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***THE MALAWIAN CO-OPERATIVE MOVEMENT:  
INSIGHTS FOR RESILIENCE***

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**Foreword**

This working paper is an output of the research project 'Understanding Rural Co-operative Resilience: a pilot study', funded by the Leverhulme Trust from October 2012 to September 2013. The project is a partnership between the Open University and the Co-operative College UK, and the working paper is co-authored by a research associate at each institution. The research project explores whether and in what ways co-operatives are resilient social and economic organisations in development terms by focusing on the cases of four co-operative unions in Malawi. By investigating the distinctive nature of the co-operative model, the project aims to provide insights on the limiting and enabling factors that might be required for resilience.

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# THE MALAWIAN CO-OPERATIVE MOVEMENT: INSIGHTS FOR RESILIENCE

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## **Abstract**

*Heavy government interference, lack of leadership and low levels of skills are some of the factors that have for decades weakened and in some cases caused the failure of co-operatives in Africa. However, in the recent past, African co-operatives have experienced a remarkable renaissance. We examine whether these co-operatives are resilient forms of organisation, and if so, what are the key factors that are conducive to resilience. We examine the Malawian co-operative movement from which very little is known. We explore four of the biggest co-operative Unions in the country. Our analysis is guided by a framework compounded by five key factors conducive to co-operative resilience. Our results suggest that women's inclusion, business income diversification, collective skills, and strategic partnerships with external agents are factors conducive to resilience. We also conclude that these factors need to be grounded on reflexive behaviour amongst leaders and co-operative members.*

**Key words:** *Co-operatives, resilience, reflexivity, Malawi, co-operative unions, adaptive capacities*

## 1. Introduction

In recent decades co-operatives have been rediscovered as organisations with the potential to foster socio-economic development and pull communities out of poverty (Bibby and Shaw, 2005; Birchall, 2003; 2004; FAO, 2012; Münkner, 2012; UN, 2011; Vicari and De Muro, 2012). National and international organisations are now interested in understanding the renaissance experienced by co-operatives in developing countries, particularly in Africa where co-operatives have endured decades of mismanagement, government interference and failure (Develtere et al., 2008).

It has been argued that the advent of liberalisation in the 1990s in Africa context has enabled co-operatives to develop as genuine member-controlled and business-oriented organisations which in turn have improved the wellbeing of vulnerable people (Wanyama, 2013). However, co-operatives in the African continent have shown a mixed-picture in terms of performance (Francesconi and Ruben, 2008; Francesconi and Wouterse, 2011). While there are success stories, not all co-operative endeavours have performed well overtime. Understanding what makes co-operatives able to survive economic and political shocks while maintaining their core functions is crucial if they intend to address their challenges successfully.

This article explores the Malawian co-operative movement, a barely studied co-operative sector in Africa. The article seeks to understand whether and to what extent Malawian co-operatives are resilient socio-economic organisations and what factors affect resilience. The Malawian co-operative movement shares some similarities with co-operatives in neighbour countries. However, little is known about their challenges and how they have addressed them over the years.

In this article, we investigate four of the biggest co-operative Unions in Malawi: 1) Mzuzu Coffee Planters Co-operative Union (MZCPCU), 2) Community Savings and Investment Promotion Co-operative Union (COMSIP), 3) Timber Millers Cooperative Union (TMCU) and 4) Malawian Union of Savings and Credit Co-operatives (MUSCCO). Co-operative Unions are secondary level organisational networks that congregate primary co-operatives. Unions provide members from primary co-operatives with a number of services (i.e. capacity building, specialised training, credit) which vary according to the type of business carried out by the co-operative. Unions represent members and interact with national and international organisations (i.e. government, development agencies and/or international buyers) and promote co-operative values within their affiliated members.

In order to examine co-operative resilience, we have conducted an extensive literature review on co-operative resilience. There are several factors that affect co-operative resilience and we have identified the most relevant. Our systematic analysis resulted in a framework that is based on five factors 1) membership, 2) collective skills, 3) networks, 4) innovation and 5) role of the state. These are the factors that are present with more frequency in co-operatives capable to deal with shocks and limitations. We use this framework in order understand the extent to which co-operative Unions have cope and addressed their challenges and limitations.

The history of co-operatives in Malawi is common to many African countries. The first phase of the co-operative development took off during the colonial regime followed by a subsequent arrest due to post-colonial government's interference in the economy sector and later a new development phase triggered by the advent of liberalisation since 1990s (Lynx Associate, 1996). In 1946 The Co-operative Act was established. After the independence in 1964 agricultural co-operatives were deregistered and the smallholder sector was monopolised by state owned enterprises. Savings and credit co-operatives (SACCOs) had the chance to flourish in that period because the government

had not interests in the financial sector and therefore allowed them to independently grow. In this period MUSCCO, the Union of SACCOs was also set up. The Co-operative College was established in 1962 and closed in 1966 by the government. The rebirth of co-operatives followed the reintroduction of the multiparty system in 1994, which led to the promotion of co-operatives and agricultural associations, as part of an increasing emphasis by the government on local initiatives and participation to use local resources and meet local needs (Conroy et al, 2006). Since then a new legislative and policy framework was put in place which has recognised co-operatives in the terms of International Co-operative Alliance (ICA) definition, values and principles<sup>1</sup>. A new co-operative development policy was adopted in 1997, followed by the co-operative law in 1998 and the co-operative regulation in 2002. Particularly the new co-operative law amended the Co-operative Act of 1946 including measures to reduce the power of the Registrar of Co-operatives and enhance greater autonomy of co-operatives. Later in 2011 a new legislation that oversees financial co-operatives was put in place.

Currently in Malawi there are 681 registered co-operatives. 382 are active in the agricultural sectors; 107 are saving and investment promotion co-operatives (COMSIP) and 192 are SACCOs<sup>2</sup>. Amongst them, the Department of Co-operatives reports that only 234 are active (134 agricultural co-operatives; 50 SACCOs and 50 COMSIP co-operatives). There is not an apex body that congregates and represents all the co-operatives of the country, but co-operatives are organised in Unions.

Co-operative development in Malawi is challenging. Malawi is one of the poorest countries<sup>3</sup> with an unfavourable environment for the private sector. Macroeconomic instability, high inflation rates (25% at August 2012<sup>4</sup>) make the cost of living very high for people that live with less than a US\$ 1.25 a day. Foreign exchange shortage, together with fuel and electricity shortage, lack of adequate skilled labour, degradation of natural resources such as land and forest, are amongst the main challenges<sup>5</sup>. In addition, in the last decades Malawi has experienced several natural disasters, such as floods and draughts, severe famine and HIV/AIDS pandemic which place the country in a difficult poverty trap (Conroy et al., 2006). Consequently co-operatives in Malawi have had to develop in this risky and uncertain environment characterised by economic, climate and social shocks. Understanding what affects their resilience is therefore of primary importance if co-operatives are to survive and develop over time. In this respect, literature on Malawian co-operatives is scanty and the very few studies analysing individual agricultural co-operatives conclude that lack of market access, poor governance and lack of managerial skills undermine their capacity to survive in the long term (Nkhoma, 2011; Matabi, 2012).

The article seeks to investigate what factors affect co-operative resilience in Malawi. The article is divided into five sections. Section 2 provides the theoretical framework used for the analysis of co-operative resilience. Section 3 provides a general background and outlines the methodology used for data collection. Section 4 shows the main findings. Section 5 discusses the main findings and outlines the conclusions.

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<sup>1</sup> <http://ica.coop/en/what-co-op/co-operative-identity-values-principles> accessed on 19.09.2013

<sup>2</sup> Data provided by the Department of Co-operatives, Ministry of Industry and Trade, year 2012.

<sup>3</sup> Malawi ranks 170<sup>th</sup> out of 186 countries examined by the Human Development Index:

<http://hdrstats.undp.org/en/countries/profiles/MWI.html>

<sup>4</sup> <http://www.worldbank.org/en/country/malawi/overview>

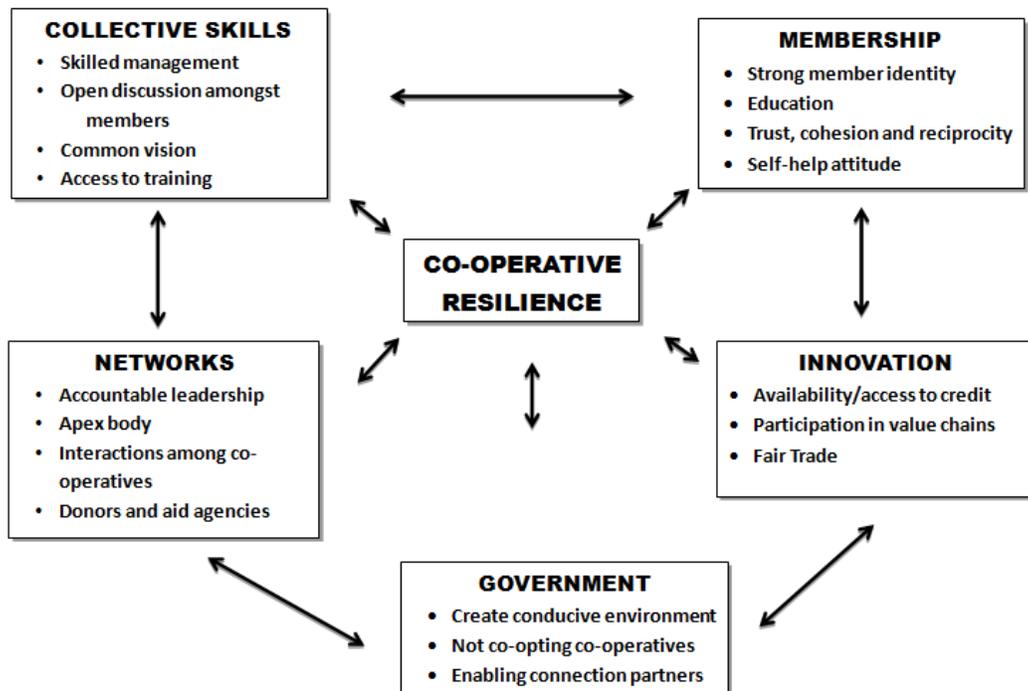
<sup>5</sup> Ibid.

## 2. Conceptualising rural co-operative resilience

Co-operatives in developing countries are generally more exposed to economic, political and climate crises than their counterparts in the developed world (Birchall, 2004). The ability to withstand and cope with shocks is generally described as resilience (Innes and Booder, 2010:205). Organisational resilience can be identified in terms of organisation's ability to develop a set of dynamic capabilities in order to adjust to shocks, mitigate its effects and cope with the consequences while simultaneously taking advantage of opportunities emerging from a crisis (Seville et al., 2006; McManus, 2008; Seville, 2009; Mamouni Limmios and Mazzarol, 2011). Resilience can therefore be understood as the organisational ability to develop some degree of adaptive capacity, that is, the ability to learn and adequately respond to crises.

Co-operatives are member-owned and democratically controlled organisations (ICA, 1995)<sup>6</sup>. Understanding the extent to which co-operatives are resilient requires a broader examination of their intrinsic nature and those factors that might affect resilience. The framework that we developed argues that resilience is rooted in five key factors, 1) membership, 2) collective skills, 3) networks, 4) innovation and 5) role of the state<sup>7</sup>. There are number of additional factors that might affect resilience but the five listed in our framework are the most representative and recurrent. These factors may be interconnected and present in different degrees. The absence or presence of these factors can either weaken or trigger resilience.

Figure No.1



Source: Authors

<sup>6</sup> <http://ica.coop/en/what-co-op/co-operative-identity-values-principles> accessed on 19.09.2013

<sup>7</sup> The framework was developed in more details by the authors in Anonymous (2013)

In the following sections we contextualise and unpack each of the five factors conducive to co-operative resilience and examine the extent to which these have been present within the co-operative movement in Malawi.

## **2.1 Membership**

Membership inspired by co-operative values is crucial for co-operative resilience. Co-operatives' resilience depends on members' sense of identity, commitment and cohesion (Birchall, 2011; Mazzarol et al. 2011; Münkner, 2012). In this respect, it has been argued that 'co-operatives are good as their members make them' (Münkner, 2012:16). It is also argued that members are loyal and committed when co-operatives are able to meet their demands. Satisfied members are less likely to be free riders (Münkner, 2012; Birchall, 2012).

Trust and reciprocity between members are also conducive to loyalty and in turn to co-operative resilience. Particularly, trust reinforces norms of generalised reciprocity which is particularly important in activating sanctions against free riding behaviour (Pelling and High, 2005).

In order to work equitably and conform to co-operative values and principles, some pre-conditions are required. Münkner (2012) identifies these as: knowledge, skills and investment in member education. Informed and skilled members are more likely to understand and be committed with the co-operative business. The understanding of co-operative values is also important to promote women and youth inclusion (Smith et al., 2005; Majurin, 2012).

## **2.3 Collective skills**

Collective skills are the abilities and capacities developed by bounded members that learn from each other and from external actors (Busemeyer and Trampusch, 2012). The stage of reflection and questioning is critical for an effective learning process as it enables co-operative members to improve their actions by envisaging innovative way to address and deal with challenges and limitations. In some instances, collective skills can be facilitated by development aid agencies and international organisations that provide capacity building services

In co-operatives, activating social learning processes means developing members' learning capabilities and skills at both levels, individual and collective. This in turn has an impact on how the co-operative functions (Hartley, 2012). Social learning and collective skills are therefore relevant for co-operative resilience, especially considering that the lack of skills and education to run co-operatives have been identified as major factors that negatively affect co-operative performance (Bernard et al., 2008; Francesconi and Heerink, 2011).

## **2.2 Networks**

The ability to set up networks has been identified as a crucial factor for co-operatives' success (Menzani and Zamagni, 2010; Gouët and Van Paassen, 2012). Here, the proactive agency of co-operative leaders is important as they are the actors that could facilitate access to resources and knowledge (Münkner, 2012; Simmons and Birchall, 2008). Networks can be horizontal where homogeneous co-operatives are gathered in Unions to: (i) increase their marketing and bargaining power; (ii) fulfil contracts; (iii) offer services to primary co-operative members; (iv) share risks and opportunities. Networks can also be established vertically, among co-operatives in the same supply chain but more often with other market players and external agents. External agents might play a crucial role for co-operative development. Berdegué Sacristan (2001) considers support of external agents (such as NGOs, private extension firms, etc.) essential 'to provide road maps for collective

action, access to information, expertise and financial resources' (ibid:vii). Münkner (2012:54) stresses the importance of 'knowledge sharing' among local co-operators and external actors in order to spread new knowledge and enable members 'to have a better understanding of the causes and effects of change, of the ways and means to cope with changes, of better use of available resources and how to mobilise additional resources.' He further argues that external agents should focus specifically on creating a favourable environment for co-operative development rather than providing aid to co-operatives. The third type of network can be described as a network of networks (i.e. co-operative umbrellas, peak or apex organisations). Historically these networks have manifold tasks, which differ from context to context. Their main tasks range from co-operative development to representing co-operatives with government and other institutions, from lobbying to advocating at local, national and sometimes also international level (Menzani and Zamagni, 2010:120).

## **2.4 Innovation**

In this article we are primarily concerned with innovation at the social and organisational level. In the context of organisations, innovation is concerned with positive changes in productivity, quality, competitiveness and improved expertise (Juma and Yee-Cheong, 2005). Other authors argue that organisational innovation refers to the creation or adoption of an idea, practice or behaviour new to the organisation (Daft 1978; Damanpour and Evan 1984; Damanpour 1996).while social innovation is the new combination and/or new configuration of social practices in certain areas of action or social contexts prompted by organisations or set of actors that aim to better satisfy and meet the needs and problems of individuals (Howaldt et al 2010).

Innovation enables organisations to improve its technological and economic performance. At the same time, innovation relies in organisation's capacity to develop adaptive capacities (organisation's ability to learn and respond to shocks). In that sense, innovation involves a continual matching process between technological and organisational practices of the innovator, and is generally driven by a combination of the following:

- Market forces and demand (Garcia and Calantone, 2002).
- Institutional incentives and hurdles (Pavit, 2003).
- Scientific knowledge and technological opportunities (Nathan, 1982).

In the co-operative context, innovation can also be driven by the availability and access to credit (i.e. loans) prices and competitive pressures from commodity value chains (Haggblade et al., 2007; Elliot, 2008). Value chains are crucial to co-operatives because they generate rent and prompt organisations to upgrade different parts of their production process and marketing (Kaplinsky and Morris, 2001; Kaplinsky and Morris, 2008). By actively participating in value chains, co-operatives have the opportunity to interact with experienced and successful actors in national and international markets.

Innovation requires the interaction of a number of actors (i.e. government, private companies and development agents), such interactions are particularly important in developing countries where co-operatives have little resources and barely interact with private enterprises across national or international markets.

There is a growing body of evidence-based literature (Develtere et al. 2008; Wanyama, 2013) that shows how African co-operative members have embraced a self-help attitude at all levels (i.e. members, leaders and managers). This type of attitude has enable members to identify innovative strategies to solve challenges posed by markets (Wanyama, 2013). Many co-operatives and co-operative Unions in countries such as Uganda, Kenya, Ghana and South Africa, have operated in

similar terms and have been able to make the most out of the global market economy by improving their levels of profitability and livelihoods of co-operative members (ibid).

## 2.5 Role of the government

A crucial role to develop co-operative resilience is envisaged by the state. It is broadly recognised (e.g. FAO, 1996; Birchall, 2003, 2004) that in much of the developing world, co-operatives have been managed by governments that have barely empowered co-operative members. However, for co-operative movements to autonomously flourish and build up their resilience, governments have a great role to play providing an ‘enabling environment’. Some of the factors that can trigger an enabling environment include (Münkner, 2012:44):

- An economic, political and legal system which recognises co-operatives as autonomous private member-owned form of business.
- A co-operative development policy, drawn up in the spirit of internationally identified guidelines (UN, 2001; ILO, 2002).
- An infrastructure environment which can facilitate co-operative activities, from communications to logistics, from transports to information and extension services.

Based on this framework for co-operative resilience, in the following sections we provide evidence of the extent to how Malawian co-operatives can be regarded as resilient forms of organisation.

### 3. Background and methodology

The article explores the co-operative movement in Malawi and more specifically four case studies: two producer co-operative Unions, namely the Mzuzu Coffee Planters Co-operative Union (MZCPCU) and the Timber Miller Co-operative Union (TMCU); and two financial co-operative Unions, namely the Community Savings and Investment Promotion Co-operative Union (COMSIP) and the Malawian Savings and Credit Co-operative Union (MUSCCO).

**Table No. 1**

	MZCPCU Producer (Coffee)	TMCU Producer (Timber)	COMSIP	MUSCCO
<b>Established</b>	2006	2010	2006/2007	1980
<b>No. of co-operatives</b>	6	8	51	46
<b>Current members</b>	2,652	164	1,949	116,122
<b>% of women</b>	24%	18%	60% approx.	35%
<b>Donor support</b>	Yes	No	Yes	Yes
<b>National International Markets</b>	National International	National International	National	National
<b>Specific services provided by the Unions</b>	- Value addition - Inclusion in value chains - Certification - Extension services	- Value addition - Inclusion in value chains	- Extension services (via the Ministry of Agriculture) - Assessment of business viability - Training on	- Training on financial management - Insurance products - Loans to SACCOs for business

			financial management	development
<b>Services provided by all the Unions to primary co-operatives</b>	-	Unions represent member co-operatives with government, donors, buyers and financial institutions		
	-	Capacity building		
	-	Financial assistance		
	-	Auditing		

Source: Authors

Table No. 1 illustrates the main features of Unions we investigated. In total they represent nearly 50% of active co-operatives in the country. MUSCCO is the oldest Union, gathers the Savings and Credit Co-operatives<sup>8</sup> which are regulated under the Financial Co-operative Law passed in 2011, whereby the Registrar of Co-operatives (Ministry of Industry and Trade) is only responsible for SACCOs registration whilst the Central Bank is in charge of SACCO's licensing, regulation, monitoring and supervision. This means that SACCOs are recognised as any other financial institutions in the country. COMSIP co-operatives originate from COMSIP groups set up by the World Bank 'Malawi Third Social Action Fund - MASAF 3'<sup>9</sup> - Programme that has been run in the country since 2003 and will end in 2015. These are smaller financial co-operatives specifically set up in remote rural areas and are regulated under the co-operative law (Ministry of Industry and Trade). This means that they are not recognised as equal to other financial institutions. The other two producer co-operative Unions are also regulated by the co-operative law as it is the case of COMSIP. MZPCU dates back to 1971 when the coffee sector was dominated by the monopoly of the Malawi's Smallholder Coffee Authority (SCA), established under the Ministry of Agriculture. With the advent of economic liberalisation, the SCA was privatised, firstly transformed into the Smallholder Coffee Farmer Trust which later became MZPCU. The transition was managed with the aim to come up with grassroots coffee co-operatives. TMCU's co-operatives were set up under government's request to regulate the access to forest raw resources – in such a way securing the access to 10,000 Ha Pine Plantation through a Forest Management Agreement (Concession) for 15 years, renewable. TMCU was set up as spontaneous initiative of co-operative members to lobby more effectively with government, create value addition and export timber. The services that Unions provide to affiliated co-operatives vary from case to case, but some of them are common across the Unions, as listed in Table No 1.

The methodology used for data collection and analysis is qualitative. Data was collected at primary (through participatory research techniques - i.e. Focus Groups (FGs) and personal and group interviews) and secondary level (i.e. Unions' annual reports, Unions' internal reports and fact sheets). A total of 21 semi-structured interviews and 7 focus groups were conducted between February and March 2013 in the central and northern regions of Malawi. Data was collected at different level of the Unions, i.e. (1) leaders, managers and staff of Unions; (2) leaders and managers of primary co-operatives affiliated to the Unions; (3) members of primary co-operatives. Focus groups targeted mixed groups of male and female co-operative members from four case studies and participants were balanced in terms of gender.

<sup>8</sup>Savings and Credit Co-operatives (SACCOs) is the most common name in Africa for credit unions. These are 'member-owned, not-for-profit financial cooperatives that provide savings, credit and other financial services to their members' <http://www.woccu.org/about/creditunion> accessed on September 30, 2013.

<sup>9</sup> The project development objective is 'to empower individuals, households, communities, and their development partners in the implementation of measures which can assist them in better managing risks associated with health, education, sanitation, water, transportation, energy, and food insecurity, and to provide support to the critically vulnerable through a variety of sustainable interventions (World Bank, 2003, p. 4)

The analysis of the case studies is further contextualised by additional 14 interviews conducted with representatives from the Malawian government, international, national development organisations and buyers working with co-operatives in the country and Sub-Saharan Africa.

The qualitative nature of the techniques allowed the authors to interpret perceptions and construct possible future scenarios for Malawian co-operatives. This was achieved by exploring with participants the extent to which the co-operative values/principles were relevant and applicable to their reality. Interaction with participants also took the form of ‘open dialogues’ where authors work questioned by members and co-operative Union representatives. Such dialogues enable the participants and authors to critically reflect on the reality of Malawian co-operatives.

#### **4. Main findings: key factors conducive to resilience**

We examined our field data on the through the analytical framework we developed. In the next sub sections we discuss some of the main key research findings, organising them on the basis of the five categories of factors conducive to co-operative resilience, namely 1) membership, 2) collective skills, 3) networks, 4) innovation and 5) role of the state.

The research findings illustrated in the following sub-sections do not constitute the list of all definitive factors that affect co-operative resilience in Malawi. There are additional factors that affect resilience which are not discussed in this article. The following factors are however amongst the most relevant and influential in terms of their impact on co-operative resilience.

##### **4.1 Membership**

Membership growth shows a positive trend, in at least three out of the four co-operative Unions. Membership across all cases shows different degrees of heterogeneity and homogeneity. These may be in terms of business activity, literacy, skills and level of poverty. The diverse nature of membership can either trigger or weaken co-operative resilience.

###### *4.1.1 Heterogeneous and homogeneous membership*

The extent to which a heterogeneous membership can affect co-operative resilience depends on the type of co-operative. In the case of producer co-operatives, such as MZCPCU and TMCU, membership homogeneity has been found to be an important factor as it creates trust, reciprocity and ensures the existence of a common goal for co-operative action. In both cases, members are similar in terms of business activities and to some extent also in terms of literacy and poverty levels. Similar results have been found in the case of COMSIP where members that belong to the same rural community have created a common bond and trust as a result of their geographical proximity. In COMSIP co-operatives, members share similar levels of poverty but differ in terms of type of economic activity in which they are engaged. In SACCOs, membership can be both homogeneous and heterogeneous. This has a different impact in terms of co-operative resilience. SACCOs are divided in two main types: employees-based and community-based. In the first type, membership is homogeneous. Members are usually employees of the same company and savings are deducted directly through their payrolls. In community-based SACCOs, members belong to the same community, but membership can be quite heterogeneous. Our findings indicate that resilience is hard to achieve in SACCOs that are made up of employees from the same company or farmers involved in the same crop production. Shocks that affect the company or the marketing of a crop would directly have an impact on the capacity of members to repay loans to SACCOs. Inability to repay loans weakens the financial sustainability of the co-operative. The best performing community-based SACCOs are those where membership is diverse (i.e. made up of small business

people and farmers) and those where members are able to add value to their products and have access stable markets (i.e. Fair Trade markets). Even though membership diversification is good for risk management, it poses some challenges in terms of governance as members may have different interests/expectations from the SACCOs and therefore governance can become a highly conflictive process.

#### *4.1.2 Benefits and members' loyalty*

Members' loyalty appears to be in relation with the extent to which members perceive and experience the benefits of being part of a co-operative. In this respect, the MZCPCU CEO stated that for a member to become loyal to his/her co-operative, it (the co-operative) needs to provide services that meet the member's needs and demands. If members are not satisfied, they will not be loyal.

Co-operative resilience depends on economic performance which in turn depends on members' commitment to trade with the co-operative (in the case of producer co-operatives) or to repay loans (in the case of SACCOs). Data from the FGs suggests that there is a mixed picture in the way members perceive and experience the benefits of being part of a co-operative.

A common benefit identified by members from all the Unions is the possibility of sharing experiences between members. As they pointed out, participating in co-operatives enabled them to learn and share knowledge with members within the same co-operative and from other co-operatives belonging to the Union. This finding is also relevant for the development of collective skills through co-operative membership, as it is further explored in section 4.2. In the case of producer co-operatives, members from TMCU also identify as a benefit the possibility of obtaining a license from the government to access the forest and to learn how to take care of it by replanting trees. Members of primary co-operatives from MZCPCU were able to identify some additional benefits:

- Technical know-how, in terms of sustainable farming practices;
- Transport provided by the co-operative's truck;
- Access to financial services provided by the Union to members (mainly loans to buy inputs);
- Improved market access;
- Environmental friendly coffee processing machines;
- Improvement in well-being at the household level (food security, sending children to school, housing);
- A sense of ownership of the co-operative;
- Trust and transparency.

Between COMSIP and MUSCCO co-operatives, benefits identified by members were similar, such as:

- Access to loans at lower interest rate than microfinance institutions;
- Improved financial literacy and management through access to training;
- Wellbeing improvement at household level (food security, housing, children to school, savings; access to healthcare);
- Opportunity to initiate individual and collective businesses.

The level of members' satisfaction can be considered as a proxy of the extent to which Union can effectively deliver services to their members. In the case of TMCU, despite its clear business vision,

the Union is not yet able to provide members with significant access to markets and value addition processes. Therefore members are not able to identify major benefits, furthermore, a large number of members sell their produce to middlemen. Even in the case of MZCPCU where members were able to list several advantages, disloyalty is also a major problem as members also sell their produce to middlemen. Lack of loyalty is the result of members' need for fast cash. Some members cannot wait for the period required by the co-operative to be paid for their coffee. MZCPCU managers have stated that this problem tends to affect members that produce small amounts of coffee.

In the case of COMSIP and MUSCCO, lack of loyalty equates to not repaying loans. Members that are active in the agricultural sector with a limited access to market are more likely to default on payments, in some other instances loans are not paid due to delinquent behaviour<sup>10</sup> which may be also lead members' 'hand-out mentality', whereby they expect hand-outs from the Union and co-operatives, as reported by MUSCCO and COMSIP CEOs. Low level of education in terms of co-operative values is identified as a further factor which may fuel the 'hand-out mentality'.

#### *4.1.3 Lack of skills and capacity to buy shares*

The four cases showed that the low level of literacy and financial skills amongst members is a major challenge for co-operative performance as it makes difficult to disseminate information and keep adequate records keeping and accounting. The remote geographical location of some co-operatives has also meant that qualified managers are less motivated to take up jobs in rural co-operatives. At the Union level, we identified that all staff members and management teams are literate and trained.

The low capacity of members to buy shares is also major issue. The lack of capital weakens in turn the capacity of co-operatives to buy shares from the Unions, reducing Unions' ability to be self-sustained in terms of financial resources and to provide services to members.

All four cases highlighted the need to strengthen members' co-operative identity in order to build up co-operative resilience. Women's inclusion has been identified as a crucial factor to strengthen members' loyalty, as shown in the next section.

#### *4.1.4 Women's inclusion*

All case studies have reported an increase in women's membership. For instance, in the case of MZCPCU, women members have increased by nearly 11% between 2011 and 2012. Women's inclusion was also highlighted – by leaders, CEOs and members – as a strategy to increase co-operative resilience. Women are recognised to be more committed and more focused on the co-operative business, whilst men can switch from a crop/business to another. In the words of MUSCCO Head of Risk and Management:

'In this country, women culturally depend on men, so when men are not bringing anything at home, life is difficult. This is why they need to make sure that they have something for tomorrow. If they are given an opportunity [like being a co-operative member], then they do not want to disappoint'.

Women participation in Unions' board varies between nearly 25% in MUSCCO and MZCPCU and 33% in COMSIP and TMCU. The participation of women in boards has been encouraged in all of

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<sup>10</sup> This happens when members choose not to repay the loan.

the Unions. For instance, the MZCPCU is in the process of amending Union's and co-operatives' constitutions to target the 30% percentage of women's participation. The same percentage is to be found in COMSIP while MUSCCO has had a gender policy in place since February 2013.

Interviewees have argued that increasing the visibility of successful women co-operators can also be a strategy to encourage more women to become members. This strategy could contribute to a more gender balanced co-operative movement and yet it might not be enough to guarantee loyalty. As explained by a SACCO leader:

'The problem in Malawi is that the culture gives more power to the husband. Even if the woman accesses the loan, the husband may be in charge to manage it, who is not a member of the co-operative. It ends up with most of the husbands using the loans in not proper ways, contributing to the defaulting'.

For this reason, increasing women's membership has to be followed by training targeted for women. Working together as a group is another way to increase women's empowerment and effective participation in co-operatives, as we explain in the next section.

#### **4.2 Collective skills: co-operatives as collective space of learning**

Even though Unions differ in terms of performance and ability to provide benefits to their members, in all cases, members agree that co-operatives offer a 'collective space for learning' where members have the possibility to share ideas and knowledge which has resulted in positive outcomes. For instance, TMCU members have learnt how to re-forest, learn about fire prevention, maintain roads, and to create a national awareness about the need to protect their natural resources from foreigners.

The development of 'a savings culture' is another important collective skill noted by MZCPCU, COMSIP and MUSCCO members. Women members have particularly highlighted the importance of working as a group and learn how to make tangible things for their families out of their earnings and to empower themselves.

COMSIP and MUSCCO co-operative members have learnt to evaluate the viability of investment that is funded by co-operative loans. Sharing experiences in MZCPCU has also meant increased knowledge in farming practices and improved quality of products which is currently leading to organic production. Moreover, managing processing plant at village level also hiring workers have developed amongst members a sense of 'collective ownership' which increased their skills in terms of bookkeeping, management and quality control.

These outcomes have been reported as results of both formal and informal learning processes. In all case studies, Unions played a crucial role to provide members with training. It particularly takes the form of training of trainers from primary co-operatives (they can be co-operative managers as well as lead members) who in turns disseminate knowledge and information amongst members at village level. In this respect, MUSCCO and MZCPCU managers and staff have been providing in-house training and extension services which also enabled them to establish closer relations with primary co-operative members. These Unions have also played a crucial role to engage with external agents, such as development agencies and buyers, who have been further providers of training for primary co-operatives and their members. In the case of COMSIP, the Union provides training to the primary co-operatives in terms of financial management and capacity building. Extension services are provided by the Ministry of Agriculture. TMCU does not provide training to member co-operatives and the learning process occurring within co-operatives is informal. Here, members have developed some collective skills mainly working together and sharing between them. Informal

learning processes occurring between members working together are also reported in the other three case studies.

### **4.3 Networks**

The lack of adequate flows of information across all levels within the Union is a major problem. Making communication work between the Union, the co-operatives and the members has proven to be challenging. Our data suggests that some leaders are unwilling to share information with members. This attitude is often the result of low levels of leadership skills. Interviewees reported the inadequate level of skills and education of co-operative leaders themselves. Lack of information and communication affects members' understanding of the services provided by the Union, undermining trust relations and eventually members' loyalty.

Co-operative leaders and members agree that an Apex needs to be established. A national apex organisation can channel training and partnerships between co-operatives from different sectors (mainly for marketing and financial purposes), and lobby with the government and international buyers. The same actors have also identified the need to re-open the Co-operative College. In Malawi there was already a Co-operative College during the colonial times which was closed after the independence. According to co-operative leaders, the Co-operative College could provide capacity building and training to members. Leaders and members also noted the need for a co-operative financial institution, one that provides credit for co-operative development.

All Unions with the exception of TMCU have been funded by aid agencies. Union leaders and managers from MZCPCU, MUSCCO and COMSIP are aware of the risk of aid-dependency. As a result especially MZCPCU setup alternative sources of income as a strategy to avoid donor dependency, the same cannot be said for COMSIP and MUSCCO who are still looking at possible business strategies for income diversification. In the case of TMCU, it has set up the Sterling Company (controlled by the Union) because commercial banks did not recognise co-operatives as reliable business entities and refuse to provide loans. Sterling Company was established in order to add value to timber and enter into regional and international Timber markets.

### **4.4 Innovation**

In the context of co-operatives, innovation is at one level concerned with the positive impacts that results from the application of new or existing knowledge. Such knowledge can be facilitated by external or internal actors. With the exception of TMCU, all co-operative Unions examined in this article have benefited from knowledge and specialised expertise provided by international actors, these include development aid agencies and international buyers.

At a second level, innovation in the context of co-operatives is concerned with credit and the extent which co-operatives are able to acquire loans. For instance, agricultural co-operatives that work and benefit from new technical knowledge from external actors are likely to better innovate or engage in innovative agricultural processes if their means of production and expertise are upgraded. However, upgrading technology in the form of machines, tools, production practices, routines and methods of organisations is not the solely prerequisite needed in order to innovate. Innovation can arise from existing forms of knowledge. For instance, MZCPCU and MUSCCO have had women members since they were setup, however, it is not until recently that leaders and male members have acknowledge and identified women as more committed than men and less likely to default on their duties. This realization has pushed forwards the promotion of women at different levels.

In more general terms, our findings suggest that co-operatives are driven to innovate by their need to: 1) reduce donor dependency, 2) increase members' loyalty, 3) improve their expertise, 4) upgrade their production processes and 5) participate in national and international commodity value chains. Some of the innovations we identified are described in the Table No. 2

**Table No. 2**

<b>Product and process innovation</b>	MZCPCU: high standard coffee beans, upgraded technology for coffee processing and marketing
<b>Organisational Innovation</b>	MZCPCU: income diversification via business strategies (i.e. coffee shop and tourist lodge) MUSCCO and COMSIP: introduction of new services (i.e. micro insurance for co-operative members)
<b>Social innovation</b>	TMCU, MZCPCU, MUSCCO, and COMSIP: inclusion and promotion of women at all levels and promotion of knowledge exchange between members.

Source: Authors

In order to reduce donor dependency, MZCPCU has established its own commercial farm where it produces the Union's coffee; MZCPCU also opened a coffee shop and a tourist lodge. The farm and the coffee shop are self-financing. So far revenues from co-operatives' coffee sales are distributed 60% amongst farmers whilst 40% goes to co-operatives and Union to enable their operations. Donors' funding has been used for investment purposes and to provide services. These new business activities are meant to replace donors' contributions – a process that is already in place - and to increase the percentage of revenues which eventually remains with members.

Another innovation is found in COMSIP's vision to increase members' and co-operatives' capacity to repay loans and to buy shares focusing on the investment and value addition side and supporting co-operatives on the marketing side. As a COMSIP Board member explained:

'[The innovation] has to start at the co-operative level: members should have those skills whereby they can be adding value to whatever products they have. (...) The Union is there to act as a hub where all of us can meet with our processed goods and collectively marketing them'.

Innovative strategy to increase members' loyalty has been already explored in section 4.1, particularly in terms of women's inclusion. To help members when they are in desperate need of fast cash, MZCPCU has also implemented a pilot fund for emergency small loans, which proved to be successful. Unfortunately the Union has not been able to extend it to all members so far because of lack of financial resources. Another innovation to this end was to encourage members to open bank accounts, both in MZCPCU (nearly 80% of members) and COMSIP. To improve members and leaders' expertise, MZCPCU has been training lead farmers, who are in charge in turn to train members at village level. The use of new technology such as mobile and internet, creating resources centres at village level, is also a strategy that is in the process to be implemented.

All four cases are integrated in value chains in different degrees. MZCPCU is perhaps the case that best illustrates an entire value chain. This Union trades coffee nationally and internationally. It is the latter market that has driven innovation within the Union. Being part of an international value chain has exposed MZCPCU co-operatives to the need of adopting standardised quality procedures and environmental standards. These standards can be met by upgrading equipment, branding and

improved management skills. So far MZCPCU is certified Fair Trade, 4 C and aims also to get the organic certification. It can count on long term relationships at least with six international buyers. The strategy has been to produce high quality coffee so that to target niche markets and get the quality premium.

MZCPCU has also created its own brand to trade coffee in the domestic market. As reported by a key informant from one of the largest retailers in Malawi, even if Malawian consumers are not coffee drinkers, there is an increasing potential market for Mzuzu Coffee.

International market is also the target of TMCU. Value addition in the Sterling Company/Union's plant means that timber is stacked in the chamber driers, planed and eventually bundled and exported. Buyers are mainly based in the construction sector from the SADC. A further level of value addition is in the process, with governments of other African countries requesting desks for schools. TMCU has not any certifications yet even if to trade internationally it needs to comply with standards. This has required training for workers at the Sterling Company/Union's plant.

In the case of MUSCCO, the adoption of technology has proven to improve governance, on this respect a manager from MUSCCO attested:

'We have seen that in the SACCOS that are not computerized the directors would come in to intervene most of the times with the operations. In the same SACCO you will find conflict of interest, the director and management team will not have clear roles. But the SACCO's that are computerized, there is a clear line of responsibility. From the management team to members, everyone will know what to do'.

Investment on ITC in SACCOS represented an innovation capable to improve both co-operatives' performance and internal governance. Therefore the case of Malawian co-operatives confirms the importance of innovation to build up co-operative resilience. In this regard, government's ability to promote 'the enabling environment' for co-operative development plays a crucial role.

#### **4.5 Role of the government**

Co-operatives in Malawi are regulated under the Ministry of Industry and Trade, Department of Co-operatives. The main functions of the Department are twofold: the legal function (registration, auditing, arbitration, liquidation, policy formulation in collaboration with main stakeholders of the co-operative sector, promotion of the enabling environment) and the development function (identification of potential co-operatives, provision of education and training, creation of linkages for co-operatives with markets, financial and technology institutions). There are eight officers in the Department, serving a population of 15 million Malawians.

The transition from one party to a multi-party system and the advent of liberalisation has had an effect on the way co-operatives have flourished over the years. The gradual withdrawal of the state in the economy has opened spaces for co-operatives to engage in entrepreneurial activities. However the lack of financial and human resources has limited the potential of the state to support co-operative development. In terms of co-operative policies, the co-operative legislation and policy framework in Malawi upholds the co-operatives values and principles and yet is not framed in line with the ILO Recommendation No.193<sup>11</sup>.

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<sup>11</sup> The ILO Recommendation No 193 is an international policy guideline adopted in 2002 by the International Labour Conference. It also recognises the importance of co-operatives and their promotion.

Furthermore, there is no policy implementation strategy. Representatives from all four co-operative Unions share the view that the government needs to harmonise all policies around co-operatives. They indicated that engaging with different ministries has led to confusion and conflict of interests. Union representatives also argue that the lack of an apex body militates against policy harmonisation which is reflected in the way ministries operate independently from one another while engaging with co-operatives. This point has also been stressed by the Deputy Director and Registrar, who also pointed out the need to improve the knowledge of co-operatives amongst ministerial officers. Coming up with a policy implementation strategy should help also to overcome one of the major challenges of co-operative development in the country. This is about the role of development agencies, which use co-operatives as an ‘exit strategy’ in development projects. Many donors are not properly committed to co-operative development at the start of projects, but promote the setting up of co-operatives during the last stage. As informants argued, the probability rate that those co-operatives will fail is very high. Considering also the ‘donor dependency syndrome’ – where development agencies provide external sources of capital but co-operative Unions are not able to autonomously generate adequate resources to properly work as a ‘business’ - it is clear that the relation with such development agencies needs to be coordinated by a proper national policy strategy in order to build up co-operative resilience, as reported by Unions’ leaders and managers.

A proper policy implementation strategy would also help to explore and unlock the high potential for co-operatives which is unexploited, as argued by several key informants. Beyond co-operatives that already exist, other organisations working with farmer clubs, such as the Japanese International Cooperation Agency (JICA), supporting the national programme One Village One Product (OVOP), and the National Smallholder Farmers’ Association of Malawi (NASFAM), recognise the importance to convert those clubs into co-operatives.

The vision to move forward is identified by the MUSCCO CEO. He identified a crucial role for the government to create an enabling environment aimed at promoting collaboration and business partnership between different types of co-operatives – in his own words:

‘We have financial co-operatives, producer co-operatives and marketing co-operatives. I think we should find a way how all of these co-operatives could be linked or they could work together. Maybe we should work with the government on this and then I think the impact might be easily measured’.

Despite these challenges, all informants and interviewees from the Unions acknowledged that this is the time to move forward. The increasing interest of the government on co-operatives makes this the right moment to strengthen the action on co-operative development at national level.

## **5. Moving forward: discussion and outlook**

To what extent are co-operatives in Malawi resilient socio-economic organisations? What are the factors that affect co-operative resilience the most? Our answer to these questions start by first arguing that the case studies provide a mixed picture in terms of performance and yet it can be said that Malawian co-operatives do show a degree of resilience, that is, they have been able to both 1) cope with challenges and 2) found innovate ways to address their constraints.

In methodological terms, the article shows that our analytical framework can be expanded. It is a valuable tool for the analysis of co-operative resilience which could be complemented by

additional factors. For instance, some factors that proved to be crucial for the resilience of Malawian co-operative Unions include: 1) the degree of homogeneity/heterogeneity membership, which varies between producer and financial co-operatives; 2) the inclusion of women, which has proven to be favourable not only for women's and household wellbeing, but also for co-operative resilience as it increases members' commitment and loyalty.

**Table No 3**

	<b>Factors conducive to co-operative resilience in Malawi</b>	<b>Factors that undermine co-operative resilience in Malawi</b>
<b>MEMBERSHIP</b>	<ul style="list-style-type: none"> <li>- Tangible and positive benefits that result from being part of a co-operative have improved loyalty. Benefits are related to Unions' ability to deliver and meet the members' needs.</li> <li>- Homogeneous membership in producer co-operatives which fosters trust and cohesion.</li> <li>- Heterogeneous membership in financial co-operatives which improves risk management.</li> <li>- Women's inclusion increases across all levels within the Unions. Acknowledged as strategy to strengthen members' loyalty.</li> </ul>	<ul style="list-style-type: none"> <li>- Disloyalty caused by members' need for fast cash (producer co-operatives) and members' difficulty to repay the loans due to lack access to markets and stable income (financial co-operatives).</li> <li>- Heterogeneous membership in financial co-operatives which undermines governance</li> <li>- Inadequate members' capacity to invest in their co-operatives which affects co-operatives capacity to buy shares into the Unions. This in turns affects Unions' financial sustainability to deliver services to member co-operatives.</li> <li>- Lack of skilled and literate membership affects information dissemination, accounting and record keeping.</li> </ul>
<b>COLLECTIVE SKILLS</b>	<ul style="list-style-type: none"> <li>- Co-operatives as 'collective spaces of learning' where members share ideas and knowledge and learn from each others.</li> <li>- Saving culture being gradually developed across members.</li> <li>- Members are collectively evaluating investment viability, risks of new technology adoption and management of natural resources</li> <li>- Formal training and extension services, provided by Unions and/or external agents (donors, buyers, government)</li> </ul>	
<b>NETWORKS</b>	<ul style="list-style-type: none"> <li>- Leadership skills, effectiveness and accountability</li> <li>- Leadership commitment to share information with members</li> <li>- Collaboration between co-operatives (within and across sectors)</li> <li>- Need of</li> <li>- Positive role of development agencies as providers of training and financial resources</li> </ul>	<ul style="list-style-type: none"> <li>- Absence of an apex body that could unlock co-operative potential</li> <li>- Risk of donor dependency</li> <li>- 'Exit strategy' - donors establish co-operatives at the end of development projects which are not rooted in co-operative value and principles.</li> </ul>
<b>INNOVATION</b>	<ul style="list-style-type: none"> <li>- Collective marketing and while developing market linkages within national and international commodity value chains.</li> <li>- Access to credit from commercial banks and donors.</li> <li>- Some Unions have developed alternative sources of income</li> <li>- Self-help spirit and self-reflective attitude that have enable members to identify innovative strategies to overcome challenges (i.e. donor dependency, members' disloyalty, difficult access to domestic and international markets).</li> </ul>	<ul style="list-style-type: none"> <li>- Commercial banks reluctant to provide credit to co-operatives</li> </ul>

<b>RELATION WITH GOVERNMENT</b>	<ul style="list-style-type: none"> <li>- Legislative and policy framework embedding ICA values and principles</li> </ul>	<ul style="list-style-type: none"> <li>- Legislative and policy framework not conformed to ILO recommendation No 193</li> <li>- Lack of policy implementation strategy</li> <li>- Lack of policy harmonisation</li> <li>- Lack of coordination of development agencies' projects targeting co-operatives</li> </ul>
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Source: Authors

In this article we argue that resilient co-operatives are able to maintain their core functions while coping with shocks and stresses. This is possible in so far as co-operatives are able to develop a degree of adaptive capacity. A key component of adaptive capacity is the reflective attitude of actors towards their own performance and limitations. This process is a fundamental factor as enables co-operatives to identify key weaknesses and develop strategies to deal with them. Even though this process is not easy to evidence, it was apparent in the interactions we had with members, managers and leaders. It was also evident in the strategies they have identified and the actions that followed. Reflective behaviour is a fundamental block of resilience and yet it is not sufficient. It needs to be complemented by factors that are conducive to resilience.

Our findings reveal that 1) Unions play a key role in the development of co-operative resilience. They represent the hub where challenges and limitations are identified, strategies developed and ideas and plans are translated into action. 2) Unions' leaders and managers can strengthen all the five factors for resilience including women's promotion. They can address the limitations faced at the membership level by providing and/or channelling services in order to effectively meet members' needs and strengthen their commitment with the co-operatives. They can also provide training and engage with external actors in order to facilitate training thus increasing members' collective skills. Union leaders can represent the link and connection between co-operators, primary co-operatives, domestic and international markets, development agencies, commercial banks, and other co-operative Unions in the country. They can also engage with government by representing co-operatives' interests and lobbying on their behalf.

The actors that participated in this study are aware and know the findings outlined in this article. Sharing the finding with participants (i.e. co-operative members, managers and leaders of the Unions) has enabled them to think more systematically about the factors that affect the resilience of the Malawian co-operative movement.

The impact of this study was channelled throughout a major dissemination event held in the capital city Lilongwe where representatives of co-operative Unions, government and development agencies had the opportunity to exchange ideas and discuss co-operative resilience for the first time ever which resulted in the formation of an action plan for increasing co-operative resilience in the country. The following were identified as priority actions: 1) Setting up of the Apex body; 2) Funding and harmonisation of development projects that target co-operatives; 3) Promotion of women in co-operatives; 4) Measures to reduce disloyalty. The design of an 'action plan' was an unexpected outcome of this study which suggests that promoting research on co-operative resilience contributes to strengthen co-operative development.

Discussing the findings outline in this article with participants highlights also the importance of promoting networks and share experiences between different co-operative movements in Africa which is factor to be included in the analytical framework. We are aware that the struggles faced by the Unions and primary co-operatives studied in this article are not exclusive to Malawi. Therefore

this article has aimed to do both, provide insights and lessons for countries that might share similar socio-economic and historical backgrounds and highlight the need for further research in Africa on the structural and context-dependent factors that affect co-operative resilience.

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