during the first third of the XIX century. Over the past two centuries, its relevance has gone far beyond French borders, finding a great

resonance throughout Europe¹ and in Quebec. This concept stresses the mission of the organisation, which aims to benefit either its members or the community in which it operates. It also focuses on the primacy of workers over capital and on the implementation of democratic management models (Borzaga and Defourny 2001).

Other notions, partially overlapping with the social economy, have met with more success outside of Europe and Quebec. "Social and solidarity economy"², Third Sector³, "civil society", non-profit sector⁴, and voluntary sector are the most popular concepts used around the world by both policy makers and researchers to define organisations whose goals exclude the pursuit of profit and its distribution to the owners.

The term social economy is rarely used in Africa. Given its limited use, it might not be entirely appropriate to apply this notion to the African context. Indeed, there is a complex ensemble of organisations in Africa that share distinctive features that are sometimes different from the principles qualifying the European social economy (see, e.g., the Argan Oil Co-operative Movement in Morocco described in Chapter 4). What distinguishes African organisations with respect to their European counterparts is primarily the type of activities carried out, as well as the founders and providers involved. Consequently, several authors have expressed doubts about applying Western concepts such as social economy (as well as other notions like *civil society*) in Africa (Obadare, 2011; Fonteneau and Nyssens, 2000). However, it is the opinion of the authors of this report that the use of the term social economy is appropriate to identify the presence of bottom-up organisations that are characterised by participatory structures, provided that the nature of each organisational type is clarified.

Rather than analysing the social economy as a sector, this report will thus mainly focus on selected community-based organisations that have emerged as a response to a social need, honing in on four African countries that provide a diverse set in terms of geography, cultural background and stages of

¹ Key policy initiatives delivered by the EU institutions that acknowledge the crucial role played by Social Economy organizations include: the Communication of the Commission *On the promotion of co-operative societies in Europe* (COM(2004)18, Brussels, 23.02.2004); the resolution on *Social Economy* delivered by the European Parliament (2008/2250(INI)); the *Single Market Act* set forth by the European Commission (COM(2011) 206 final) and the more recent *Social Business Initiative*.

² The term social and solidarity economy refers to organizations characterized by the pursuit of multidimensional social, economic, and ecological objectives, various forms of cooperative and solidarity relations, and internal decision-making based on self-management associated with democratization of the economy. Accordingly, the term includes both traditional co-operatives and mutual associations, but also social enterprises, community associations.

³ The term third sector emphasizes the intermediary nature of the belonging organizations, which are neither public nor for-profit. Third sector refers to a wide variety of organizations, but it traditionally excludes co-operatives. However, recent definitions tend to include also mutual aid societies and co-operatives (HM Treasury and Cabinet Office 2007).

⁴ The term non-profit sector was initially used during the late 1970s in the US (Salamon et al. 1999), and it has developed into a framework emphasizing that organizations in this sector are strictly bounded to the non-profit distribution constraint in that they cannot distribute profits to either managers or owners. The non-profit sector includes associations, foundations, and voluntary organizations depending upon the specific legal and fiscal context.

economic development. After providing an overview of the African context, the report will analyze in more depth farmer-based organisations in Ghana, agricultural co-operatives in Morocco, and a variety of community-based organisations in Ethiopia and Kenya. While each of these case studies reflects a particular scholarly approach and standpoint, as they were written by four different researchers who live or have worked in the countries they analyse, they all analyse these organisations through the lens of the social economy, in order to shed light on their participatory dimension, collective nature, and local embeddedness.

However, in order to capture the heterogeneous organisations that resemble the social economy in each of the contexts analysed in the report, the concept of the social economy needs to be adjusted. In essence, the social economy definition must be "contextualised" to reflect the African reality, where many of these organisations are a vital part of the informal economy rather than being formally recognised with a clear statute, legal status, and so forth. In particular (as discussed in more detail in chapter 3), when applied to the African context, the term social economy should include informal organisations supporting mutual self-help at the local level and exclude organisations that are exclusively externally driven and financed.

The report is organised as follows: chapter one provides a definition of the social economy and identifies its main components, roles and fields of activity; chapter two discusses, primarily from a theoretical point of view, the relevance of social economy organisations in the context of economic development; chapter three provides an overview of the organisations resembling the social economy in Africa; chapter four presents four different national case studies based on four different African countries, focusing on specific organisation types within the universe of the social economy; and chapter five identifies a set of policy recommendations that can be drawn from the research.

1. Defining the Social Economy

Theoretical and empirical references to the social economy date back to the 19th century (Defourny and Develtere, 2000; Gueslin, 1997; Desroche, 1983; Chaniel, 2001). Organisations belonging to the social economy have long been an important part of the European social, economic, and political history as institutions embedded in the broader social and economic development process both at the national and at the local level.

Key welfare services (including education, social and health care services) were originally developed by mutual aid and co-operative societies, and they were subsequently taken over or adopted by national governments as part of the process of constructing European welfare states. As these services were removed from co-operative and mutual control, the role of these organisations as welfare actors was reduced. However, this situation changed dramatically when the welfare regimes started to show the first symptoms of crisis. As public resources dwindled, social economy organisations gradually re-emerged as welfare providers, and regained their role of key actors of local welfare systems in many European countries (Galera and Borzaga, 2012).⁵

What social economy organisations share and what sets them apart from conventional enterprises is that the overall aim of their activities excludes the pursuit of profit and its distribution to the owners as an ultimate goal. Instead, social economy organisations aim at the promotion of their members' interests and the pursuit of general interest goals.

Another characteristic shared by social economy organisations is their ownership structure, as ownership rights are assigned to stakeholders other than investors. As a result, an additional common feature is the democratic character of the decision-making process within the organisations and the prevalence of people and labour over capital in the distribution of incomes.

Finally, social economy organisations are characterised by a significant participation of volunteers, who often play a key role in the start-up phase of the enterprise and strongly contribute to social innovation.⁶

The term 'social economy' is thus used to define a set of organisations which share these characteristics and are historically grouped into four major categories: co-operatives, mutuals, associations and, more recently, foundations.

Any type of production of goods and services can be organised *a priori* within the framework of the social economy. Social economy organisations are indeed

⁵ Despite this key role, the social economy has begun to be recognized as a distinct economic actor only recently and just in a few selected European countries. To a certain extent this delayed and incomplete recognition is caused by the "absorption" of many social economy organisations in public structures and by the regulation of such organisations, which typically reflects the logics of the public sector.

⁶ For a comprehensive overview of the social economy, see Social Europe Guide 4: Social Economy and Social Entrepreneurship (European Commission, 2013).

present in agriculture, crafts, industry, finance and distribution, as well as in areas such as health, culture, education, recreation, social services and international cooperation and development (Defourny and Develtere, 2000).

Over time, both the fields of activity and the types of organisations involved have evolved. For instance, co-operatives have evolved towards the pursuit of social aims and associations have taken an increasingly entrepreneurial stance. These parallel trends have resulted in a convergence of the associative and the co-operative forms⁷. In Europe, the term *social enterprise* was developed in particular to capture this innovative dynamic.

Despite the lack of a common usage of the term social enterprise in the international literature, a growing convergence in meaning has emerged in Europe, where the concept of *social enterprise* is used to identify a 'different way' of doing business that occurs when institutional structures are created to pursue specifically social goals (Borzaga and Becchetti, 2010). The European Commission has recently endorsed this view in the context of the Social Business Initiative, giving the term the following definition: "an operator in the social economy whose main objective is to have a social impact rather than make a profit for its owners or shareholders. It operates by providing goods or services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities." (European Commission, 2011b).

⁷ This phenomenon has been taking place in other European countries as well and was first pointed out by Cecop. See Cecop, *Social Enterprises: an opportunit  for Europe, First European Conference on Social Cooperation, Research on social cooperation in Europe*. See also Conseil Sup rieur de la Coop ration, *Le Statut Coop ratif: support de l'Entreprise   but social*, 26 mars 1999, p. 3-4.

2. Social Economy and Economic Development: a Theoretical Perspective

The idea that local communities can serve their own needs through social economy organisations has gained momentum globally, as it has become clear that economic and social development cannot arise solely from the growth of investor-owned enterprises.

Indeed, the challenge of sustainable development requires a plurality of alternative modes of organising production, including ones that are driven by goals other than profit-maximisation. These include non-investor owned enterprises of different kinds (consumer-owned; producer-owned; community-owned) that have been until recently largely underestimated as vehicles for economic development.

In the search for innovative paths of economic development that can support social inclusion and balanced economic development, the social economy is an extremely compelling development paradigm. Its strengths depend on the self-organisation and self-reliance capacity of civil society. In essence, the social economy provides the institutional architecture for adequately exploiting and channelling the citizens' ability to solve key societal and economic problems in a number of general-interest domains, including the provision of public goods such as food security, access to water and sanitation, energy security, health, education, and social services (Borzaga, Galera and Nogales, 2008).

Studies assessing the impact of social economy organisations are still few in number, rely principally on case-study methodologies, and mainly look at certain specific approaches that are particularly popular at the moment (e.g., most recently, microfinance). However, while still limited, empirical evidence shows that economic self-help strategies pursued at the local level have played a major role in emancipating disadvantaged groups and deprived communities in various parts of the world with totally different geographical, cultural, and political backgrounds (Birkhölzer, 2005). These include countries lacking resources and investments, where development processes had often been boosted by external actors (most notably foreign investors and donors) with mixed outcomes.

Conventional development policies supported by international financial institutions have traditionally combined measures aimed at creating competitive markets with measures aimed at consolidating democracy through the development of a vibrant civil society. The idealisation of civil society as the "good society" was championed by international organisations such as the IMF and the World Bank to complement their structural adjustment programmes (Obadare, 2011). In this approach, the "good society" was represented primarily by NGOs, which were seen as substitutes for the public sector, along with foreign investors and donors that were expected to play a supplementary role in the domains i) ignored by for-profit organisations (e.g. the provision of welfare services) and ii) in which public providers were either

absent or lacked sufficient resources. This explains the strong dependency of deprived contexts upon external actors (Borzaga, Galera and Tortia, 2009).

At the same time, such programmes often treated co-operatives as any other business, ignoring their key characteristics - namely their local embeddedness and their participatory governance. Thus, while cooperatives and other social economy organisations were ignored, externally driven NGOs were granted significant support in both developing and transition countries. This policy approach has notably been unable to support a balanced economic growth because it has failed to ensure that economic activities and local communities are governed in the interests of the community at large.

Following the failure of these neo-liberal strategies to address the widening gap between the North and the South, and the deepening inequalities within these regions, the attractiveness of the social economy and of a different approach to development has recently increased, including within international organisations (Mendell M. and Lévesque, 2004).

This alternative approach conceives development as a social process driven by various factors (including economic, social, historical, and cultural ones). In this context, the social economy can provide local communities with the institutional tools to organise and harness their assets and resources and deploy them for their own social and economic development. Historical analysis of the social economy provides evidence of the crucial role performed by these institutional arrangements in supporting development and, especially, in empowering vulnerable people, often with limited resources at their disposal (Evers and Laville, 2004; Borzaga, Galera and Tortia, 2009).

The beneficial impact of the social economy on social and economic development can be seen from various perspectives: social economy organisations support inclusive and sustainable growth; contribute to reducing poverty; generate new employment; contribute to a more balanced use and allocation of resources; and have a role in institutionalising informal organisations (Borzaga, Galera and Nogales, 2008). Each of these roles is examined in more depth below.

Inclusive and sustainable growth

In general, the coexistence of a plurality of enterprises that have diverse ownership structures and pursue different goals helps prevent the formation of monopolies, contributes to improving market competitiveness (which in turn provides more choices to consumers), lowers retail prices, provides opportunities for innovation, and limits information asymmetry (Borzaga and Galera, 2012). Co-operatives, in particular, play a significant role in reducing market failures, thereby improving the functioning of the economic system and the well-being of large groups of people (Hansmann, 1996).

This contribution stems from the distinctive ownership and governance rules of co-operatives. As locally embedded institutions they adapt to the evolution of the local context and, as such, can be considered problem solver devices apt to tackling crucial social and economic problems (Borzaga and Tortia, 2007). Co-

operatives play a key role in stabilising the economy, especially in sectors characterised by considerable uncertainty and price volatility, such as agriculture and finance (Birchall, 2012). This stabilising role is crucial during times of crises and, more broadly, in improving the capacity of societies to respond to uncertainty and shocks.

Moreover, historical evidence demonstrates that, compared with investor-owned enterprises, co-operative solutions are more inclusive and more oriented toward the promotion of general-interest goals, with a beneficial impact on well-being. Financial co-operatives often aim to overcome financial exclusion; consumer co-operatives guarantee the supply of basic commodities, thus ensuring the survival of entire households; and agricultural co-operatives are the main institutional tool whereby independent farmers respond to the market power held by big distributors and seek to maintain their roles as the producers and protectors of local economies (Borzaga and Galera, 2012).

Consistent with the third International Cooperative Alliance (ICA) principle of members' economic participation, numerous co-operative statutes allocate a portion of co-operative surpluses to a collective and indivisible reserve fund that does not belong to members individually but must be utilised for the benefit of all and future generations. In some countries, co-operatives are mandated by law to allocate part of their annual surplus to asset locks, meaning that part of their assets and profits must be used to promote community interests. As a result, cooperatives tend to adopt a long-term perspective, are generally concerned about the welfare of future generations, and effectively become productive assets for the communities in which they operate.

Additionally, since co-operatives are created to meet the needs of their members and are not conceived to accumulate profits, they tend to redistribute their resources either to workers by increasing wages or employment or to consumers by charging lower prices, thus contributing to a fairer distribution of income.

Poverty reduction

Social economy organisations complement the supply of general-interest services that public agencies and for-profit enterprises fail to deliver for a number of reasons, including budget constraints, the incapacity to quickly grasp new needs arising in society, and market failures induced by information asymmetries or positive externalities, among other factors. All of these aspects are of crucial importance especially in developing countries, which still lack basic public services, facilities and welfare protection (Galera, 2008).

Social economy organisations contribute to keeping the production of goods and services close to the needs of the people that they serve. Due to their ownership and governance structure, these organisations tend to meet the specific needs of their members rather than respond to the rationale of profit maximisation. They also can produce goods and services with low or uncertain (if not negative) profitability, including social, health, educational and other personal and community services, that investor-owned enterprises are not

interested in providing and public authorities are unable to supply. In cases of negative profitability, social economy organisations can achieve the break-even point thanks to the attraction of additional resources such as voluntary work and donations, or the implementation of price discrimination policies. Evidence from many countries around the world shows that voluntary work and donations are especially important in the start-up phase of all types of social economy organisations regardless of their context of operation (Borzaga and Galera, 2012).

Job creation

Social economy organisations play a crucial role in generating new jobs and protecting employment stability. In general, such organisations develop new activities and contribute to the creation of new employment in the sectors wherein they operate, which in some cases (e.g. in the social and community service sectors) show a high employment potential. Moreover, in a number of cases they manage to employ unoccupied and harder to employ workers (for instance women with children, seeking flexible jobs) and they contribute to creating innovative models of industrial relations (Borzaga and Tortia, 2007; Borzaga and Depedri, 2005).

In their development policies, governments have often underestimated the role of the social economy, and especially of co-operatives, in creating employment. According to the International Labour Organisation (ILO), the main reason is that many governments and donors recognised social economy organisations, including co-operatives, not as enterprises but as some form of social or political organisations. Furthermore, governmental co-operative departments are often placed under the ministry responsible for agriculture, which is not primarily concerned with employment promotion (ILO, 2008).

More balanced use and allocation of economic and non-economic resources

Given the crucial economic and social issues affecting developing countries, the governance of the development process is of the utmost importance. Social economy organisations play a key role in this respect, as their institutional structure enables the participation of local actors in decision-making on how the resources available at the local level are to be used. Through their direct influence on the management of economic and social development, social economy organisations can thus contribute to a more balanced use and allocation of resources, to the advantage of the community.

Thanks to the participation of local stakeholders, these organisations help promote inclusive governance models that empower the local community in strategic decision-making (Sugden and Wilson, 2000). Community involvement through social mobilisation also contributes to positive changes in attitude, as communities become aware that they can take stock of their own situation and contribute to the solution of their own problems through the setting up of a participatory institutional arrangement (Galera, 2008). Finally, thanks to the interactions established with other sectors, including public agencies and for-

profit enterprises, social economy organisations can contribute to transforming the social and economic system wherein they operate to the advantage of the community as a whole.

Institutionalisation of informal activities

Evidence from several developing and post-transition countries shows that many formal social economy organisations have often evolved from previous informal initiatives based on mutual co-operation. Nevertheless, in most developing countries the rich legacy of self-help practices has often been neglected by institutional donors, governmental agencies and NGOs, which have all shown, conversely, a clear preference for organisational models imported from Western countries.

Over the last decades, a new mindset that capitalises on local cultural backgrounds has gained momentum among development practitioners. Institution building programmes supported by external donors have increased in relevance (e.g. many UNDP projects) and sought to contribute to both mobilising local populations and identifying suitable legal forms that can best exploit the solidarity networks existing at the local level (Galera, 2008). By forming associations and co-operatives, for instance, informal sector workers can build a bridge to the formal sector (ILO, 2008).

However, overall, legal and policy constraints still significantly hamper the institutionalisation of informal organisations in several developing and post-transition countries, thus preventing a full exploitation of the potential of solidarity networks, while also relegating their workers to the informal economy.

3. The Social Economy in Africa

The term “social economy” is not widely used in the African context. The literature very rarely refers to organisations with the features described above as being part of the African “Social Economy”, and the term social economy is not part of the language commonly used by policymakers and researchers in many African countries.

However, this does not mean that these countries do not have a social economy. On the contrary, one could say that Africa is the continent in which the social economy plays the most prominent role, as all African countries count a large number of organisations pursuing both social and economic objectives and many activities, including the production of general-interest goods and services, are managed collectively. Furthermore, the widespread development of organisations that share many of the features of the social economy is not a new phenomenon in Africa. Traditional practices embodying the African spirit of “ubuntu” or “umoya” have existed across the continent throughout history to address specific social and economic needs.

Interesting examples are provided by the practice of *Nnoboa* in Ghana, a form of co-operative work practiced by farmers, and the institutions of *Abota* in Guinea-Bissau, a form of prepayment in village communities designed to cover the costs of religious practices and burials (Atim, 2000). Similar initiatives exist in Kenya as well, and in many other countries in Africa, where people have lived in communities characterised by strong patterns of social ties and relations. In these contexts, people come together to promote mutual interests, pool resources, and participate in the governance of their communities. Community members are responsible for producing key goods and services and ensuring that basic needs of all members were met.

In Kenya, the traditional spirit of mutual aid that existed and functioned during the pre-colonial times found a new expression in the late 1960s when the *Harambee* movement came to epitomise a national self-help and cooperation movement. In Ethiopia, rural forms of rotating credit associations and *idir* (burial societies that insure the family of the deceased), are the most widespread forms of mutual aid associations and have existed for centuries. In many countries these types of organisations are widespread also in urban areas, where traditional solidarity networks gather the inhabitants of a village or the members of a particular ethnic group to form mutual-aid or other associations in order to cover expenses related to death, illness, weddings and births (Atim, 2000).

Many traditional forms of co-operation have survived the impact of colonialism as self-help groups and have in some instances paved the way for the emergence of modern social economy organisations. These local organisations have also proved to be able to adapt to new needs arising in society and have contributed to the development of new social movements active at the local and national levels (Atim, 2000). However, in many instances there has been a

tendency to favour “imported” social economy models and to overlook traditional initiatives.

In light of these considerations, applying the “social economy” concept to a continent like Africa can be problematic, as it runs the risk of ignoring the rich and relevant tradition that exists in these countries. If the aim is to capture genuinely community-based organisations, it is paramount to first re-define the traditional boundaries of the social economy to take into account the specificities of the local context.

To this end, it would be best to adopt a normative rather than a legal and institutional approach. A possible key for identifying organisations that are closest to the concept of social economy is suggested by Defourny and Develtere (2000). They propose that attention is paid to two key features that have explained the success of the social economy across and beyond Europe: the “condition of necessity” and the “collective identity”. Social economy organisations are often described as “child of necessity”, because they respond to a “condition of necessity”, i.e. they arise in response to a pressing need felt by a community or group of people. Furthermore, the history of the social economy also teaches us that such organisations are driven by social groups unified by a collective identity or a shared destiny (Defourny and Develtere, 2000).

Along these lines, the boundaries of the social economy in Africa could be redefined so as to *include* informal organisations supporting mutual self-help at the local level and *exclude* organisations that are exclusively externally driven and financed.

According to this categorisation, the social economy can be regarded as a subsystem of the universe of formal and informal not-for-profit⁸ organisations that operate in Africa. In fact, there are two main groups of not-for-profit actors in Africa: non-governmental organisations working in the aid industry and community-based organisations. Non-governmental organisations are notably externally driven. Community-based organisations, on the other hand, include both formal and informal entities and can be either funded by external actors or rely exclusively on their own resources. A brief analysis of these two groups of not-for-profit organisations follows.

Group 1: Development Non-governmental Organisations (NGOs)

The acronym “NGO” can be used either in a broad or in a narrower sense. In its broad sense, the term non-governmental organisation typically refers to organisations that are independent of governments⁹. In its narrow sense, the term is used to identify organisations concerned with the promotion of social, political or economic change – an agenda that is usually associated with the

⁸ The term not-for-profit refers to a large group of organizations pursuing goals other than profit maximization. It also includes organizations that are not necessarily subject to the non-profit distribution constraint, such as cooperatives and mutual aid societies.

⁹ This expression came into use in 1945 with provisions in Article 71 of Chapter 10 of the United Nations Charter for a consultative role for organizations that neither are governments nor member states.

concept of “development” (Lewis and Kanji, 2009). However, these goals can be pursued by very different types of organisations, some of which can arise from a local community while others can be externally driven. For further clarity, then, we will use the term *Non-governmental organisation* as a synonym of association and *Development NGO* to refer to externally driven organisations that work in the aid industry. Accordingly, Development NGOs are described here, while associations are included in the description of the various types of community-based organisations included in Group 2.

Since the 1980s, Development NGOs have been the main player of “development from below”. This new vision of development considered self-governance and economic self-reliance the central objectives of “bottom-up” projects, and Development NGOs the most adequate catalyst for developing such projects (Sanyal, 2000).

Given their key roles as providers of services to vulnerable individuals and communities and as policy advocates, Development NGOs are generally regarded as high-profile actors in the field of international development. However, these organisations have in many instances failed to boost virtuous development processes at the local level. For instance, Development NGOs are sometimes criticised for having taken ownership of the idea of “civil society” thereby excluding more genuine types of civil society organisations such as community-based associations (Obadare, 2011).

Factors that strongly limit the impact of Development NGOs include their inability to co-operate amongst themselves, their reticence to institute structural relations with governments, their focus not on “the poorest of the poor” but on groups with relatively high revenue to satisfy donor agencies’ requests to achieve quick results, and their strong reliance on foreign aid (Sanyal, 2000). Another area of criticism is that many new African NGO leaders, strongly dependent on Western aid money, would use their role to build patronage networks and consolidate their political and economic power in return for importing development ideas and rhetoric into African communities.

To conclude, not all NGOs are alike. Their roles, organisational cultures, degrees of engagement of local communities in strategic decisions, and impact upon development, are indeed extremely diverse (Obadare, 2011).

Group 2: Community-based organisations

Group 2 identifies organisations that are genuinely community-based and are created to respond to an unmet need arising in society. Based on the four country studies that will be analyzed in Chapter 4, community-based organisations are the result of a bottom-up collective mobilisation. They can be either formal or informal, and are sometimes funded by external actors or rely exclusively on their own resources.

Informal self-help groups

Informal institutions can fill a critical gap created by non-functioning or non-existing formal institutions (Minard, 2009). Historically, informal initiatives

have emerged as an autonomous livelihood strategy and have always played a key social role by providing a critical safety net to impoverished people in local villages. In spite of this important function, they have been largely ignored or viewed as outmoded by government and non-governmental organisations for a long time (Sanyal, 2000).

Typical examples of African informal self-help organisations include the rotating savings and credit associations and funeral societies, which can be considered as a form of micro-insurance. These ancient traditions have adjusted to modern times and have been used to form mutual self-help groups that are often locally rooted (Wanyama, 2012a). In all African countries these informal groups share many of the values and principles of modern co-operatives and have developed mainly in the rural areas (Wanyama, 2012b). Nevertheless, recent research shows that mutual assistance groups exist also in urban areas, and that they are locally rooted and are often formed with a redistributive motive in mind (Fafchamps and La Ferrara, 2012).

The experience from various African countries corroborates the view that informal entities such as cultural, kinship and neighbourhood groupings play a key socio-economic role in empowering their members. Indeed, many donors now see such initiatives as an essential relay for development assistance (Fafchamps and La Ferrara, 2012). At present, they are increasingly becoming the preferred local development partners by donors and Development NGOs in their search of local agencies, but they are still largely overlooked by governmental agencies. A noteworthy exception is provided by Rwanda, where since 2003 the Ministry of Health has incorporated this kind of society into its strategy for expanding access to health services (REX/302, 2010).

Co-operatives

Unlike Europe, where the emergence of co-operatives was an eminently bottom-up phenomenon, in Africa the co-operative form was first introduced by colonial governments to increase cash crop production and to control economic activity in rural areas. After independence, African governments directed and managed the affairs of co-operatives contributing to the development of an inefficient, state controlled co-operative movement that failed to meet member needs. Furthermore, the structural adjustment of various African economies in the 1980s and 1990s and their dependence on the socio-economic model of capitalist countries rejected the idea of a co-operative sector. International and national policies denied the distinctive characteristics of co-operatives and mostly treated them as any other business (ILO, 2008).

However, the adverse consequences of structural adjustment policies pushed people to regroup and regenerate solidarity to help each other. This revitalisation of solidarity led to the replacement of the ineffective and inefficient co-operative unions and federations with new unions and federations, resulting into the structural reorganisation of the co-operative movement. This is precisely what occurred in Kenya where a malfunctioning

federation was replaced by a new one thanks to a new spirit of solidarity (Wanyama, 2009).

Today, in all of the countries studied for this report, co-operatives are embedded into the local economy, target the poor and the most in need, and create considerable wage employment and in some cases also voluntary work opportunities. For instance, data from the Federal Co-operative Agency and the Charities and Societies Agency of Ethiopia indicate that co-operatives and associations working on social issues alone serve more than 6.6 million member households and generate about 150,000 employment opportunities.

The process of executing the existing rural development and agricultural transformation policies relies heavily on agricultural co-operatives. Ethiopia's Sustainable Development and Poverty Reduction Program (FDRE, 2002) and Policy for Accelerated and Sustainable Development to End Poverty (FDRE, 2005) show government commitment to agricultural co-operatives by seeking "to organise, strengthen and diversify co-operatives business model to provide better marketing services and serve as a bridge between small farmers and the private sector."

Co-operatives are also expected to render vital services other than those related to agricultural marketing, including: (i) expanding financial services in rural areas; (ii) purchasing agricultural machinery, equipment and implements, and leasing them to farmers; (iii) setting up small agro-processing industries where processed agricultural products of greater value could be produced; and (iv) establishing various social institutions to provide different kinds of social services (FDRE 2002, 2005).

Donors have recently discovered co-operatives as an important tool to organise rural and urban producers.

Associations

Associations, sometimes referred to as NGOs, are often organised around a shared professional, economic, social or humanitarian purpose. Unlike co-operatives and mutual organisations, associations pursue mainly general-interest aims, as the ultimate beneficiaries often differ from the members or group of people who established the organisation.

The number of associations increased dramatically with the democratisation process in the 1990s, thanks to the introduction of better legal frameworks and flexible operating structures, which enable the association model to be adapted to a variety of needs arising at the local level (REX/302, 2010). In Ethiopia, for instance, a considerable number of domestic associations carry out activities in the fields of health, education, poverty reduction, democratisation, environment protection and natural resources management. In Morocco, local development associations are closely tied with rural communities and have taken the initiative to provide much-needed services to marginalised populations, ranging from schools to prayer spaces, to health clinics. They have also been pivotal in attracting aid from European donors. In Kenya, associations - generally defined as NGOs, according to the 1990 non-

governmental organisational act of Kenya and the 2013 Public Benefits Organisations Act - tend to rely primarily on external sources of funding (Kanyinga and Mitullah, 2007). For this reason the case study presented in chapter 4 will not focus specifically on this type of organisations, but look at other entities that are more clearly community-based.

Over the last decades, the term association (as in “producers’ association”) has also been used to replace the term “co-operative” (ILO, 2008). This is the case of Ghanaian farmer-based associations that will be analysed in the Chapter 4.

4. National Case Studies

4.1. The Social Economy in Ethiopia (by Gashaw Tadesse Abate, Euricse and University of Trento)

The most widespread forms of social economy organisations in Ethiopia are co-operatives, mutual aid societies, and associations. Most of these organisations are member-based institutions that are inclusive in their nature, open to individuals who have a shared set of goals, and participatory in their governance system. They are close partners to governmental and non-governmental agencies and receive external promotional, financial, and technical support because of their crucial roles in social integration and poverty reduction.

At present, there are about 43,256 primary co-operatives, 2,550 domestic associations, and numerous traditional mutual aid organisations (each neighbourhood has at least one traditional mutual aid association) that are providing social and economic services. The primary objective of these organisations is to maximise social services to the greater community, as opposed to maximising profit. Nonetheless, they also engage in income-generating entrepreneurial activities to cover part of their costs. In general, social economy organisations in Ethiopia mainly work on local economic development, poverty reduction, and social integration.

Co-operatives are more involved in local economic development and poverty reduction: one example is the crucial role agricultural co-operatives are playing in improving market access and financial services to the rural poor. Co-operatives also have a closer interaction with government bodies compared to mutual organisations and associations, as they are strategic grassroots partners in the implementation of national development and poverty reduction policies.

Mutual aid organisations and associations, on the other hand, occupy a prime position in the areas of social integration and closely work with non-governmental organisations and donor agencies. Many mutual aid organisations and associations in Ethiopia also work on the provision of traditional insurance services or safety-nets and caring for vulnerable groups (e.g., orphans, elders and people with special needs). In general, most of the social economy organisations in Ethiopia target or work with the poor, and they reach a considerable number of households that are at the bottom end of the income spectrum. Co-operatives and associations working on social issues alone reach about 6.6 million beneficiaries.

The role of social economy organisations in employment creation is also substantial in Ethiopia. Co-operatives and associations generate more than 150,000 income-generating employment opportunities in the country. If one accounts for employees and voluntary workers in traditional mutual

organisations and general interest associations whose promoters are different from their users, the size of employment opportunities created by the social economy sector could easily be more than three times the employment created by co-operatives and associations working on social issues.

Overall, the social economy sector in Ethiopia is a growing segment of the economy that attracts the interest of governmental, non-governmental and donor agencies because of its focus on social development and poverty reduction. As such, social economy organisations are main partners that implement development policies and programs by governmental, non-governmental and donor agencies. The size, characteristics and dynamics of each organisation type are illustrated in more detail below.

Co-operatives

In Ethiopia, like anywhere in the world, co-operatives are a form of organisation that is owned, controlled and used by its members. They are created by individuals who live and work together and have shared social and economic goals. While informal cooperation among people is an inherent and historically important element of traditional societies, the formal co-operatives that allow people to systematically pool efforts and resources in order to accomplish a shared set of goals have existed in Ethiopia for only about five decades. Over the first three decades of their existence, co-operative organisations were not co-operative in their practices – that is, they did not espouse the concept of voluntary cooperation and participatory governance. Co-operative membership during the imperial regime, the period in which the movement was started, was exclusive to farmers with larger farm sizes (landlords). Their growth and development have also been constrained by various economic systems and policies adopted by different political regimes (Rahmato, 1994). For instance, during the socialist regime, co-operatives were seen as “secondary state” or public enterprises.

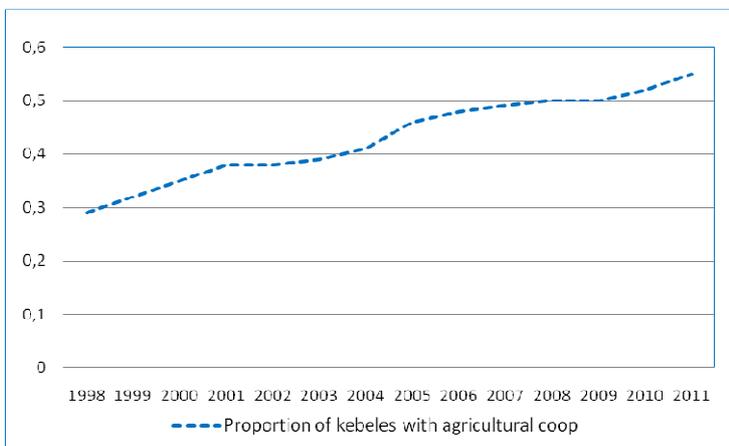
It is only since the economic reform in 1991 that co-operatives have been promoted and revitalised as autonomous or freestanding organisations. By enacting a new legal framework on co-operative establishment (i.e., Co-operative societies establishment proclamation number 147/1998) the Government of Ethiopia revived its interest in co-operatives and has made efforts to promote a new generation of co-operatives that differ from their predecessors. The new statute proclaims that the new wave of co-operative organisations should be established based on members’ “free will to organise”, able to fully participate in the free market, free of external interventions, and participative or democratic in their governance system.

As part of the governmental support for co-operative promotion, a regulatory and supervisory authority was also introduced through the establishment of the Federal Co-operative Agency in 2002. The Agency is a public body that promotes, regulates and supervises the co-operative sector at the national level. It was established with a plan to expand primary co-operatives and to promote cooperation among co-operatives through establishing co-operative unions, consortia and federations. In addition to public support, the growth

and development of co-operatives over the last two decades also relied on the efforts made by local and international NGOs (e.g., Volunteers in Overseas Co-operative Assistance, Self Help Africa) and donors (e.g., USAID, DFID, UNDP, ILO, IFAD). Thus, co-operatives are not fully self-propelled entities in Ethiopia. A recent study on agricultural co-operatives shows that the members themselves initiate only about 26 percent of the co-operatives. The remaining 74 percent are externally initiated either by public bodies or NGOs (Bernard et al., 2010).

Currently, there are more than 32 types of co-operatives operating across sectors from agriculture to finance, construction, and public utilities. Data from the Federal Co-operatives Agency indicate that the number of co-operatives in the country is growing at a rapid rate – between 2007 and 2012, the number of co-operatives grew by about 87 percent. As of 2012, a total of 43,256 primary or first-level co-operatives reportedly are providing services for about 6.5 million member households, of which about 1.4 million are female headed households. Of the total, about 26 percent are agricultural co-operatives that provide input supply, irrigation and output marketing services for a considerable proportion of smallholder farmers in the country. They account for about 90 percent of modern input distribution and commercialise more than 10 percent of the marketable surplus from agriculture over the last five to six years (Bernard et al., 2008; Rashid et al., 2013). Recent estimates show that, on average, 50 percent of the kebeles¹⁰ in Ethiopia have at least one agricultural co-operative (Figure 1).

Figure 1: Proportion of *kebeles* with agricultural co-operatives in Ethiopia (1998 – 2011).



Source: Author's calculation based on regional estimates from Bernard et al. (2013)

Financial and housing co-operatives are the most widespread co-operatives next to agricultural co-operatives, accounting for about 24 and 18 percent of the total, respectively (Table 1). Financial co-operatives are notable for both expanding credit services and inculcating a savings culture among the unbanked segments of the population. In rural areas in particular, financial co-operatives are playing substantial roles in meeting the micro-credit and saving

¹⁰ Kebele is the smallest administrative unit in Ethiopia.

demands of the rural poor. Housing co-operatives, on the other hand, work towards ameliorating the housing conditions of people in urban areas by facilitating the acquisition of land from urban administrations and loans from the banks. Most of the housing co-operatives also extend community services (such as waste management, recreational services, and security services) to the community at large.

EURICSE

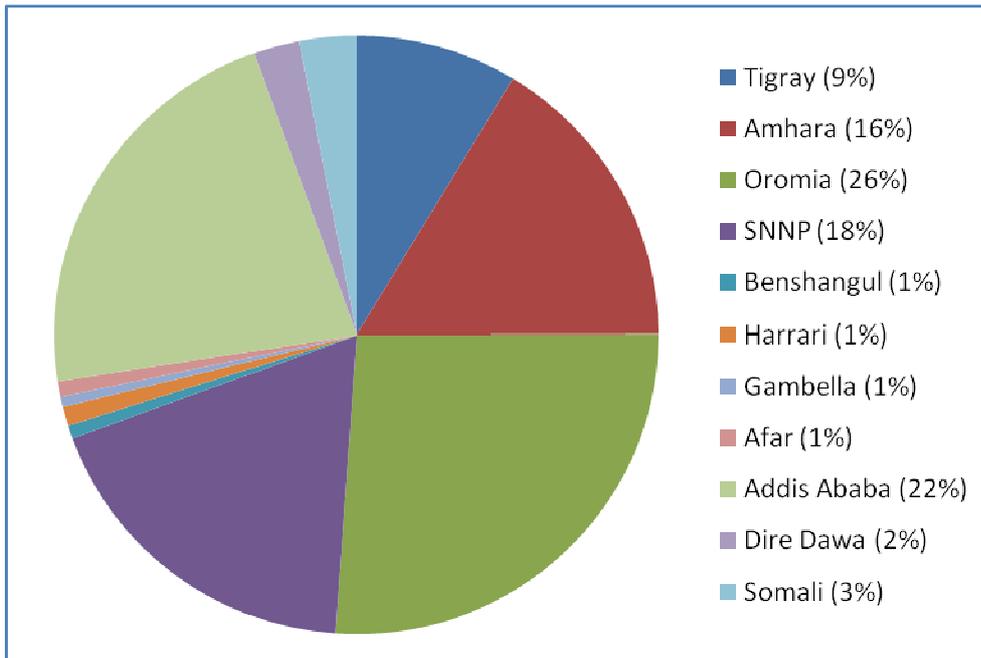
Table 1: Main types of co-operatives in Ethiopia by region and their percentage shares, 2012

Region	Types of co-operatives								Total
	Multipurpose	Irrigation	SACCOs	Housing	Consumer	Dairy	Marketing	Other	
Tigray	657	479	774	-	76	97	257	1406	3746
Amhara	1906	359	1578	1468	275	112	247	1105	7050
Oromia	3457	518	3579	5	703	136	1685	1238	11321
SNNP	990	91	2460	128	100	-	327	3809	7905
Benshangul	95	2	76	1	24	1	61	49	309
Harrari	17	8	36	116	16	-	24	231	448
Gambella	96	-	11	3	38	-	51	39	238
Afar	165	59	79	1	17	12	31	1	365
Addis Ababa	-	-	1415	5599	168	-	-	2300	9482
Dire Dawa	54	7	176	254	62	2	49	456	1060
Somali	265	140	86	12	23	-	66	740	1332
National	7702	1663	10270	7587	1502	360	2798	11374	43256
% share	17.8	3.8	23.7	17.5	3.5	0.8	6.5	26.3	100
Growth rate over the last five years (%)	46.1	213.8	96.2	94.9	531.1	40.6	-	119.4	87.4

Note: The growth rate is calculated using 2007 data on the number of primary co-operatives in Ethiopia from Bernard et al. (2010). Multipurpose co-operatives are agricultural co-operatives that provide input and consumer goods supply, credit and output marketing services. *Source:* Federal Co-operative Agency, 2012.

In terms of the spatial distribution of co-operatives across regions, data from the Federal Co-operative Agency (FCA) indicate the presence of significant disparities. About 90 percent of the co-operatives are found in five regions – in Oromia, Addis Ababa, Southern Nations, Nationalities and Peoples’ (SNNP), Amhara, and Tigray regions. The remaining five regions account for only 10 percent of the co-operatives in the Country (Figure 2).

Figure 2: Distribution of co-operatives in Ethiopia by region, 2012.



Source: Federal Co-operative Agency, 2012.

Besides the first-tier co-operatives, there are also over 200 co-operative unions/consortia and four regional federations that integrate primary co-operatives both downstream and upstream in the value/supply chains. Unions and federations are extended arms of primary co-operatives charged to handle the production of goods and services that are beyond the capacity of primary co-operatives. In agriculture, for instance, higher-level co-operatives play crucial roles in product aggregation, value-additions and in handling import and export activities that consequently enable primary co-operatives and producers to capture the highest value from their products. Despite legal constraints to establish co-operative banks in Ethiopia, there are also two co-operative banks (i.e., Oromia Co-operatives Bank – OCB – and Addis International Bank – AdIB) that are owned by co-operative organisations and committed to extend exclusive financial services to the co-operative sector.

In addition to the provision of goods and services to their members and the community at large, co-operative organisations also play a substantial role in employment creation. In Ethiopia, the co-operative sector is one of the major employers, and it also adheres to the “decent work” standards. Recent estimates by Bezabih (2009) indicate that about 82,000 people were employed by co-operative organisations in 2007, excluding other wage employment

created because of the very existence of co-operatives (e.g., number of employees in public co-operative promotion offices, co-operative training institutions and co-operative audit companies). Given the 87% growth of co-operatives between 2007 and 2012, the number of people currently employed by the co-operative sector could easily reach 150,000 people. Apart from wage employment, co-operatives are also major sources of seasonal employment and significantly support self-employment activities. Estimates from 2005 show that the co-operative sector supports or facilitates the self-employment of about 400,000 people and provides seasonal employment opportunities for about 21,000 people every year (Tegisit, 2008).

Oromia Coffee Farmers Co-operatives Union (OCFCU) is a consortium of primary coffee co-operatives that are owned by smallholder coffee growers in the Oromia region. It was established in 1999 by 34 coffee marketing co-operatives that represent 22,691 smallholder coffee farmers. As of 2012, the union represents 208,728 farm households that are affiliated with 240 primary coffee marketing co-operatives. Over 2013, the union exported about 5,530 tons of coffee for the international market and its turnover was about USD 32.1 million. The union distinguishes itself from other coffee traders and exporters through its ability to balance economic and social goals. It aims to both increase the income of small farmers through bargaining for better terms of trade and maximise the social condition of farmers by investing part of its profit and premium payments in public goods. The union also promotes environmentally sustainable farming practices.

The union helps farmers gain a significant portion of the value of their product through bypassing many of the middlemen that characterize the coffee trade in Ethiopia – it directly links coffee producers to rosters and final consumers. Moreover, the union returns 70 percent of its profit and some proportion of premium payments to producers. In addition to improving farmers' income, the union also plays crucial roles in addressing social problems and filling missing social services. Since its establishment, the union financed 213 social projects that benefited about 224,475 farm households in their areas of operation. These projects include construction of primary and secondary schools, libraries, health posts, roads, bridges, and spring water wells, among other improvements.

The union works closely with governmental, non-governmental organizations and donor organizations in local or community development initiatives. It often serves as a channel or local partner to implement development and poverty reduction programs. Besides the social and economic services, the union generates wage employment opportunities for 122 individuals. If one takes into account the number of employees working on social development projects financed by the union and employees hired by member primary co-operatives, the number directly and indirectly employed by the union is easily above 600 people. The union alone also provides seasonal employment opportunities for about 1,200 individuals every year.

Source: primary data from OCFCU and secondary data accessed from <http://www.oromiacoffeeunion.org/>

Traditional mutual organisations

Next to co-operatives, the second most important players in the social economy are traditional mutual organisations (e.g. *idir*, *meredaja mahaber*, etc). These organisations are deeply rooted community groups or burial societies established by individuals and households living near each other. Deeply rooted tradition, community ownership, trust and reciprocity are the main factors that hold members in traditional mutual organisations. Traditional mutual aid organisations are also the most widespread type of social economy organisations, as the majority of the neighbourhoods in Ethiopia have at least one mutual aid society.

The main service provided by traditional mutual organisations in Ethiopia is traditional insurance or safety net. The typical traditional mutual organisation operates using resources contributed or pooled by each member on a regular basis. The pooled resources usually serve to put on a funeral for one of the community members' family (i.e., to meet burial expenses and provide financial support for the family of the deceased) or when a member gets sick or needs emergency help. Mutual organisations provide such services based on reciprocal contracts, and active participation by members composing the organisation is required in order to receive benefits when the need arises.

In recent years, with the support of non-governmental organisations (NGOs), some of these traditional mutual organisations (*idir* or burial societies in particular) are engaged in entrepreneurial activities to generate additional income. They have also extended their goals and purposes to serve the living: in addition to burial assistance, they promote health, mobilise care and support for vulnerable groups and work on other social and developmental activities. The cooperation between *idirs* and the Catholic Relief Services (CRS) on HIV/AIDS prevention is one example, among many others. Between 2005 and 2010 the CRS closely worked with 180 *idirs* comprised of 5,400 member households. With minimal training, the CRS actively involved these mutual organisations in HIV/AIDS prevention activities (e.g., organising awareness forums, house-to-house visit of people living with HIV/AIDS) and assisting orphans and vulnerable children (e.g., by providing food, clothing, shelter and educational assistance). In the view of the CRS, working with mutual organisations that generate their own income to address health and societal problems is found to be both scalable and sustainable (Clark and Telilla, 2010).

Despite their social and economic imperatives, traditional mutual organisations in Ethiopia are marginalised from public policies and get little or no attention from government bodies. There are no legal frameworks or proclamations that protect, regulate and supervise their activities; nonetheless, most of the mutual organisations have their own by-laws or internal regulations and are responsible for making their own governance decisions (e.g. by having a designated chairperson, treasurer and secretary).

Associations

The third category of social economy actors in Ethiopia are Associations, which are organised around a shared professional, economic, social or humanitarian purpose. Data from the Ethiopian Charities and Societies Agency show that there are more than 2,550 local or domestic associations operating in more than 40 sectors and sub-sectors in the country. A considerable number of these associations work on health, education, poverty reduction, governance and democratisation, environment protection and natural resource management, and on other social issues like child care, caring for elders and people with special needs. The associations working on the aforementioned social issues are 443, and they reportedly serve about 154,000 members that belong to vulnerable groups in the society.

Like co-operatives and traditional mutual organisations, associations in Ethiopia are dedicated to the production of goods and services for the wider community. Unlike co-operatives and mutual organisations, however, about 70 percent of the associations in Ethiopia pursue general interests – that is, the ultimate beneficiaries differ from the members or group of people who established and promote the organisation. The remaining 30 percent are mutual-interest associations founded by professionals to advance or promote shared expertise.

Most of the associations in Ethiopia are legal entities registered by the Charities and Societies Agency under the Ministry of Labor and Social Affairs and have a variety of names. While mutual-interest organisations or trade associations established by professionals (e.g., teachers, economists, etc.) and other particular groups of people (e.g., women, youth, etc.) are often registered as associations, general-interest organisations devoted to serving disadvantaged groups are often registered as non-governmental organisations. These two types of associations differ not only in terms of their beneficiaries, but also for the origin of their resources. Unlike mutual-interest associations, most general-interest associations are engaged in economic activities to generate additional income, and they resemble social enterprises with non-profit distribution constraints such as the ones that can be found in developed countries. Owing to their social and poverty reduction focus, general-interest associations also receive considerable support from donors and public agencies.

Box 2: Example of general-interest associations in Ethiopia: Abebech Gobena Yehetsanat Kebekabena Limat Mahber (AGOHELMA)

Abebech Gobena Yehetsanat Kebekabena Limat Mahber (AGOHELMA) is a local non-governmental and a not-for-profit association founded in 1980. Over the last three decades the association has performed an estimable job in the area of assisting/supporting orphans and vulnerable children in Ethiopia.

Besides childcare, which is the main service of the association, AGOHELMA also provides related services such as health care, education, environmental protection, and economic empowerment services to the society at large.

Since its establishment, the association has provided full boarding institutional care for about 4,000 orphans and built institutional capacity that can provide childcare for 120 orphans at a time. In addition to institutional care, the association also provides home based assistance for more than 14,000 orphans and vulnerable children every year and undertakes various child and community-centred development activities. Overall, 1.5 million people are estimated to benefit from the activities of the association every year.

The association also has an entrepreneurial component that generates additional income, which is used to meet the expenses of the core missions of the association. In this capacity, AGOHELMA mainly produces and markets goods and services that are needed by the community where it operates (e.g. retailing agricultural goods, handicraft and food products, and health care services with nominal fees based on individuals' ability to pay). The association generates about 40 percent of its annual budget from these activities.

Another contribution of the association is the employment opportunities it creates. At present AGOHELMA has more than 300 wage employees and a comparable number of voluntary staff.

Source: <http://agohelma.org.et/index.php/history>

4.2. The Social Economy in Ghana (by Gian Nicola Francesconi, IFPRI)

Like most African countries, Ghana counts a large number of organisations pursuing both social and economic objectives, which are owned and controlled by the individuals using their services. Yet, it is difficult to provide a reliable estimation of the magnitude and importance of Ghana's social economy since many of these user-owned organisations are informal entities (i.e. they are not legally recognised or registered with other national institutions). Information and data about formal organisations also appear to be scattered and scarce. However, many formal organisations are registered with three apex

organisations, which represent the only known official sources of aggregate data and information about what can be defined as the Ghanaian social economy. These apex organisations include: Ghana Co-operative Credit Unions Association (GCCUA), Ghana Co-operative Susu Collectors Association (GCSCA) and Ghana Co-operative Council (GCC).

GCCUA was established in 1968 as the apex body of Ghanaian credit unions, which are defined as member-owned financial co-operatives, democratically controlled by their members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to their members. Many credit unions also provide services intended to support community development. Currently, there are 262 active credit unions in Ghana, comprising approximately 207,402 individual members. GCCUA represents the interest of the credit union movement at the local as well as at the international level. The aim of its establishment was to develop itself into a sustainable financial institution and to create an enabling environment for credit unions' operations.

In order to ensure the viability and sustainability of credit unions, GCCUA offers both technical and financial services to its members including education and training, auditing, bookkeeping, computer services, general supervision, risk management and insurance. GCCUA has over the last five years received support from the Rural Financial Services Project. This support includes assistance in building the capacity of its affiliates through numerous training programs, provision of means of transport like motorbikes, a Pickup and a cross country vehicle and computers, printers and software for data management. The most important projects undertaken by GCCUA include the construction of a training centre for credit unions, a "Home Banking Scheme" and a micro-finance scheme for the active poor. Table 1 below provides a summary of the annual performance of GCCUA since 2001. (Ghana Ministry of finance: <http://www.mofep.gov.gh/>).

Table 1: GCCUA annual performance

DETAILS	2001	2002	2003	2004	2005	2006
Members	96,052	125,000	132,000	163,860	174,026	202,390
Deposits	¢84.6B	¢150.2B	¢206.0B	¢354.7B	¢425.3B	584.2B
Loans	¢59.4B	¢88.3B	¢142.0B	¢216.6B	¢315.2B	396.5B
Total Assets	¢98.6B	¢200.0B	¢250B	¢423.8B	¢50.7B	702.1B

Source: Ministry of Finance and Economic Planning

The Ghana Co-operative Susu Collectors' Association, (GCSCA) was established in 1994 as an umbrella organisation for all Regional Susucollectors societies in Ghana. Susucollectors societies are revolving or rotating schemes for mutual saving, credit and insurance. Interestingly, similar schemes can be found in many other parts of Africa, for example: "La tontine" in Senegal, "Les greniers villageoises" in Burkina Faso and Niger, "Idir" and "Iqub" in Ethiopia, etc. (Francesconi and Ayerakwa 2011). The GSCA was formed to (self)-regulate the activities of SusuCollectors and instil practices which would build clients'

confidence in deposits mobilisation. The GCSCA can be considered as an indigenous microfinance institution with a broad client base and a wide scope for funds mobilisation.

Currently, GCSCA has regional offices in all the regions and many districts of the country, including 1,335 Susucollectors societies and approximately 50,000 individual members. Since its inception GCSA increased its membership base by 45%. By the end of 2007 GCSCA mobilised a deposit of GH ₵38.5 million and disbursed over GH ₵1.02 million to its members, with financial support from Barclays Bank and Microfinance and other financial institutions. GCSA also provides its members with a training program in the areas of risk and delinquency management, financial management, report writing, book keeping and policymaking. It further developed a system to collect data from its members (Ghana Ministry of Finance: <http://www.mofep.gov.gh/>).

The Ghana Co-operatives Council (GCC) is the apex body of all co-operatives in Ghana. It is an independent apex organisation that promotes the development of co-operatives and other self-help organisations, such as producer organisations (POs). The GCC comprises approximately 3,000 co-operatives and 7,000 POs, for a total of 350,000 individual members. According to its mission statement, the GCC advocates for an enabling environment and provides social and economic services to its members. The GCC practices and upholds co-operative principles and values of democracy, co-operation, community development, honesty, transparency and care for its members.

The GCC was registered in 1957 by the Department of Cooperation as a non-trading, non-governmental organisation. Specifically, it was formed to take over the function of co-operative education from the Department of Co-operation of the government of Ghana. It operates in four sectors: Agriculture, Industry, Finance and Services. All thirteen national co-operative associations existing in Ghana are affiliated to the GCC. The members of the board of directors of the GCC are appointed by these national co-operative associations. (Ghana Ministry of Finance: <http://www.mofep.gov.gh/>).

This brief description of the three main apex organisations suggests that they comprise over 600,000 individuals. If we consider that all informal and some of the formal user-owned organisations are not counted, we can confidently conclude that the social economy of Ghana may involve at least one million people, and probably more.

According to the Ministry of Employment and Social Welfare there are approximately 3,000 NGOs registered in Ghana, and tens of thousands of registered self-help groups and associations. Recently, Ghana has also witnessed the establishment of some social enterprises. One example is given by ESOKO, an IT company providing market information systems and other cell-based services to people that cannot afford to buy or are not able to use computers. The services provided by ESOKO are partially financed by donors, NGOs and the government, and partly by end-users.

The role of Farmer-Based Organisations in the social economy

In Ghana agriculture accounts for nearly 50 percent of the gross domestic product (GDP) and employs about 60 percent of the population (Kufuor 2011; NDPC 2005). Since the 1980s, cocoa production alone contributed to 45 percent of the country's foreign exchange earnings and constituted 65 percent of total merchandise exports (World Bank, 2009). Still, analyses based exclusively on economic indicators tend to significantly underestimate the importance of the agricultural sector in Ghana. Agriculture in Ghana needs to be also acknowledged as the main source of social capital, here defined as the ability of individuals to secure benefits by virtue of memberships in social networks or other social structures (Portes, 1998). Based on data from 1,471 Ghanaian households, Narayan and Cassidy (2001) show that participation in social networks is significantly higher in rural than in urban areas, *ceteris paribus*. Narayan and Cassidy (2001) show that the average rural household in Ghana participates in at least two rural organisations, typically owned and controlled by users. The users of rural organisations are mostly smallholder farmers. Data from the Ghana Living Standards Survey (GLSS) show that the average farm size among rural landowners was just 4 hectares in 2005 (Quinones and Diao 2011; Chapoto *et al.* 2013).

According to Salifu *et al.* (2010), farmer-based organisations (FBOs) are currently the most widespread and popular organisational forms throughout rural Ghana. In addition to agricultural co-operatives and traditional community-based schemes for mutual support, rural Ghana counts approximately 7,000 between formal and informal FBOs, which comprise approximately 245,000 member-farmers. The services provided by FBOs are mainly intended to help smallholder farmers share the risk and reduce the costs associated with agricultural production and commercialisation. Over the last decade, Ghanaian FBOs have been receiving increasing support from government and donor agencies (Salifu *et al.* 2010). Pro-FBO policies in rural Ghana have been commonly justified by the need to trigger the development of "inclusive agri - business", of the kind that promotes "vertical investments" for market integration, as well as "horizontal patronage" for solidarity purposes. Ghanaian FBOs are thus increasingly recognised as key organisational forms for the promotion of economically profitable and socially responsible rural ventures. Although FBOs are widespread in Ghana (numbering approximately between 6,000 and 7,000), they are still relatively small (35 members on average) and young (seven years old on average), and their contribution to the development of inclusive agribusiness remains highly contested, as most Ghanaian FBOs appear to face problems of market-access or elite capture (Francesconi and Wouterse 2013).

Despite this generally bleak scenario, some Ghanaian FBOs appear immune to or able to overcome the abovementioned problems. Yet, for every success story there seems to be many failures. Arguably, this is due to the fact that many FBOs have been induced by external public incentives, even if they lacked the necessary managerial capacity to sustain their growth over time. Due to the lack of cross-fertilisation between agribusiness and development knowledge, Ghanaian FBOs are commonly seen as black boxes (Cook and Chaddad 2000). The need to open these black boxes is justified by numerous studies (see Reardon and Barrett 2000; Hayami and Otsuka 1992), which

suggest that the limited agro-industrialisation observed in developing countries can be attributed to the excessive attention paid to the development of production technology and the limited progress made in terms of organisational design.

The history of Ghanaian FBOs

In pre-colonial Ghana agricultural production was organised into many self-subsistence communities based on kinship and hierarchical principles (Grischow 2006; deGraft-Johnson 1958; Buell 1928; McPhee 1926). The risk associated with subsistence farming was commonly shared within a community through different revolving (or rotating) schemes (Salifu et al. 2010; Tsekpo 2008; Young et al. 1981; Strickland 1933). These schemes, commonly known as Nnoboa, were meant to facilitate the exchange of labour among community members in times of need. Interestingly, this form of traditional schemes for mutual support can still be found nowadays throughout rural Ghana. Although they continue to serve important social protection functions, their contribution to agribusiness development is rather negligible (Francesconi and Ayerakwa 2011; Salifu et al. 2010).

Colonial authorities recognised the social importance of these community-based arrangements for risk-sharing purposes and decided to leverage them in order to establish co-operative organisations that could facilitate the bulking and commercialisation of agricultural products. This approach was viewed as a way for guiding Ghanaians through “a critical stage of economic growth without tearing the social fabric”. As a result, colonial authorities began to invest in the development of co-operatives in exchange for agricultural products (especially cocoa) to be sold on the world market. This investment strategy contributed to reducing transaction costs, boosting Ghana’s agricultural production and commercialisation, but it also fostered increasing problems of elite capture. As investments were often allocated by colonial authorities on the basis of political considerations, co-operative leaders became increasingly less accountable to their member-farmers. As such, corruption and embezzlement became rampant among co-operatives, discouraging broad-based participation. Yet, when colonialism came to an end in 1957, the newly independent state continued to support this highly centralised and inefficient co-operative model through investments in parastatal input-output companies. By 1960 co-operatives were marketing about 40 percent of the total cocoa produced in Ghana (Salifu et al. 2010; Tsekpo 2008; Grischow 2006; Young et al. 1981; Strickland 1933; deGraft-Johnson 1958).

This situation began to change in the 1980s when policy reforms led to the gradual disengagement of the state from many functions and services related to agricultural production and commercialisation. Under growing international pressure for liberalisation and efficiency-enhancing structural adjustment, investor-owned firms (IOFs) were expected to replace parastatals in governing agricultural markets. However, these expectations were seldom fulfilled. In some cases, the withdrawal of the state was tentative at best, leading to minimal change in co-operative organisations. This was particularly true for key value chains, such as cocoa. In many other cases, abrupt state withdrawal was not followed by the rise of private investments, resulting in the collapse of

entire co-operative structures and culminating in an institutional vacuum hampering the participation of smallholders in the market. With the beginning of the new millennium and increasing market globalisation, these institutional issues became particularly evident and pushed the government and donor agencies to recognise the need to develop a new-generation of market-oriented co-operatives, directly owned and controlled by farmers. This realisation prompted the rise of FBOs throughout rural Ghana (Salifu et al. 2010; Wanyama et al. 2008; Tsekpo 2008).

Therefore, the rise of FBOs in Ghana was essentially driven by the need to contrast the increasing marginalisation of smallholder farmers from global markets, avoiding a return to the centralised and inefficient co-operative model of the past. As agricultural co-operatives evolved out of farmers' control into state-led and elitist firms, FBOs emerged to be direct extensions of farm households. This organisational transition was favoured by the decision of the Ghanaian government to start revising the extant co-operative law (the Co-operative Societies Decree, from 1968), in order to formally recognise FBOs as autonomous agribusiness entities. In addition to this, the rise of Ghanaian FBOs benefited from a substantial amount of external incentives. Since FBOs contributed to reduce the transaction costs and risks faced by development programs in support of rural smallholders, participation in FBOs soon became an essential pre-condition for farmers to participate in these programs.

The FBO life cycle framework

The historical evidence presented above validates the definition of Ghanaian FBOs as user-owned co-operatives. The analysis of similar organisations in the US led agribusiness scholars (Cook and Chambers 2007) to develop the "co-operative life cycle framework". In particular, this framework specifies that the "health" of a FBO evolves according to a life cycle. In simplified terms, this theory explains that a FBO emerges in the presence of an economic justification which fosters membership growth until problems start to arise leading to either the collapse or the re-invention of the organisation.

According to Cook and Chambers (2007) farmers need an economic justification to self-organise. Twentieth century organisational scholars (Sexton and Iskow 1988; Staats 1987) specify that the establishment of co-operative organisations is usually justified by the need to overcome asymmetric information between farmers and the market. Greenwald and Stiglitz (1986) further argue that markets with imperfect information give rise to externality-like effects, and it is here that public incentives are most needed. In line with this argument, institutional scholars (Varughese and Ostrom 2001; Olson 1965) conclude that in the absence of external incentives farmers do not always (nor often) decide to self-organise. This is particularly true in Africa where most agricultural co-operatives and FBOs appear to be established in anticipation of or during development programs (World Bank 2007; COPAC 1995).

Cook and Chambers (2007) further specify that the initial economic justification leads to a period of growth in membership, underpinned by the

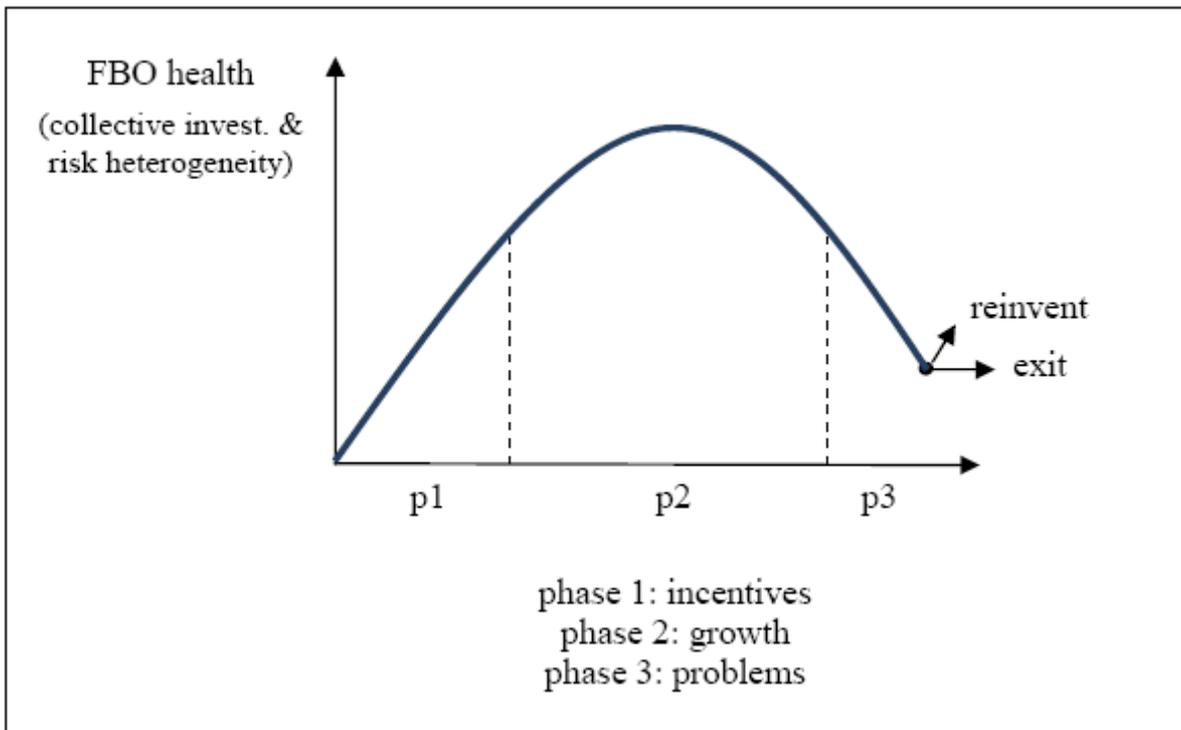
prospect of taking advantage of economies of scale and scope. As it grows a FBO tends to transcend its initial community boundaries, fostering heterogeneity in members' socio-economic preferences. Given that FBOs are typically established on the basis of equity principles, members' property rights tend to be vaguely defined, allowing for members' cross-subsidisation (World Bank 2007; Cook and Illiopoulos 2000). Under vaguely defined property rights, increasing heterogeneity in members' preferences results in increasing members' cross-subsidisation. Although this process contributes to maximise members' risk-sharing, it can also give rise to the free-rider problem. This problem arises if some members benefit from the investments made by an organisation without paying the cost (Ostrom 2004). The rise of the free-rider problem results in collective shirking, as members do not invest in their organisation, and thus in diminishing market access.

However, Nilsson *et al.* (2012) emphasise that the problems faced by agricultural co-operatives in Europe cannot always be attributed to heterogeneity in members' risk preferences. Growth in membership can also result in diminishing social capital. According to Nilsson *et al.* (2012) social capital tends to dwindle as membership becomes larger and more anonymous. Low levels of social capital induce organisations characterised by vaguely defined property rights to invest an increasing amount of resources in monitoring members' activities and enforcing sanctions. However, as monitoring and enforcement costs increase, revenues tend to decrease and to be increasingly captured by rural elites. This is what Cook and Chambers (2007) define as the agency-cost problem the likelihood of which is inversely related to the probability of witnessing the free-rider problem. In the context of Africa, agency costs problems typically promote members' side-selling (i.e. members sell their output individually, outside the FBO's marketing channel) and members' drift (i.e. members desert the FBO), to the detriment of social cohesion (Francesconi and Ruben 2014). Therefore, the growth of a FBO is bound to be limited by the rise of either agency-cost or free-rider problems. The recognition of these problems motivates the decision to either dismantle or re-invent an organisation.

As such, this framework suggests that the health of a FBO evolves according to a life cycle whose three main phases are characterised by: 1) start-up incentives; 2) membership growth; and 3) problem recognition (Figure 1). Yet, the definition of FBOs' health (vertical axe in Figure 1) remains somewhat unclear. Cook and Chambers (2007) suggest that indicators of organisational health should capture the degree of alignment between financial and non-financial performance. In a similar vein, Prof. Ostrom stated that in the developing world the success of collective action organisations depends on a combination of social and economic factors. Ruben (1997) further qualifies this statement suggesting that the success of FBOs in developing countries depends on both risk-sharing and efficiency-enhancing devices. Agribusiness scholars recognise that a key function of co-operative organisations is to reduce on-farm risk (Cook *et al.*, 2008; Sexton and Iskow, 1988). Farmers seek to mitigate uncertainty at the level of the farm by transferring risk to the FBO, in such a way as to spread (or mutualise) it among the members. Mazzocco and Saini (2012) further explain that in co-operative organisations, risk-

sharing increases with the degree of heterogeneity in members' risk preferences. This argument thus suggests that the heterogeneity in members' preferences described by Cook and Chambers (2007) as the main source of equity and inefficiency in FBOs may be related to members' risk attitude. It follows that heterogeneity in members' risk preferences can either foster risk-sharing or free-riding. To contrast inefficiencies underpinning the rise of the free-rider problem, FBOs need to centralise input and output flows through investment in physical (e.g. warehouses, processing equipment, vehicles, etc.) and human resources (managers, technicians, etc.). However, when efficiency-enhancing investments are driven by mistrust (i.e. low social capital) they can result in agency-cost problems, favouring elite capture and minimising risk-sharing opportunities. Hence, we conclude that FBOs' health depends on the degree of alignment between members' heterogeneity in risk preferences and members' willingness to make collective investments (Figure 1).

Figure 1: The FBO life cycle framework



Source: adapted from Cook and Chambers (2007)

The health status of Ghanaian FBOs

The validity of the life cycle framework (see Figure 1) in the Ghana context and the health status of Ghanaian FBOs were assessed on the basis of primary data collected in 2010 from 500 FBOs. The FBOs sampled for this analysis were randomly selected from a list compiled by the Ministry of Food and Agriculture (MoFA), which included only organisations at the village level (i.e. no unions, federations or other forms of apex organisations). Although this list cannot be

considered as nationally representative, it included 3,052 FBOs out of a total population estimated at approximately 7 thousand units. The list covered six (out of ten) administrative regions, and all the main agro-ecological zones of the country (coastal, rainforest, sahelian). Data collection activities were carried out by a team of 17 MSc students from three Ghanaian Universities (Accra, Tamale, and Kumasi), using both survey-questionnaires and games uploaded onto smart - phones.

In line with the life cycle framework (see phase one and three in Figure 1), the analysis shows that organisational health is lower among FBOs participating in development programs (i.e. receiving external incentive) or facing problems of market access or elite capture. Furthermore, as per phase two of the life cycle framework (Figure 1), the analysis shows that growth in membership corresponds to healthy FBOs. However, the analysis of available data also indicates that the vast majority (89%) of Ghanaian FBOs was either in phase one or three of the life cycle and characterised by sub-optimal health. Hence, only a few (11%) among Ghanaian FBOs appeared to be healthy and growing. In other words only a minority of Ghanaian FBOs appeared to experience growth in membership and to combine high levels of heterogeneity in members' risk preferences with a significant amount of collective investments. The rest was either in the process to start-up collective action or confronted with problems predominantly associated with a lack of market access.

These findings thus contribute to stress the validity of the life cycle theory in the Ghanaian context. In addition to this, they suggest that the role played by FBOs in providing Ghanaian farmers with both risk-sharing and efficiency-enhancing opportunities may be negligible. Yet, the analysis also implies that the socio-economic conditions of Ghanaian farmers could substantially increase if the health of Ghanaian FBOs were improved. Improvements may however require an important shift in the way FBOs are governed. Although development programs in Ghana appear to be rather successful in promoting the establishment of FBOs through the provision of incentives, more efforts may be required to help FBOs better manage growth in membership, in order to prevent the misalignment between heterogeneity in members' risk preferences and collective investments.

These results imply that the current governance of Ghanaian FBOs is not conducive to the development of inclusive agribusiness. More and better efforts need to be made in order to build up the managerial capacity of Ghanaian FBOs. This could be done in several ways. For example, in Ethiopia the government provides financial support to rural co-operatives in order to hire professional managers (Francesconi 2009). Although this strategy was criticised for re-instating a risky link between co-operative organisations and the state, it proved rather beneficial for the growth of Ethiopian co-operative agribusiness (Francesconi 2009). Furthermore, managerial capacity could be improved by using the co-operative life cycle framework in order to train co-operative managers. The Graduate Institute on Co-operative Leadership at Missouri University (GICL) has been using this framework to train the managers of US agricultural co-operatives over the past twenty years. Today, participation in this training program is considered mandatory for the

managers of many among the largest and most profitable agricultural co-operatives in the US. In particular, GICL claims that its training program improved the interaction between managers and researchers, contributing to simultaneously advance co-operative knowledge and management. The implementation of a similar training program in Ghana could thus benefit further research and governance efforts geared towards the development of the national social economy.

4.3. The Social Economy in Kenya (by Richard Ochanda, University of Trento and EURICSE)

Kenya has a diverse set of organisations that can be considered within the scope of the social economy, and they all play an important role in enhancing social inclusion. After a brief overview of the entire social economy universe in Kenya, this section focuses in particular on two organisation types: faith based organisations and co-operatives. In particular, the section will provide a brief overview of their history, a description of their characteristics, size and institutional nature, and an assessment of their effectiveness in solving socio-economic challenges.

During the pre-colonial era, associational activities were mainly based on a culture of reciprocity. With the onset of colonialism, specific legislation was passed to provide an impetus for the reorganisation of these activities and the growth of a more formal social economy sector. This reorganisation process was continued with the post-colonial government after Kenya's independence in 1963. The sector was then further strengthened when the *Harambee* movement, epitomising the Kenyan version of African Socialism, was formalised (Republic of Kenya, 1965).

The impact of social economy activities is felt in the social, economic and political domains. While it is difficult to quantify the exact size of this sector in Kenya, this section attempts to provide a brief history of the social economy (looking at the pre-colonial, colonial, and post-independence eras), and an overview of its main components, including in particular religious organisations and the co-operative movement.

Traditional Cooperation in Kenya

Co-operation and self-help were widespread practices in Kenya before the onset of colonialism. Traditional cooperation practices took the form of collaborative homestead or farm work (Martin, 1990), communal work, or contributions towards individual and communal causes (Mbiti, 1999; Hakansson, 1994). Different names for self-help and cooperation activities among communities existed (Mbiti and Rasmusson 1977) such as *King'arua*

among the Taita, *Bulala* among the Luhya, *Ngwato* among the Kikuyu, *Nyoluoro* among the Luo, *kithinganyumba* for the Meru, *kipagenge* among the Kalenjin, *iskashato* among the Kenyan Somali, and *egesangio* among the Kisii to name just a few (Ouma 1987).

The traditional society was characterised by collective ownership and strong patterns of social ties. Community members were responsible for ensuring that basic needs of all members were met (Ouma, 1987; Ochieng, 1991). People would also assist each other in times of hardships (Kenyatta, 1965). The same traditional spirit of mutual aid found a new expression in the late 1960s when the Harambee movement became the national self-help and cooperation movement (Ngau, 1987).

Colonialism and formalisation of the social economy

The contribution of the colonial government in developing cooperation and self-help ideas amongst Kenyans took the form of a community development approach that was focussed on addressing social welfare (Wallis, 1976). The objective of this strategy was to provide adequate community-based skills to the native populations.

In order to accelerate learning among the natives, emphasis was placed on addressing community welfare and promoting cooperation, initiative and self-help. The main goal was to inculcate ideals of citizenship and service (Martin, 1990; Smyth, 2004). Mass education was also implemented both in rural and urban areas in order to eliminate illiteracy and give the population the skills to build local initiatives (White, 1996; Brockliss and Sheldon, 2012 and Holford 1998). After the Second World War, welfare activities were mainly geared towards assisting veteran soldiers and reintegrating them back into their communities (Republic of Kenya 2009a; Mwiandi, 2006 and Wallis, 1976).

At the same time, the colonial government encouraged women's self-help work amongst the native communities (Wiper, 1971). This self-help activity took the form of spinning and weaving at small centres, which later grew into District Training Centres (Wallis, 1976). These women groups were the precursors of today's national movement for women known as "*Maendeleo ya Wanawake*" (National Movement for the Development of Women). In later years, community betterment work was introduced as well, including fencing, pit latrines construction, improvement of houses, soil conservation, homestead improvement, farm planning, building of cattle sheds, bush clearing, construction of roads and water dams. This work was done by self-help groups and continued up to 1963 (Berman, 1992). Community betterment work was associated with many challenges and weaknesses, but it played an important role in educating people on important aspects of self-help and social welfare (Lewis, 2000; Mbithi and Rasmusson, 1977; Honsby, 2012). It also prepared the local population to fill the gaps left by the colonial government after its collapse in 1963.

Social economy development in Post-Independence Kenya

Kenyan development programmes after the independence focused on localised approaches to development in order to improve self-reliance through the use of indigenous resources (Boesen, Madsen and Moody, 1977). The *Harambee* approach was formalised into a strategy to encourage communities to participate in local development through the pooling of resources. By making *Harambee* a strategy for local development, the government raised its profile compared to the colonial era, when it was a slogan for mass political mobilisation. Over time, *Harambee* became a strategy for communal, mutual and individual support.

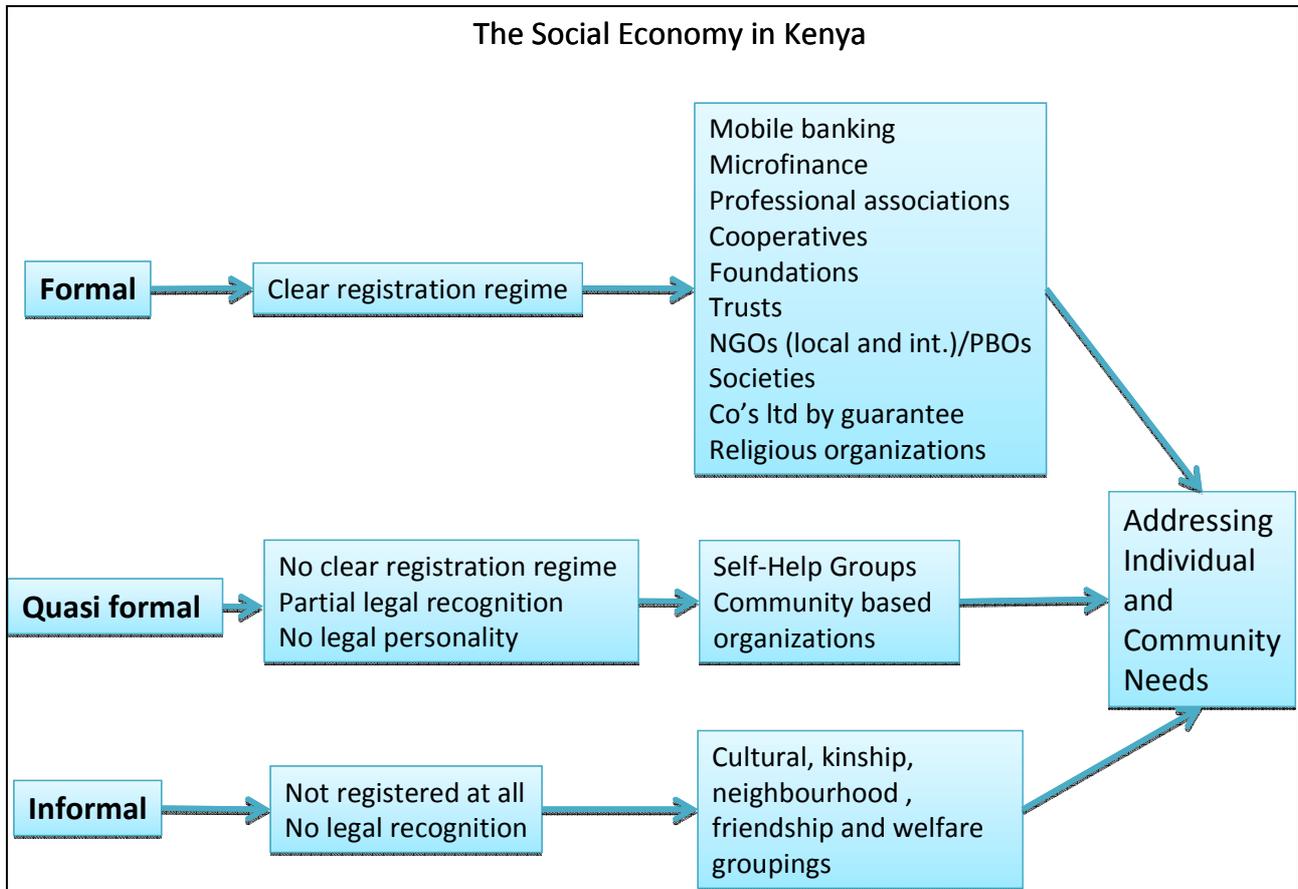
The *Harambee* culture is a unique Kenyan institution, rooted in the African tradition of mutual responsibility and reciprocity. It gets its values from traditional communities where efforts were pooled in activities to develop the community or assist each other (Ouma, 1987). In time *Harambee* has come to symbolise both micro and macro self-help aspects of local development (Transparency International Kenya, 2001). Initially beneficiaries contributed cash, materials or communal labour to government-initiated projects that included the laying of water pipes and providing labour for rural access roads (Thomas, 1980). The concept evolved quickly as communities started initiating major projects of their own, such as schools, health centres, and colleges. Communities would finance projects by local fund raising on the expectation that the state would provide the recurrent expenditures (Ngau, 1987).

At the national level, *Harambee* was envisioned as a key strategy to pool resources in a bid to promote development. In this regard, it was seen as a way of mobilising resources in order to provide equal access to education, health and social security in a co-operative manner. It was also a rallying platform through which poverty, illiteracy and disease would be fought (Republic of Kenya, 1965).

At the grassroots level, *Harambee* comprises projects started and run on a co-operative basis for the benefit of the participants and of their community. It entails local fundraising to address local problems, to build local projects or assist individuals in need (Godfrey and Mutiso, 1973). The *Harambee* culture is associated with self-reliant communities who pursue community organised action through mobilisation and efficient use of local resources through the build-up of stronger social networks (Mwiria, 1999). This not only acts to improve local capacity in terms of planning, management and participation in implementing local development activities, but it also improves people's confidence and self-reliance (Chieni, 2001).

To this day, the social economy in Kenya gets much of its impetus from *Harambee* culture. As depicted in Figure 1, the Social Economy sector encompasses a variety of actors, ranging from formal organisation types with a clear registration regime to informal groups without any legal recognition. The remainder of this section will focus in particular on religious organisations and on the cooperative movement, which represent two of the most significant actors of the Kenyan social economy.

Figure 1: Overview of the social economy in Kenya



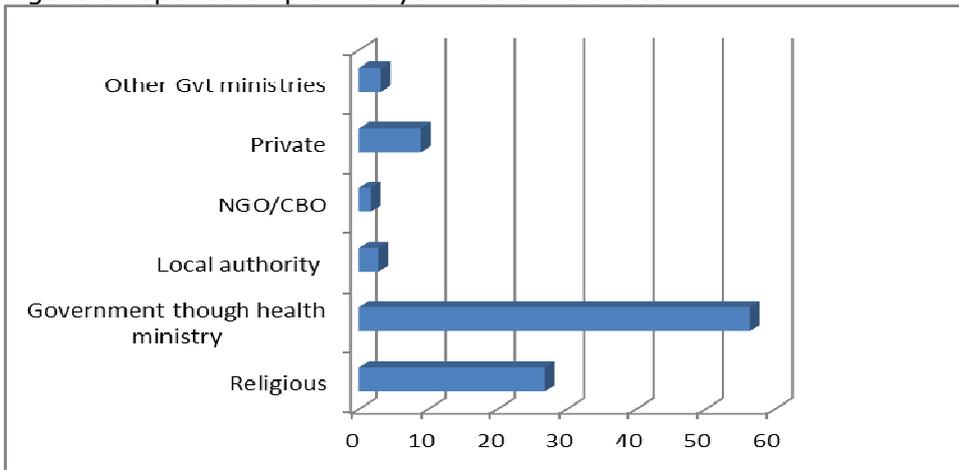
Source: Author

Religious Organisations in Kenya

The largest share of the social economy in Kenya is composed of religious organisations. The presence of these organisations is particularly felt in the marginalised areas of Kenya, where they make a great effort in assisting vulnerable people (Kamaara, 2000); Okullu, 2003a and Magesa, 2004) through initiatives such as health care, education, and infrastructure development, among others. They also address religious, ethnic and political tensions, helping local communities achieve a better understanding of each other, and through their advocacy efforts have helped facilitate the rise of a multi-party democracy in Kenya.

A major focus of religious organisations in Kenya is health care. Indeed, religious organisations are the second sponsor of health care facilities after the national government (Figure 3), and well ahead of all other providers (including private, NGOs, and local authorities). In particular, religious organisations have devoted major efforts to the area of prevention, care and support of programs against HIV/AIDS. They have set up structures that address the pandemic (Amanze, 2010) and work to tackle the stigma associated with the disease while at the same time providing psychosocial care, material assistance and prevention (KARDS, 2003).

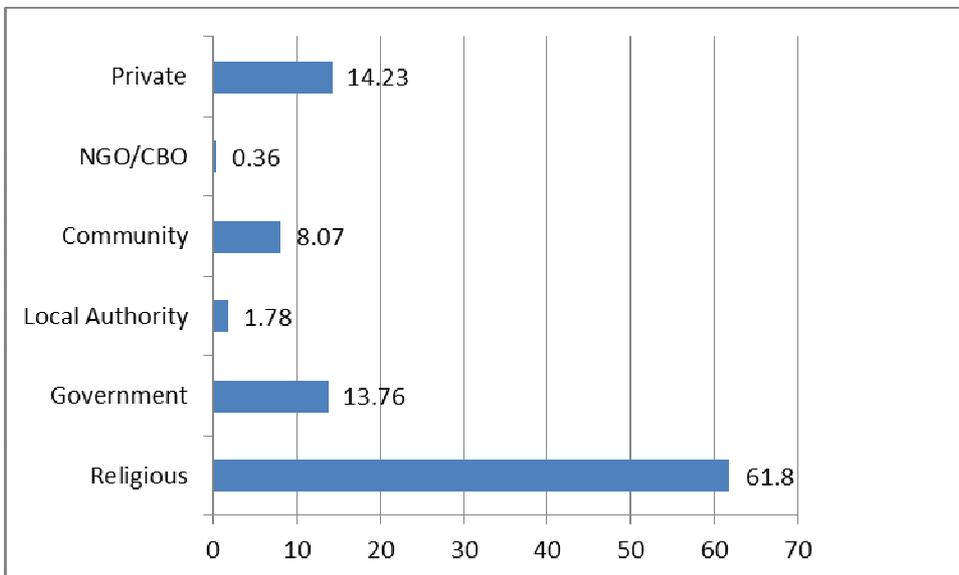
Figure 3: Sponsorship of Kenyan Health Facilities



Source: Kenya Open Data

Another significant area of focus for religious organisations is education, as 61% of Kenyan secondary schools are sponsored by religious organisations. 93% of these schools are considered to be public schools, meaning that the government provides funding for recurrent expenses. The remaining 7% are considered private, as they are sponsored entirely by religious organisations with no support from the government.

Figure 4: Sponsorship of Kenyan Secondary Schools



Source Kenya Open Data¹¹

¹¹ Kenya Open Data is an electronic data access depository managed by the government of Kenya accessible at opendata.go.ke

The Co-operative Movement

The cooperative sector is the most organised social economy actor in Kenya, employing (directly or indirectly) more than 250,000 people. The cooperative movement plays an important role in enhancing food security, building social capital, and promoting socio economic welfare, in addition to contributing to country's gross domestic product (Republic of Kenya, 2004). In light of these contributions, the government has been keen to sustain it (Republic of Kenya 2008q) by facilitating market linkages between co-operatives, producers and distributors.

Co-operatives in Kenya mainly fall into two broad categories; agricultural and non-agricultural (Wanyama, 2009). Agricultural co-operatives are mainly rural-based and concentrate in animal and crop production. Non-agricultural co-operatives are mainly urban-based and offer financial services as well as other products and services in response to their members' needs, including for instance health insurance, housing, preservation of indigenous cultures, and promotion of cultural tourism (Republic of Kenya, 2008x). The sector has been growing steadily over the years, both in terms of number of co-operatives and in terms of membership base (Tables 2 and 3).

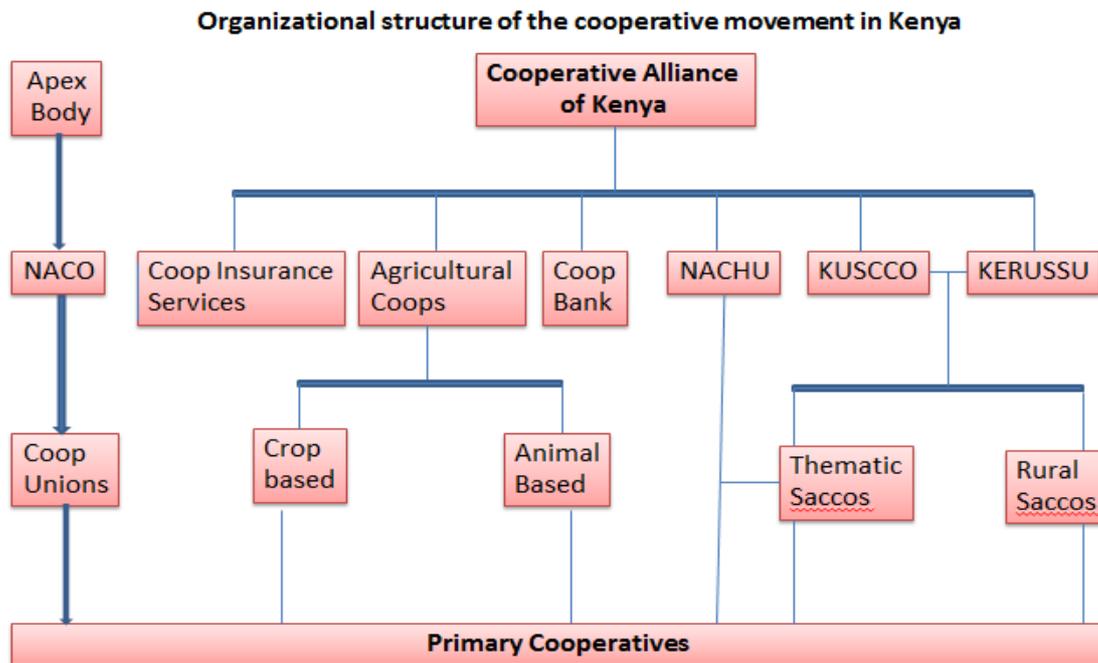
Table 2: Growth of co-operatives in Kenya, 1997-2007

	1997	1999	2001	2003	2005	2007
Savings and credits	3,179	3,538	3,925	4,200	4,678	5,122
Agricultural	3,784	4,199	4,372	4,166	4,304	4,414
Other	1,276	1,325	1,382	1,838	1,885	2,000
Unions	83	89	89	93	99	99

Source: Ministry of Cooperatives Development and Marketing (2008)

In 1963, the sector was reorganised by the government, into three tiers: grassroots cooperatives, cooperative unions at the district level and national cooperatives organisations (Karanja, 1974). In order to foster the development of the sector, the cooperative bank of Kenya was also established at that time (Alila and Ikiara, 1993). In 1964, the Kenya National Federation of Cooperatives was created as the apex organisation of the sector, and tasked with the promotion of cooperative development and with uniting and harmonising the activities of the movement. Its membership base includes grassroots cooperatives, district unions and the national cooperative organisations, and by 1990 it had reached the size of 8,000 cooperatives. In 2005 the KNFC was renamed Cooperatives Alliance of Kenya.

Figure 5: Organisational Structure of the cooperative movement in Kenya



Source: Author

An important structure for the cooperative movement is the cooperative bank, registered in 1965 and licensed as a bank in 1968. 70% of its shares were allocated to the cooperative, while 30% were held by individual co-operators. By 2008 the bank had mobilised a capital base of Kenya Shillings 13.5 billion (equivalent to 113 million Euro). On average, the bank lends approximately Kenya Shillings 3.5 billion per year (equivalent to 29 million euro) to Savings and Credit Cooperative Societies to boost their liquidity. By 2011 the bank was employing 3,193 staff with a large branch network, delivering its services to all areas of Kenya (Cooperative Bank of Kenya, 2012).

In 1978, the first co-operative insurance company, known as Cooperative Insurance Services, was incorporated in order to help the cooperative sector and its members cushion against risks (Kuria, 2012). In 1999 Cooperative Insurance Services changed its name to Cooperative Insurance Company of Kenya (Oyebanji, et al. 2010). Over time, the Cooperative Insurance Company has opened its services to other sectors of the economy, while maintaining its special relationship with the cooperative sector. To date, the insurer is the largest insurance company in Kenya, employing 800 staff and operating branches in all major towns (Kenya Companies, 2012).

The most powerful component of the cooperative sector in Kenya is perhaps the Savings and Credit Cooperative Societies (SACCOS). These organisations have their origin in colonial times, when Africans started welfare association groups to address social and economic challenges faced by their members (Muthuma, 2011). The SACCOS operate in both the urban and rural areas (Oyebanji et al, 2010). In the urban areas they extend financial services to

underprivileged people, while in the rural areas they cater to the needs of the small holder farmers, supporting specific agricultural activities such as tea, coffee, dairy, and maize production among others (Nair and K, 2007). The umbrella body of all the SACCOS in Kenya is known as the Kenya Union of Savings and Credit Cooperatives (KUSCCO).

Table 3: Cooperative membership 2003 to 2007

Type of cooperative	2003	2004	2005	2006	2007
SACCOS	3,500,000	3,642,000	4,602,000	5,420,000	6,286,000
Agricultural	1,153,000	1,024,000	1,140,000	1,238,000	1,318,000
Other non agric	265,000	319,000	333,000	370,000	334,000
Cooperative unions	624	625	639	639	569

Source: Ministry of Cooperative Development and Marketing (2008)

As shown in Table 3, not only do SACCOS have more members than other types of cooperatives, but their membership base has been growing at a much faster rate. Being in the financial sector, as the economy grows their services are in high demand, and they also have a large number of depositors whose savings are used to diversify their loan portfolios (Zeller, 2003). By most other measures, SACCOS economic performance has been strong and improving as well, as shown in Table 4.

Table 4: Performance of all Saccos 2011-2012

MEASURE CHANGE (%)	2012 (Ksh)	2011 (Ksh)	Change (%)
Assets	293,463,725,196	248,765,061,947	17.97
Deposits	211,827,322,725	180,003,423,979	17.68
Equity	25,300,225,898	20,115,041,640	26
Loans	220,846,227,345	186,149,239,603	18.64
Turnover	37,069,674,367	31,463,685,247	17.82
Membership	2,968,688.00	2,464,738.00	24

Source: SASRA (2012)

In conclusion, social economy activities in Kenya are associated with improved civic participation, capacity building and provision of basic social services and infrastructure improvement. Social economy organisations help widen the democratic space and deliver services to the poor and to the marginalised regions of the country. By increasing financial inclusion and reducing informality they favour social inclusion and improve the socio-economic conditions of Kenya's people and communities.

4.4. The Social Economy in Morocco (by Zahir Dossa, MIT)

Forty four percent of the population of Morocco lives in rural areas. With an estimated GDP per capita of 1,325 EUR, which is 60% less than the overall GDP per capita, the rural population is significantly impoverished. Further exacerbating the problem, access to resources in the desert and mountain regions of Morocco is severely limited. In response to the lack of formalised markets and institutions, a strong social economy sector has emerged, particularly in the southwest corridor of Morocco.

The social economy in Morocco has largely evolved due to the cooperation between the government, local development associations, international donors and state agencies, to form and rapidly expand the co-operative movement across multiple sectors in agriculture and fisheries. Without this coordination from outside actors, it would be very difficult for successful initiatives to be organically scaled. Moreover, a significant portion of the population is illiterate, with many not being able to speak French or even Arabic as is the case of the strong Berber population predominant in the region. This section focuses in particular on co-operatives, which are the predominant type of social economy organisations in Morocco.

Each of the four major parties involved (the government, local development associations, international donors, and state agencies) plays a very specific and necessary role to support co-operatives. While the government has developed policies to improve the services delivered to rural areas such as electrification, education, and social welfare, the actions have been limited in scope and impact. In contrast, the government's industrial policies towards co-operatives have been much more effective. To legitimise co-operatives, the government formalised the co-operative form of organisation along with its bylaws, practices, and regulations in 1984 and further revised them in 1993. In addition, co-operatives receive tax deductions and institutional support from the government to expedite activities.

European aid organisations are responsible for introducing the co-operative form of organisation to Morocco through the development outcomes they foster (Attwood & Baviskar, 1987; Birchall, 2004; Gondolf, 1988; Lele, 1981; Taylor, 2005; Tendler, 1984; Tendler et al., 1983). Furthermore, co-operatives champion democratic processes and enable smaller players to compete in the market. As a witness to these benefits (or at least the latter, as will be described later), co-operatives have achieved a significant market share in every industry they compete in despite once being completely foreign forms of organisation in Morocco.

While international donors have contributed the initial funds necessary to jumpstart the social economy of Morocco through a variety of initiatives, state agencies have been the overseers and distributors of funding. The appointed agencies therefore develop terms of financing and policies to ensure appropriate funding. They also coordinate and finance development initiatives undertaken by other government institutions or on behalf of development

associations. Lastly, they are responsible for tracking indicators and reporting back to donor organisations.

The impact of co-operatives

Co-operatives have become the most viable form of organisation capable of mobilising and empowering rural populations integrating them into the market. The co-operative movement spans a large portion of the rural economy, including the poultry, dairy, meat, sugar, and fish sectors. Those involved with the co-operative sector, which rapidly expands year upon year, rarely leave it thanks to the social and economic benefits they receive. The alternatives (private enterprises or self-employment) pay significantly less and lack the non-financial benefits co-operatives provide.

The success of co-operatives in growing the social economy has not come without its setbacks however. As cited in the development literature, co-operatives often fail to achieve their full potential due to local elites who control decision-making processes (Guru, 1999; Hudson & Hudson, 2004; Kyriakopoulos, 1998; Philpott et al., 2007; Tendler, 1984; Tendler et al., 1983; Vitaliano, 1983). The lack of democratic processes, in addition to a failure of educating members on co-operative principles, leads to an inequitable distribution of wealth and power (Gyllstrom, 1991; Paul, 2005).

The co-operative movement in Morocco is not immune to the shortcomings cited above. Due to the lack of education and business acumen in rural areas, co-operatives are generally managed by local elites from the city. As a result of poor member education, co-operative members have very little knowledge of the democratic underpinnings that co-operatives are supposed to rely on. Instead, they view their involvement as they would any job, content with the earnings they receive and not taking an active role in elections or major decisions. That being said, gender plays an important role, as male-dominated co-operatives tend to award members with a greater voice compared to female co-operatives due to the patriarchal structures prevalent in rural Moroccan society.

Still, when interviewed, co-operative members across sectors are largely appreciative and content with the movement. Co-operatives have enabled them to access markets that they otherwise would have had a hard time competing in, while also expediting or eliminating labour-intensive processes. However, through the efficiencies achieved, many industries have become more formalised, leading to higher costs of goods in rural areas (Lybbert et al., 2004, 2002). In addition, some co-operative members have started to complain about capturing too small a percentage of the value chain, which is still dominated by retailers and middlemen as opposed to producers.

Scaling the Social Economy

Enabling co-operatives to capture a greater value for the final goods and services produced is therefore a significant challenge going forward. However, despite their shortcomings, the co-operative movement has been able to rapidly scale up. Once completely absent, co-operatives now hold a significant market share across a wide range of industries in the agricultural and fishery sectors, enabling rural participants to compete.

Co-operatives have become the primary source of socioeconomic development in the rural areas, through their direct and indirect impacts. Due to their impact, local development associations have been able to renew funding to promote the growing social economy in Morocco. In doing so, leaders face the following challenges that will be explored in more depth in the next section:

- How can co-operative members gain managerial and leadership qualities to launch their own initiatives?
- Are future generations capturing the skills necessary to lead initiatives in the social economy so that it is less reliant on aid?
- Is there space for alternative forms of organisations in the social economy?
- Can some services that the social economy currently provides be formalised and offered by the local and national government?
- Are there other actors who should be involved (i.e. development banks, social enterprises, etc.) to help scale the social economy?

The Argan Oil Co-operative Movement¹²

Argan trees, an 80-million-year-old species, once spanned all of North Africa, preventing desertification and providing numerous benefits to the people cultivating them (Charrouf and Guillaume 2009). Steadily declining over the ice age, argan trees can now only be found in the Sous valley, a region in southwest Morocco. Charrouf and Guillaume (2009) estimate that the argan forests further diminished by 50% during the 20th century due to a heightened demand for fuel, over-grazing, and conversion to exportable crops. As a result, the argan forest was declared a UNESCO Biosphere Reserve in 1998.

Zoubida Charrouf, now a professor in the Science Faculty of Mohamed V. University in Rabat, aimed to incentivise local populations to protect the argan forests by commercialising argan oil. Moreover, an increased demand for argan oil would raise prices of argan, financially motivating local communities to disengage from practices that were harmful to the forests. By using scientific processes to affirm local Berber knowledge of argan oil's medicinal and beautification properties, Charrouf was able to draw global attention to argan oil. Despite this, the process to produce argan oil was too arduous at the time to develop a significant supply. By focusing on the mechanisation of this process, Charrouf addressed another important issue central to rural Morocco: the socioeconomic status of women.

The majority of women in southwest Morocco are uneducated and illiterate. The lack of education and inability to speak Arabic make it difficult for Berber women to leave the countryside. In addition, as is customary in traditional Islamic societies, the socially-conservative and tightly-woven family units often discourage employment opportunities for women. Families are therefore dependent on a single source of income.

¹² This analysis, along with the interviews cited throughout this section, are derived from Dossa (2011), a case study conducted by the author and published as a working paper in the Euricse Working Paper Series.

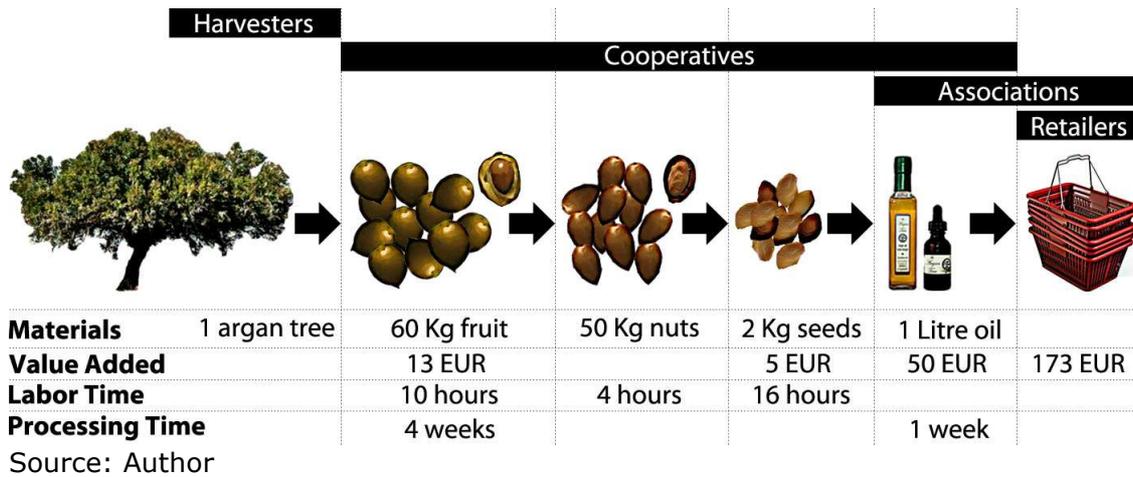
To ameliorate this situation, Charrouf developed the first argan oil enterprise and structured it as a female co-operative. The Amal co-operative was equipped with a mechanised system for the pressing and filtration of argan oil, procedures originally performed by hand. The efficient production process alongside the growing awareness for argan oil spurred an international market concentrated in Europe. This market growth led to the birth of other argan oil companies, which were primarily privately owned. Due to their superior stock of managerial and technical skills, private enterprises outperformed co-operatives. An early study conducted by Lybbert et al. (2002; 2004) found that under this market mix, the argan forests did not improve nor did local communities benefit from the growth of the argan oil industry. In fact many communities were negatively affected by the rising cost of argan oil sold locally while trees were over-harvested due to rising prices of argan fruit (Lybbert, Barrett et al. 2004, 2002). Although co-operatives benefitted local communities considerably in comparison to private enterprises, these effects were negligible due to the minimal number of co-operatives and their capacity. If rural development was to occur, a strategy to promote the creation of new co-operatives and enable them to compete would be necessary.

Co-operative Expansion

By petitioning the European Union and the Agence de Developpement Social (Social Development Agency) in Morocco for funds, government officials and community development leaders were able to establish Projet Arganier (PA), a government agency responsible for the financing and expansion of co-operatives. The injection of donor funding into argan oil co-operatives attracted managers with strong business competencies to the countryside, where they organised groups of women into co-operatives. Managers then submitted funding proposals to PA in order to mechanise their oil production process while completing the legal steps necessary to export oil. The success of PA is evident from the number of requests received, which far exceeded expectations. As a result, PA added the caveat that a co-operative had to be in existence for at least two years before it could be financed.

While donor funding caused the number of co-operatives to surge, the birth of co-operative associations enabled their expansion. Internally, co-operatives lacked the technical knowledge and scale necessary to effectively brand and market their products. Consequently, nearly all co-operatives are grouped under associations soon after being formalised. Associations provide co-operatives with the sales, marketing, and branding capacities necessary to compete with private enterprises and therefore expand. Under this scheme, a co-operative effectively sells argan oil to its association, which resells it on the global market. The complete value chain is diagrammed in Figure 1. Alongside donor financing, associations are responsible for the surge of co-operatives from 15 in 2003 to 154 in 2004 (Boussaid 2011). The average co-operative has 46 female members (Projet Arganier 2008).

Figure 1: Value chain of argan oil co-operatives



Economic Performance

The economic performance of a co-operative strictly depends on the mechanisation of its production process. Furthermore, the improved quality and greater shelf-life that mechanised oil presses provide, in conjunction with strict industrial policies that enforce quality testing for exported argan oil, have nearly eliminated hand-pressed oil from the market. In addition, the higher efficiency achieved through mechanised presses significantly reduces labour time. However, not all co-operatives are able to afford oil press and filtration machines, particularly in their early stages. Extensive financial data for periods before and after mechanisation was collected from a co-operative in the Agadir province, which shall be referred to as the Agadir co-operative. This data is consistent with partial data gathered from other co-operatives.

The Agadir co-operative consisted of approximately 15 women in 2004 when it was formed. The site of the co-operative along with its building was donated to the co-operative by a local development association. Initially, members of the co-operative had to collect the raw argan fruit *and* break them to obtain the kernels. These kernels were then sold to other co-operatives or associations, yielding members only 1 EUR for every two days worked. “Women didn’t even want to be in it”, recalls one participant in Berber.

Once PA was established, the entire co-operative landscape was transformed. Between 2006 and 2007, the co-operative received a grant of approximately EUR 27 000 from PA to purchase oil press, filtration, and bottling machines. PA provided EUR 1.3 million in grants to 41 other co-operatives during this period, financing 86% of their expansion costs. This infusion of money rapidly transformed the Agadir co-operative, expanding it from 15 members to 60. The co-operative reported 124 000 in profits for the 2008 fiscal year through the sales of approximately 4500 litres of culinary and cosmetic argan oil — its sole source of income. The co-operative sustained a similar profit figure in 2009.

Governance

Though heralded for the democratic decision-making they foster, co-operatives among marginalised communities are frequently managed and controlled by local elites as discussed above. Consistent with the development literature, co-operative managers dominate the decision-making and cash flow of the co-operative. This unilateral governance prevalent among co-operatives is largely shaped by a combination of internal and external pressures. The primary internal pressure applied within co-operatives is meant to emanate from the membership. In addition, there are three external pressures that affect organisations as identified by DiMaggio and Powell (2000): coercive (regulatory pressures), normative (community/donor pressures), and mimetic (isomorphic pressures). These internal and external forces are shown in Figure 2.

Figure 2: Framework of internal and external pressures affecting governance

		Indicators
Internal Pressure	<i>Membership</i>	Profit distribution; level of power/control the manager has; voting rights and exercising of these rights by participants; amount of complaints/requests made by participants and responded to by management
External Pressures	<i>Mimetic</i>	How closely co-operative resembles other co-operatives in terms of salary, benefits offered, etc.
	<i>Normative</i>	Response to community/donor demands
	<i>Coercive</i>	How closely the co-operative follows the law, among other rules and regulations mandated by donor/government agencies

Source: DiMaggio and Powell (2000)

Gender dynamics and information asymmetry largely dictate the marginal internal pressure applied by the member base within the co-operative scheme. As stated above, the patriarchal society makes it difficult for women to actively participate in co-operative decision-making. In fact, while every co-operative is intended to be female-founded and run, co-operative managers are males who conduct business in the names of their wives and make unilateral decisions. Significant co-operative procedures such as elections, which are meant to put leadership in check, are reduced to ceremonies — a common trend in the bureaucratisation of domestic enterprises within developing countries (Meyer and Rowan 1991). When asked about the co-operative leadership a common response was: “I don’t understand all that... Every year we do elections. They ask, do you want to keep them [the managers and the leadership board]? We all say yes.” Intended to hold co-operative leadership accountable, male-run elections are transformed into quick, white-ballot procedures that reaffirm the status quo. As a result, neither the manager nor the board (which solely exists on paper) changes from the onset.

The dynamic of internal pressure is further exacerbated by the lack of member awareness of the co-operative structure. Not a single member interviewed could describe what a co-operative was or their role in it. Members simply viewed their duty as they would any normal job, albeit being extremely appreciative of the rewards they reaped. Although included in the formal bylaws of a co-operative, member education, meant to improve member knowledge of the co-operative structure, has been replaced with Arabic-language classes. Therefore, the lack of member awareness alongside gender inequities severely hinders the internal pressures that can affect co-operative behaviour.

The unbalanced combination of external pressures outlined in Figure 2 also contributes to the poor governance structure of co-operatives. Mimetic pressures overpower normative and coercive pressures, reinforcing the power dynamics described. Isomorphism, a term mimetic pressures can be bundled into, is the concept that powerful forces act upon organisations operating in similar fields causing them to be similar to each other (DiMaggio and Powell 2000). Alternatively stated, "If you look at the competition long enough, you become them". Argan oil co-operatives, through the role of associations and PA, exemplify this phenomenon and consequently are barely distinguishable from one another. All co-operatives studied are governed by an identical management structure and offer the same sets of benefits to their members in terms of salary, Arabic classes, etc. This universality is encouraged by PA and the associations, which "streamline" co-operatives by imposing various practices upon them while implicitly condoning others (and particularly the power dynamics).

Although there are cases identified by Tendler (1984, 1983) where local communities were able to affect the governance of co-operatives, the same was not evident in Morocco. Interviews with local community members not involved in the co-operative industry revealed concern towards the "European political movement meant to disrupt [] local traditions" in the countryside. The promotion of social equity and democratic processes, which are indeed foreign to the region, alienates local communities from the co-operative movement rather than encouraging them to influence co-operative behaviour.

At the local government level, officials assist co-operative efforts based on the community development benefits co-operatives deliver to their locales. These officials conduct a balancing act of sorts by promoting co-operatives yet tolerating their faulty governance dynamics described above. Moreover, local officials are the personnel in charge of overseeing the "white-ballot" elections held by co-operatives every year. These officials confirm that there are no major issues members have towards the manager and the board before renewing the leadership through a quick, informal vote.

Donor organisations also share a similar relationship with argan oil co-operatives. Although in a position to levy wide-ranging controls over the co-operatives they provide grants to, donors such as the EU and the Social Development Agency focus on a few metrics while otherwise allowing co-operatives to operate the way they wish. Moreover, PA was founded on the imperative to improve the environment and create employment opportunities

for women in rural regions of Morocco. Subsequently, the primary performance indicators PA aims to improve are the number of trees planted (performed through a government ministry) and the number of women employed. It is therefore not due to a lack of resources but rather a different set of priorities that causes donors and officials to not adopt a regulatory stance towards co-operative behaviour.

Socio-economic Impact

Co-operatives in the Argan oil sector, despite their flaws, have contributed significantly to local economic development, social equity, and environmental preservation outcomes. As of 2009, roughly 150 co-operatives were directly employing 7,000 women with a market cap of over EUR 26 million. Based on the interviews conducted, the average member earns an annual income of 617 EUR from her enrolment in a co-operative. While 617 EUR is approximately half of the rural GDP per capita (estimated at 1,325 EUR), it is important to note that women only work 20 hours per week. Therefore, the average earnings per day in a cooperative are equivalent to the rural GDP per capita and a significant contribution to household income, particularly considering that they go to people who were previously excluded from the workforce.

Through employing women, the co-operative movement has also improved the social status of women and strengthened social capital. Although initially averse to the co-operative movement, many community members when interviewed a year later were appreciative of the secondary source of income co-operative membership provides to households. Due to the better lifestyles women are able to provide for their families, each member interviewed was extremely thankful for having the opportunity to work in a co-operative. Not a single complaint or further desire was expressed. This level of contentment also stems from member cohesion within a co-operative. Although women do not exercise their voice in election matters or salary increases, they speak up as a group on matters such as increasing supply of raw materials or increasing membership. When concerned about limited supplies affecting their wages, women jointly press the co-operative to purchase more argan and prevent new women from joining. Described as a "union", the female membership is capable of having a voice that is rarely heard in traditional Muslim societies.

Having discussed the economic and social development outcomes of argan oil co-operatives, it is important to also mention the positive environmental conservation behaviour that has resulted from their operations. The increasing value of argan fruit provides locals with a strong monetary incentive to preserve the forests and practice responsible grazing practices. Conservation practices are also enforced by co-operatives, which are directly impacted by waning supplies of argan. Accordingly, co-operative members, who are often responsible for endangering the argan forests, are educated on proper conservation schemes through PA's member curriculum. Extending beyond conservation, the government has begun a replanting effort of Argan trees through the assistance of the foreign aid funds received from the EU. As of 2007, 212,033 trees had been planted from these efforts, equal to 33 times

the amount planted in 2000 (Projet Arganier 2008; Charrouf and Guillaume 2009).

Analysis of the Social Economy

Despite the positive development outcomes argan oil co-operatives afforded, they strayed from four basic co-operative tenets: 1) democratic decision-making; 2) equitable profit distribution; 3) open membership; and 4) member education on co-operatives (Holyoake 1879; Fairbairn 1994; Ortmann and King 2007). Interviews with pioneers of the argan oil co-operative movement revealed that co-operative behaviour can be attributed to the initial set of stakeholder priorities and local circumstances. In order to appease donors and the Moroccan government, the focus on argan oil co-operatives was placed on creating employment opportunities for women. Democratic processes to govern co-operatives were ignored and not re-emphasised by other stakeholders due to the lack of member knowledge and adverse community dispositions. This context, in which initial co-operatives were established, shaped the co-operative movement and was reinforced through isomorphic processes.

As referenced throughout this section, the issues uncovered here are not unique to co-operatives in the argan oil sector. Although often ignored, the same is true about the successes. It is therefore important to challenge our assumptions on how organisations within the social economy should behave and whether these characteristics should indeed be considered setbacks or if instead they should be considered prerequisites for success in certain contexts. That is, if co-operatives behaved ideally in the context of Morocco, would the same level of community development occur?

The author argues that the success of argan oil co-operatives is attributed to their abandonment of basic co-operative principles. Moreover, the inequitable profit distribution and unilateral rule was necessary to attract managers with business expertise to the co-operative movement and enable them to dictate co-operative decisions instead of the membership, which lacked basic business competencies. Similarly, closing new memberships after a certain point was necessary to protect the livelihoods of current members. As a result of these "failings", the growth of the co-operative movement far exceeded the greatest expectations by donors. Should this expansion not be encouraged if co-operatives provide better community development outcomes than other forms of enterprises as demonstrated above?

A discussion about the appropriateness for democracies is re-emerging, with many critics arguing that democracy is not fitting for all countries. Taking this strain of argument deeper, are democracies appropriate in all contexts of the social economy? Even if appropriate, are the democratic ideals upheld by organisations in the social economy *feasible* in all contexts? In order to answer, it is important to first understand the enabling conditions that make social organisations feasible and effective in particular environments. From there, one can begin to understand how the notion of social economy can be adapted to different environments or vice versa.

5. Conclusions and Policy Recommendations

5.1 Key conclusions and lessons learned

The national case studies illustrated in Chapter 4 confirm that social economy organisations are a growing segment of the African economy and that they substantially contribute to improving the wellbeing of local communities in all four countries.

Unlike other development paradigms that have met with debatable success in the past, the different initiatives that compose the social economy can successfully contribute to supporting local economic development, due in particular to their strong embeddedness in the social fabric of local communities. Social economy organisations are founded based on people's interests and provide relevant services to meet their needs. Moreover, thanks to their participatory structure, social economy organisations succeed in taking stock of local resources, both economic and non-economic, and often manage to establish partnerships with public and private stakeholders in the areas of local economic development, social integration and employment creation.

Thanks to their distinctive features, social economy organisations play a key role in filling gaps in public service delivery and significantly contribute to employment growth. Interesting examples of services supplied are provided by housing co-operatives in Ethiopia, which provide a wide set of community services addressed to society at large; agricultural co-operatives and farmers' associations in Morocco and Ghana, and traditional self-help groups in all of the four countries examined in this report.

The role of social economy organisations in employment creation is also significant. In Ethiopia about 82,000 people were employed by co-operative organisations in 2007. In Morocco, the 150 co-operatives that operate in the Argan oil sector employed 7,000 women in 2009, with average earnings which were roughly equivalent to the rural GDP per capita.

In spite of these advantages, social economy organisations often face severe obstacles that hamper their development. These obstacles are generated by inadequate legal frameworks and ineffective policies, excessive reliance on external donors, weak governance, and poorly developed managerial practices.

As the European experience shows, supportive and well designed regulations and policies can be one of the most powerful drivers of growth for social economy organisations. In Africa, however, public policies are often unable to provide this support, either because they are lacking altogether, or because they are artificially transplanted from Western nations without taking the local cultural and institutional contexts into account.

After independence (and in some instances even during the colonial regimes), co-operatives were used by the new African Governments as a development tool: rather than emerging as a bottom-up phenomenon as they did at their origin in Europe, they were imposed from the top down, effectively changing

their nature and negating their participatory and democratic structure. In later years, when more “genuine” co-operative systems emerged, they were mostly neglected or treated as any other business by both national governments and international organisations. Likewise, traditional systems of mutual self-help, which survived particularly in rural areas and in some instances have been adapted and used to form mutual self-help groups, have been largely ignored by policymakers and relegated to the informal economy.

To this day, in spite of the recent acknowledgment of the specificity of the co-operative model by African governments and international agencies, the institutional and legal environment is still not fully enabling for these types of organisations. Rather, in some instances it prevents a full exploitation of the potential both of co-operatives and of traditional African systems of mutual self-help as vehicles for local economic development and poverty reduction.

In addition to supportive legislative and policy frameworks, another key factor in driving the growth and impact of the social economy is the availability of competent and specialised managers and sound governance structures for social economy organisations. The history of these organisations shows that the most successful initiatives were founded thanks to people’s mobilisation and solidarity, and that stakeholder participation is a key determinant of their success. Consequently, the ability to set up governance structures that can enable and facilitate the participation of users, producers and workers in the management of the organisation is key. Likewise, as the Ghanaian, Ethiopian and Moroccan cases show, the availability of managers that combine strong business competencies with an in depth knowledge of the specificities of social economy organisations is a critical factor as well.

5.2 General Policy Recommendations

As the title of this report points out, this can only be considered an exploratory analysis of the potential of the social economy for local development in the African context. Much more work would need to be done in order to have a comprehensive assessment of the state of the social economy in Africa. Still, the review of the existing literature and the analysis conducted in the four countries considered for this report already suggest an initial set of policy recommendations.

Regulating and supporting social economy organisations

The history of co-operatives in Africa suggests that there should be a balance between the freedom of co-operatives to organise and state power to effectively regulate such organisations (Wanyama, 2009). As a result, new co-operative development policies that define the relation between the state and the co-operative movement in a way that respects the principle of co-operative autonomy and allows for an adjustment of co-operative principles to local conditions should be promoted.

A development policy for co-operatives should have as one of its primary objectives the promotion of legal frameworks that treat co-operatives according to their special nature and guarantee a level playing field with their competitors (Münkner, 2012). Moreover, in order to develop the full potential of co-operatives, co-operative law must recognise the roles of co-operatives and be flexible enough to permit co-operatives to operate in whatever industry they prove useful (Hansmann, 2012). This includes sectors that have been traditionally public, are of public interest, or benefit from public funding.

Revitalising the traditional systems of cooperation, mutuality and solidarity

Overall, informal institutions nurture a social culture that is far from being fully exploited. The challenge ahead is to make the traditional systems of mutual self-help more efficient and comprehensive, while valorising their traditional character. This can be done by establishing partnerships with a plurality of actors, formal and informal, public and private. The national case studies confirm that the most successful initiatives were supported by large partnerships at the local level. Organisations like Oromia Coffee Farmers Co-operative Union, for instance, work closely with governmental, non-governmental, and donor organisations and they jointly support community development initiatives.

Wherever possible, the institutionalisation of informal initiatives by means of co-operatives and social enterprises (which have gained a key role in the provision of welfare services in all EU countries) should be supported. This type of institutionalisation, when combined with supportive legal frameworks, can be particularly helpful in scaling these initiatives and making them more sustainable. At the same time, though, it is important to beware of the distortions that importing organisational models borrowed from other contexts can generate if these models are not fully compatible with the local culture and traditions.

Developing a specific management culture

A stronger awareness by members about the intrinsic features of the different entities that compose the social economy should be encouraged. However, this presupposes a sound knowledge of the particular environment where social economy organisations operate.

African co-operative movements and universities should be supported in their efforts to conduct new research on management practices and governance models, and to develop the managerial skills of co-operative leaders through innovative training and university courses based on recent research findings. To this end, donors should capitalise as much as possible on existing structures rather than creating new ones, and should focus on enhancing the training capacity of these institutions rather than directly training the beneficiaries.

Role of external actors

External actors can play a key role in supporting the growth of the different types of organisations that compose the social economy. In addition to financial support, external bodies such as governmental bodies, non-governmental organisations and donors can play crucial roles in promoting and building the capacity of social economy actors. For example, over the last two decades, the government of Ethiopia has devoted substantial efforts and resources to the promotion of the co-operatives business model across economic and social sectors, including through a public agency structured from the federal to grass-root levels and designed to promote co-operative organisations.

Overall, the available evidence suggests that a key factor explaining the success of donors' programmes is that support should be channelled directly to social economy organisations and it should be based on the interests and needs of recipient organisations (Wanyama, 2009).

5.3 Specific Policy Recommendations for the European Union

As far as European aid policies in particular are concerned, the findings of this study have several implications, briefly outlined below.

Formally recognising the Social Economy in Africa

The EU should contribute to a greater awareness of the existence of a thriving social economy in Africa and of its contribution to poverty reduction. In particular, the EU could take a leading role in increasing the awareness among national and local authorities of the importance of the social economy in supporting economic development, decent work and wellbeing in Africa with a view to:

- clarifying the key roles played by the different organisations that compose the social economy in Africa, including informal self-help groups, co-operatives and associations;
- increasing awareness of the social economy as a means of bridging the gap between the formal and the informal economy;
- increasing awareness among social economy organisations themselves of their role and potential in different economic sectors, including (among others) access to welfare, food security, education, housing, and transportation.

Consistently with the recommendations delivered by the EESC (REX/302, 2010), the EU should:

- include the social economy in key EU policies, including among others agricultural and rural cooperation, educational, health, housing and social protection policies;

- include the social economy in the list of non-state actors mentioned by existing EU partnerships with Africa, including the Cotonou Agreement and the EU-Africa Partnership;
- encourage EU delegations in African countries to include the various types of social economy organisations in the list of actors to be invited to consultations;
- ensure that the African social economy is included in future EU relations with ACP countries in the post-2020 period.

To help understand the contribution of the Social Economy to socio-economic development and wellbeing, the European Union should support new research aimed at:

- mapping the social economy in all African countries;
- collecting new data that can corroborate the economic importance of this sector;
- mapping existing co-operation projects and good networking practices implemented by Member States' social economy organisations with African counterparts.

Supporting the growth of the social economy in Africa

Existing EU instruments, including the EU Development Fund for Africa and the Development Co-operation Instrument should be directed to:

- support capacity building programmes that can build up the capacities of African practitioners by developing curricula in existing vocational training institutions and universities, with a particular focus on management skills and practices;
- organise regular regional panels for practitioners, local authorities and policy makers;
- help develop a targeted financial and business services infrastructure that can support the growth and increase the capacity of social economy organisations;
- help fund initiatives (e.g. seed money and small grants) designed to support the start up of innovative social economy initiatives that are locally rooted and collectively managed by their stakeholders;
- encourage the creation of social economy networks (north/south and south/south) among and within the different families of the social economy. These could include the creation of umbrella organisations, federations and consortia. The experience of cooperatives worldwide shows that the most successful co-operatives tend to operate together as a system of enterprises – federations, consortia, or groups – in order to reap the advantages of scale and to provide member co-operatives with cost-effective technical and management assistance, marketing and purchasing services, training, and project planning. Thus, an effort to strengthen this type of networking practices would help African social

economy organisations achieve greater economies of scale and take advantage of growth opportunities that single enterprises would not otherwise be able to exploit.

Supporting systemic action by creating bridges with international organisations

The EU could take a lead in:

- encouraging co-operation with international bodies, such as UN agencies; the World Bank; and the ILO so as to:
 - support the creation of a conducive environment for the different entities that compose the social economy in each African country
 - allow for a more efficient and effective coordination in this area;
- encouraging African policy makers to introduce adequate legal frameworks that allow for both the effective operation of the different types of social economy organisations and the limitation of opportunistic behaviours.

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