Climate Action DIGEST

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Women in an open air market in Burkina Faso carrying food baskets hawking them. The agro-industry forms a big chunk of the informal sector which employs majority of the people in the continent.

HARNESSING THE POWER OF COMMUNAL COOPERATIVES TO INNOVATIVELY FINANCE CLIMATE ACTION POST COVID-19

As the COVID-19 now enters its 3rd month in Africa, what is becoming clearer is that beyond a health crisis, an economic catastrophe is looming for Africa and the globe. Through restrictions, diversion of resources among other emergency response actions being taken, economies across the globe are under duress. The global economy is reportedly facing its worse prognosis since World War 2. In Africa, a projected 1.4% decline in GDP equivalent to $29 billion for the entire continent was reported from initial analysis. As the clock ticks, the worst-case scenario is unfolding – pointing to negative growth in 2020, as low as -5.1% GDP growth. This is reported as likely to push the region into the first economic recession in 25 years.

Harnessing the Power of Communal Cooperatives to Innovatively Finance Climate Action Post COVID-19

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An image of women in a table banking self help group collecting and taking account of their contributions. Many of these groups exist in Africa to assist farmers in their budgetary requirements.

As the clock ticks, the worst-case scenario is unfolding – pointing to negative growth in 2020, as low as -5.1% GDP growth. This is reported as likely to push the region into the first economic recession in 25 years. These losses translate to lost jobs – where an estimated 50% of all jobs in Africa could be lost, lost income and enterprise opportunities for the over 1.2 billion people on the continent.

This pushes the continent further up the vulnerability scale. This is because while climate change is global, the poor are disproportionately afflicted because they are unable to afford goods and services they need to buffer against its worst effects. These economic ramifications are exposing first, the fragilities and second, the often-ignored realities, of African economies which hinges largely on the actions of the informal sector which cumulatively employs over 80% of Africa's population. Revisiting these aspects provides an opportunity for the continent to rebuild fool-proof post-COVID-19 economies, addressing fundamentals whose importance has been spectacularly exposed by this crisis.

First, starting with ignored realities. For example, the closure of marketplaces has brought to light, the important role played by the informal sector in providing fundamental goods and services that keep households and the economy moving. This has been felt across the board. To the urban middle-class, when the usual trip to the market to replenish groceries can no longer happen because the market is closed, the important role played by the local grocery vendors in open markets, locally known as mama mboga's in keeping households nourished hits home first and hard.

When a mama mboga who trades less than $150 daily by selling her produce to middle class buyers, can no longer make the much-needed daily sales to sustain her, her family and replenish her business, she stares at a bleak future, a likelihood of losing her business for good. These impacts cascade down the supply-chain – impacting the transporter and all the way back to the farm, where diminished demand means a likelihood that ready harvests could be lost on the farm.

Given the nature of this pandemic where every country is dealing with this crisis and putting their citizens first, no country, stands ready to "bail out" Africa's economies that may be at an even higher risk given their very low base.

Second, we cannot ignore fragilities – one key lesson to Africa has been the fact that, during crunch times, countries by and large take care of their own. For example, while Africa needs an estimated $100 billion in emergency response and to buffer its economies, at this hour of need, every country in the globe now is focused mostly on taking care of their own citizens – with multiple rounds of stimulus packages running into the trillions of dollars. Some extending up to 20% of their GDP. But they are all focused on buffering their own economies. Given the nature of this pandemic where every country is dealing with this crisis and putting their citizens first, no country, stands ready to "bail out" Africa's economies that may be at an even higher risk given their very low base. This is a lesson to Africa, that the continent can only bet on what it has at hand.

Re-building Better and Stronger: Harnessing the Power of Communal Cooperatives in Africa

Rebuilding better needs a strategic approach and two key aspects stand out if Africa is to rebuild better. First, the continent must rebuild from the foundation – which is the informal sector. And second, in doing so, the region must leverage on financing structures familiar to the informal sector. Up to 90% in Africa, inadvertently engaged in the informal sector transact in cash and in part, the convenience of mobile money. Formal financial structures such as bank accounts, tax brackets etc., are out of their reach. However, they are accounted for in cooperatives, which exist in some form even at the lowest socioeconomic level. This is the structure of cooperatives that are known in different names but exist in nearly every community level in every country. Cooperatives are weaved into the diverse cultures in the continent and draw on critical values that are fundamental to development – selflessness, trust and co-creation of value

An image illustrating a trader dealing with cereals in a market preparing various cereals and using measurement tins to price her commodities.

> "Community cooperatives are proven to work, are accessible and relevant to the diverse financing needs of the informal sector having withstood the test of time."

Roadside sellers resort to grocery boot sale to sell their produce so as to minimize costs of hiring stalls since traders are resorting to minimize expenses during the pandemic. Source: CTGN Africa

An open air market in Africa, the open air market forms the largest majority of the informal sector and mostly deal with fresh produce from small scale farmers. There is need to cushion and protect the traders through better policies and innovative financing models.

Community cooperatives are proven to work, are accessible and relevant to the diverse financing needs of the informal sector having withstood the test of time. They build on trust which is the social capital and the most asset that many strive on for progress in communities. And for this, leveraging on this community old long structures for transformational climate action- cooperatives will need to be restructured, repurposed and formalised as follows:

Transition and Formalise Cooperatives: formalise local, grassroots cooperatives from the traditional basis where they are known as vehicles of social financing, into special purposed vehicles for investment and enterprise financing in the informal sector. And this informal sector includes individuals who can through such cooperatives, be part of the enterprise approach. As an example, existing cooperatives holding member deposits, can through their internal policies, prioritise financing members venturing into clean energy powered value addition and go further to support such members with additional market opportunities to enhance their chances of success. By this, incentivise more members to venture into this enterprise. A cassava buying cooperative in Cameroon – SOCOOPROMAN - provides an example of how such a transition can occur. SOCOOPROMAN introduced a service of buying off members' cassava, processing it into flour & gari which then sells at a higher premium. Because of a ready market, members of this cooperative retreated to their local merry-go-round's called jangui, that they use to pool resources for domestic use. Only that this time, they were pooling resources to finance an enterprise action - to acquire inputs and solar dryers to stabilise the supply chain of quality cassava delivered to SOCOOPROMAN. One key benefit of these jangui, is that unlike formal loans that are secured with fungible assets, jangui loans are secured by member's social capital. A member's reputation in the village as a trustworthy person who keeps their word, is what guarantees their loan. Through the promise of a ready market in SOCOOPROMAN, local jangui's were transitioned from focusing only on social aspects to financing asset acquisition for enterprise investments. Such linkages that tap market opportunities, to elevate local cooperatives beyond financing social aspects, are how local cooperatives in Africa can be transitioned to financing climate action enterprise development in the informal sector.

Tie Financing to Informal Sector Actions in Catalytic Areas

While informal sector actions emanate from every sector of the economy, sustainable nature-based agriculture which protects ecosystems and clean energy stand out as the most catalytic and foundational. They are not only critical to environmental enhancement and protection, but also in catalysing small youth enterprises across diverse sectors

By this, they unlock multiple income opportunities to address climate vulnerability at its source – which is a low socioeconomic base. Agro-value addition is a source of informal sector opportunities in clean energy – a climate action solution - through powering value addition without piling emissions that destroy the environment, in logistics through linking produce to markets and to final consumers, among others. Agriculture also stands out as most inclusive by virtue of providing direct livelihoods for over 60% of Africa's population and indirectly generating income opportunities in these other sectors through forward and backward supply and value chain linkages. Cooperatives should therefore be tied to financing enterprises in these foundational climate action derivative areas.

Leverage Cooperatives as the Structure for Tracing Impact of Development. Domestic budgets in countries need more inclusive accountability mechanisms beyond the "dashboards" of resource allocations to ministries and on to specific projects. Tracing development through the budgeting process alone goes only halfway as it fails to account for actual impact made on the ground in terms of climate action enterprises that create inclusive wealth and lift populations out of poverty. However, channelling development through structure of special purposed communal cooperatives offers a ready low risk mechanism by which national budgets can be accounted for using indicators that are representative of tangible financial return on investment. Which in this case, would be through enterprises, derived from the catalytic areas, that operate profitability and which deliver value and impacts at scale to communities.

As an example, a portion of national budgets can be set aside as financial incentives to cooperatives, in form of indemnities and financial risk guarantees, dedicated to incentivising these cooperatives to support youth climate action enterprises as well as finance decentralisation of clean energy solutions to power agro-value addition. This provides a basis for multiple enterprise opportunities, while maintaining the initial sum invested in the cooperative as a guarantee that is not consumed unless a financial risk occurs. Countries should adopt such systems such that even external development assistance is absorbed into the economy through such cooperative mechanisms which are closer to the communities where need is high, and impact can be felt by everyone. Under COVID19, slowdown of demand with closure of markets means perishables rot away, resulting to lost stock and the future revenue such stock represents. But such shocks can be buffered through value addition solutions.

For example, decentralizing solar driers to farmers in local markets, to enable them to dehydrate and preserve their harvest that remains unsold at end of day and sell when demand peaks, has proven able to not only cut postharvest losses but increase earning up to 30times. And this also enhances incomes by creating long term small-scale manufacturing opportunities for those who fabricate these dryers – especially the youthful entrepreneurs. All achieved without piling emission that exacerbate climate change. Raising capital for such should be through cooperatives. Under COVID19, cooperatives should be leveraged from an enterprising approach where the model moves from just social financing to investment financing in areas that brings high returns on investment which is the entire agro-value chain. Thethe stimulus packages being fronted across the continent should be channelled through communal cooperatives but with focus in driving the agro-value chain in ways that work with the environment and not against the environment. This way the target should be at cushioning cooperatives against liquidity crunches hence ensure that delayed payments that may arise out of the economic slow-down, do not render them insolvent and close them down.

Leverage Cooperatives as the Structure for Accountability and Impact at Scale: To track and trace the informal sector actors is not an easy endeavour as they are not in the formal systems. Many of them do not have bank accounts nor are they registered elsewhere that can easily be traced. To ensure easy reach a common communal framework can be used and there is no better community grounded space like a communal cooperative. Take for example the development of solar dryers which are fabricated by the youth.

Youth in Togo making briquettes from waste products therefore contributing to clean energy and unlocking multiple income opportunities.

UNEP's Climate Change Coordinator for Africa, Dr. Richard Munang in a blue shirt, visiting a food display booth made from cassava which was part of a cassava agro-value chain initiative to grow the productivity of cassava value chain using green production ways and innovative financing models.

If they work under the accountability framework of these cooperatives, they will be able to trace what they do and where they assemble these dryers and which farmers are getting them and what the farmers are drying with these solar driers. Using this approach, the ability to audit the impact of financing and actions that impacts many lives right at the community level where it matters, becomes achievable. This ensure development budgets directly get to the hands of the many, as opposed to traditional tendering channels of delivering social development projects. Where established corporates, controlled by the few in formal sectors, are the direct beneficiaries.

Local Governance: one foundational fact of development is that we do not do development for people. People do development for themselves and what is needed is facilitating people to do their own development. The special purposed communal cooperatives offer a mechanism to do so. Local governments and institutions can be charged with the role of oversighting such cooperatives in their respective locales on behalf of the national government.

Conclusion: the economic challenges that continue to peak even as the medical crisis phase of the COVID-19 wanes will only plunge Africa into deeper climate crisis. This is given the direct correlation of climate vulnerability with weak economic fundamentals. The continent however has a chance to rebuild stronger and better post-COVID-19 economies, leveraging on its vast informal sector, if it heeds the ageless lesson of this crisis – that crunch times demand a different thinking where nothing but added value novelty strives. It also demands that everyone stands on their own feet. The structure of communal cooperatives offers a ready, proven, accountable, representative and low risk framework on which this rebuilding can occur. Leveraging on communal cooperatives will be a game changer in the lives of the informal sector who drive over 80% of the economies in sub Saharan Africa. Anything less than this will be just pure lip service.

COVID 19 is already affecting the socioeconomic advances of the continent. There is the need to drive practical action that will unlock the social, economic and enterprise benefits of various social enterprises in Africa through various intervention policies and how climate action policies can ensure there is better standards in social enterprises and thus also improves quality of life.

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