The Social Economy – Africa's Response to the Global Crisis

Address by Ebrahim Patel, Minister of Economic Development, South Africa. Johannesburg, 19 October 2009. **DRAFT**

Chairperson, social partners, distinguished delegates from across the continent, colleagues from the ILO and dear friends

It is a great pleasure to join you today, to renew relationships with colleagues and friends with who I have worked for many years on the ILO Governing Body.

This meeting is timely and important, for you will grapple for the next three days with **the** contemporary challenge of our time, the global economic crisis. For our continent, the crisis poses a very fundamental challenge, whether we will emerge from it with a better platform for economic and social development or whether we will pay the price of a permanent decline in output and a rise in poverty and inequality. It is as important as that.

The Global Economic Crisis

The past 13 months has seen the largest global contraction of economic activity since the end of the Second World War.

World output for 2009 is now projected to decline by 1,1%. If we take account of the fact that world population is estimated to grow by some 78 million people during 2009 while global output declines, it is clear that many people are significantly poorer than what they were a year ago.

Global trade volumes are projected to be down by 11,9% this year, due to falling demand, falling commodity prices and reduced access to credit.

Unemployment is rising. ILO data on employment trends in May this year suggest that unemployment numbers could become between 40 and 60 million higher than pre-crisis 2007 levels. Two hundred million additional people could be plunged into poverty by the crisis.

Global wealth as measured by the value of assets has taken a very significant plunge with trillions of dollars either wiped off stock-markets and balance sheets or classified as toxic assets.

The impact on Africa

The global crisis may have had its origins in rich urban, Northern economies, in New York and London, but its impact has been felt very strongly in poor, rural, Southern societies, in Johannesburg and Lagos but also in Africa's less-known rural areas.

Prior to the crisis, Africa's economy grew, fuelled by a remarkable demand for raw materials particularly from Asia. Commodity prices boomed. The result was a significant growth in investment directed at the commodity sector. Imports to the continent grew too, mainly of capital goods and consumer goods. By the end of this period, continental growth rates averaged about 6%.

Yet the underlying model of growth was very vulnerable to external developments and shocks.

We exported what we dig and what we plant to the rest of the world. We increasingly imported from the rest of the world that which we consume, transformed elsewhere from raw materials to finished products through human labour and technology.

During the initial phase of the global economic crisis, there were many commentators who asserted that the continent was decoupled from the structural troubles elsewhere in the world.

Yet as we have painfully discovered, this is not true. The continent's development trajectory was linked very closely with the performance of the rest of the global economy.

The key economic indicators all tell the story.

Sub-Saharan African growth rates for 2009 are projected to be sharply down, from 7% in 2007 to 1,3% according to the IMF World Economic Outlook, October 2009.

I should note that the projections should be treated with some degree of caution due to the number and scale of revisions – the IMF in October last year, after the start of the global crisis, predicted a growth in Sub-Saharan

Africa of 6,3% for 2009 and has now revised it sharply down to 1,3%. Nevertheless, as the official source for global growth projections, I use it here to illustrate a few general trends.

The decline in the rate of growth by 5,7 percentage points is very significant. Compare for example that the US economy's reversal in its rate of growth in the same period was lower than that of Sub-Saharan Africa, with a 4,8 percentage points swing, from a 2,1% growth to a -2,7% contraction.

The lower demand and prices for commodities had a serious impact on the continent. It contributed to a deterioration in the terms of trade. Sub-Saharan Africa's current account surplus of 0,2% for 2008 is projected to be replaced with a current account deficit of 3,7% for the region.

This is accompanied by deteriorating fiscal positions of African countries due to reduced tax revenue just as governments come under increased pressure to intervene and increase investments in the economy and on social spending.

Foreign inflows to the region are expected to slow considerably, and this trend is applicable to portfolio and direct investment flows as well as remittances from migrant workers.

These developments will deepen poverty, from the numbers of people falling below the $2 a day level to the infant mortality rate on the continent.

The response

Faced with such deep economic contractions across the world, the responses by many governments to the crisis have been swift and bold. Countries across the world reflated their economies through fiscal stimulus and monetary policy measures that returned liquidity to markets. The scale and heterodox nature of the response was noteworthy. Public policy interventions provided guarantees for financial institutions, took equity in struggling financial firms and provided loans and other support to companies in the real economy. Governments committed to huge investments in infrastructure and in a number of countries, provided additional social protection measures to vulnerable groups.

These globally-coordinated responses have been directed at stemming the collapse of economic activity, to act as shock-absorbers and to limit the transmission of the crisis to the real economy.

They have succeeded to some extent for now to prevent a major shock to aggregate demand from plunging the global economy into a depression.

There are however very serious immediate and a long-term policy challenges that have not been resolved.

The immediate challenge relates to employment performance. The employment impact of the stimulus packages has generally been weaker than the impact on economic performance. This is not surprising, since the evidence show that employment generally lags economic recovery.

The long-term policy challenge is profound. It starts from the recognition that the stimulus packages have in general not addressed the underlying causes of the crisis – they constitute the first of a number of steps required to address the causes and consequences of the biggest economic blow since the end of WW2.

With the large imbalances in the global economy, how do policy-makers address demand-side rebalancing? Or to put it more bluntly, the old growth model reliant on credit bubbles in the US to drive demand and export-led growth in East Asia to supply products and use the surplus to finance the credit bubble, is broken, governments have stepped in with temporary fixes in the form of the stimulus packages, but where will the sustainable demand come from to power future economic growth?

It is to this area that I wish to turn and make a few remarks.

The first relates to the global economy and the second to the African continent.

Globally, the rebalancing of demand will entail serious and deep shifts in the balance of consumption and production between countries but it will also have long-term impacts on wages and earnings.
"Achieving sustained healthy growth over the medium term also depends critically on rebalancing the pattern of global demand. Specifically, many current account surplus economies that have followed export-led growth strategies will need to rely more on domestic demand growth to offset likely

subdued domestic demand in deficit economies that have undergone asset price (stock and housing) busts. By the same token, many external deficit countries will need to rely less on domestic demand and more on external demand. This will require significant structural reforms, many of which are also necessary to boost potential output, which has taken a hit as a result of the crisis. Key are measures to repair financial systems, improve corporate governance and financial intermediation, support public investment, and improve social safety nets." These measures will benefit from appropriate forms of global coordination.

The focus in future is likely to be on measures that can be taken by so-called 'current account surplus economies' to promote sustainable and growing domestic demand. Wage and other social protection policies would be measures that will need to be considered because o ftheir importance in lifting the floor of aggregate demand. These measures will benefit from appropriate forms of global coordination. Their
relevance for the ILO is obvious.

Fixing the damage caused by climate change is clearly a priority and will require very substantial investment in new technologies as well as in measures to respond to the impact of climate change. These two can provide an important source of growth.

Vision for African development

Against the background that I have sketched, the questions are: how do we take African economies out of the immediate crisis, deal with the employment challenges and contribute to a more sustainable decent work growth model in the future and what is the role of the social economy in this?

One of the most significant dangers is that of a deep de-industrialisation in which the continent continues to lose many of its key manufacturing sectors and enterprises, and sinks deeper into being simply a provider of raw materials to the rest of the world. That danger, of reverting to the colonial pattern of simply exporting unprocessed agricultural and mining output and importing manufactured goods, is real. In the current global economy, the structure of trade is often stacked against Africa.

The global economic crisis may not have created, but it does seriously exacerbate, these deindustrialization pressures.

In the face of the considerable declines in manufacturing output on the continent and the resultant de-industrialisation of economies, will the global economic crisis condemn Africans to be modern-day hewers of wood and drawers of water for the global economy once economies recover?

Or can we build a different vision for the African region, as a major industrial economy, with strong supply linkages across our borders, an economy based on innovation, skills, science & technology, with an expanding green economy and fair labour standards and driven by strong domestic demand in our economies?

In any discussion on the cyclical challenges of the deep recession, it is important to note the structural challenges faced by African economies.

Africa’s contribution to the global economy is disproportionate to Africa’s benefit from that global economy. Our coal and oil provides the energy needs elsewhere, our minerals are transformed on other continents into manufactured goods and our agricultural output feeds many across the world. Global companies have found the continent a ready place for mining operations, a market for goods and services and a solid base from where to repatriate profits to their home base.

Africa is also an exporter of skills. Skilled personnel, trained with the limited tax-payers monies as doctors, nurses, teachers and engineers are snapped up by developed countries. Take the example of Ghana. According to a 2005 EU Commission Report to the European Parliament, the United Kingdom made savings of £100m in training costs from the recruitment of the 1314 Ghanaian doctors and nurses practicing in the UK. Ghana is not the only, nor even the largest contributor to this perverse form of development aid from the South to the North

The continent faces other deep challenges: Africa has 12% of the world’s population, but it accounts for only about 1% of the world’s global gross domestic product and only 2% to 3 % of world trade.

If Africa’s economy was proportionally the size of its population, it would be 12 times larger than it is today. It is this gap that is also an opportunity for development and inclusive growth. But the opportunity is under enormous strain today as the fallout of the economic crisis causes damage to the economies of our continent.

The future however, need not be bleak.

The African continent is an opportunity awaiting innovative approaches to development. As a recent UN Report noted, Africa is endowed with human and natural resources, environmental diversity and cultural richness. The continent is youthful with over 920 million people, of whom 60 per cent are under 25 years old. This is a huge resource – today and tomorrow's labour force that we need to get into productive and decent work. The ending of a number of civil wars and the consolidation of democratic rule has been accompanied by robust, though unbalanced economic growth.

The development agenda that many countries in the region recognise as important contains the seeds of a new growth path for the African continent. It is in fixing our infrastructure, meeting the basic needs of our people, repairing the damage of climate change and building a smart manufacturing base that we begin to develop that new growth path.

For example, policy-makers in South Africa recognise that our R787 billion programme of infrastructure development that entails massive investment in energy, transport, dams, housing, education and health-care, needs to be linked to a continental infrastructure plan that facilitates trade and integrated economic development.

Industrial policy in one country should also be mirrored by a broader Africa-wide industrialisation strategy that retains and expands Africa's manufacturing footprint. In this context, there are enormous opportunities for us in developing an integrated production and supply-chain across the region.

The social economy

In this development model, there is a very important role that the social economy can play, provided their expansion is part of a more coherent development plan. Rural coops are a big part of many African economies. As we chart a new growth path in the continent, we need not see coops and social economy entities as simply residual absorbers of labour. Instead of limiting their role, enterprises in the social economy can be a leading force for modernising economies and expanding economic development. In the urban and rural economy, there is scope for much stronger social enterprises.

About one year ago, the International Labour Organisation’s tripartite constituents adopted a Declaration of Social Justice for a Fair Globalisation. It provided a far-reaching vision of placing people at the centre of economic policy, affirmed that labour is not a commodity and that poverty anywhere constitutes a danger to prosperity everywhere.
That Declaration affirmed the importance, together with the market economy, of a strong social economy and a viable public sector.

Nobel laureate and world renowned economist, Joseph D Stiglitz has argued for greater balance in the economic choices we make. His research, he has said, showed one needed “to find a balance between markets, government and other institutions, including not-for-profits and cooperatives". Successful countries, he says, are those that find that balance.

The economic crisis has now put the spotlight on the social economy, on finding the balance.

By the social economy, we refer of course to the economic activities by enterprises and organisations that manage their operations and direct their surpluses in pursuit of social, environmental and community goals. They place these goals, rather than profit-maximisation, at the core of their existence. They embrace activities in saving and lending as well as production and distribution of goods and services. They include cooperatives, mutual societies, voluntary and community organisations, community and union investment vehicles and some foundations and community trusts.

The social economy has preceded modern capitalism. The social economy is based on the idea that instead of a trade-off between economic and social values, there can be a fusion and synergy between the two, that not all economic activities derive their rationale from the possibility to make a profit.

One of its biggest components of the social economy are cooperatives, which developed in the 19th century as a direct response to the vision of economic activity founded on ethical values and human solidarity. The ILO has done considerable work on promotion of cooperatives and has a global standard to cooperatives. That standard reflects the values and principles on which the cooperative movement is founded. They are the cooperative values of democracy, equality, self-help, self-responsibility, equity and solidarity; as well as the ethical values of honesty, openness, social responsibility and caring for others.

These values, designed for coops, apply more generally to the social economy.

Over the past three decades, these values fell out of fashion in the economic and policy mainstream, replaced by a rapacious economic philosophy that reduced the test of economic value solely to the potential and size of profit that can be made. Profit plays an important part in mixed economies: in incentivising entrepreneurship, in allocating resources, in structuring rewards. But the very extremes of profit-fundamentalism have so distorted economic actions and incentives, that the essential purpose of economic activities became subverted. Society is paying a high price for the lack of balance, with the economic crisis.

There is recognition that such a model is not sustainable. There are increasing calls that private enterprises should be more socially-responsible. The ILO has developed the notion of a ‘sustainable enterprise’ as one which combines economic efficiency with socially-enhanced outcomes, particularly in respect of decent work.

There is now also an increased interest in a better mix between private and social enterprises as a further response to the lack of balanced development in the past. The social economy is frequently under-recognised, under-appreciated and under-marketed part of the modern economy.

Worker cooperatives play an important role in fostering employment. Health cooperatives provide medical support to millions of people and burial societies provide basic cover to large numbers of the world's poor.

There is no single global database on the size of the social economy. This is a challenge for the future – what is counted is often what receives policy attention. The ILO has done work to provide some indications of size and from their work it appears that:

- There are more than 100 million employees in cooperatives alone
- Cooperative banks control assets worth $6 trillion and coops and mutuals collect 7% of the world's insurance premiums.

The role of the social economy

The social economy is absolutely vital to the recovery of African economies. But it is not the fact simply of a different ownership and legal status that makes it important. Its importance is derived instead from the distinctive social goals and rationale of the social economy. Employment for example is not simply a by-product of social economy enterprises, but a critical goal. For this reason, we can expect that a properly-functioning enterprise in the social economy will have strong social returns, in decent work, climate change, lower food prices, environmental friendliness…

While founded on cooperation, many social economy activities do in fact compete with privately-owned enterprises. They operate in markets. To be successful, social economy entities need to strengthen their effectiveness, increase innovation and improve the services they offer to consumers and members.

Where in an economy should social economy enterprises locate themselves?

The informal economy or second economy as it is sometimes referred to, is a large, unregulated part of many developing-country economies. Many of the activities are survivalist in character and are often marked by low wages, poor health and safety observance and tax evasion. Yet many people rely on informal sector activities as the only alternative in conditions of high unemployment and weak industrial development. So it needs a strategy to address it, not to ignore it. The general direction of public-policy is to find ways of integrating informal sector activities into the economic mainstream, to strengthen and formalise it step-by-step through provision of support and services that enhances the economic performance and productivity of the enterprises together with measures to improve compliance with labour and tax regulations.

What is the role that the social economy can play in the informal sector? Many activities in the informal economy, from taxi-services to microlending, from backyard manufacturing to informal car-repair services, from street-vending to street hair-styling services, can benefit from being organised into the social economy, through coops that are set up.

By combining their capital, their know-how and their capacities, they can begin to move beyond informality and the marginality that they would otherwise be confined to. This can also provide better lobbying and other capacities to strengthen economic and commercial performance regulatory provisions. They can bargain with trade unions on wages and working conditions. In this way the small entrepreneur can be assisted whilst also providing a rising floor of rights to workers in the informal economy, as part of a strategy to promote decent work.

While the social economy can play an important role with government in transforming the informal economy, this is not an argument to confine it only to this part of the economy.

There is no intrinsic reason why profit-driven enterprises should dominate the technologically-advanced innovative parts of the economy and leave to the social economy to take up only those activities for which there is no profit rationale.

I believe that the social economy need not limit itself only to activities for which ordinary profit-seeking enterprises see little or no value. Instead, social economy enterprises can bring their distinctive strengths to the mainstream of the economy as much as they will also focus strongly in areas where markets fail to supply goods or services or do so with poor social outcomes.

Social economy enterprises are also in many cases employers of labour. It is vital that they promote fair standards. They can lead in fostering respect for workers rights and international labour standards, in promoting a cooperative industrial relations system and in investing in skills and human development of workers and their families.

Conclusion

This Conference focuses on the social economy and it recognises the context of the current economic crisis. While I have largely commented on the social economy, we recognise the importance also of the private, for-profit sector in achieving decent work outcomes. They have, and continue to receive substantial attention from governments on the continent. Markets will continue to play a vital role in economic development.

Yet what we all recognise is that a larger, better-organised social economy can result in more balanced outcomes, contribute significantly to our anti-poverty strategies and help to combat income inequality.

What are the steps then that can be taken to strengthen the social economy?

I wish to suggest a few ideas for your consideration.

The first suggestion is to increase the awareness-raising of the size and importance of the social economy. Measure the total employment, output, economic value-add, anti-poverty impact and positive contribution to decreasing income inequalities. This would assist in focussing the attention of policy-makers to this sector and provide the rationale for a targeted promotion strategy. One means may be to consider a regular Global Report on the Social Economy. The other would be to include the data on the social economy in national economic statistics.

The second suggestion is provide better and more technical services to the social economy. These include training in technical business skills. It may include also the direct provision of pooled services in areas such finance, taxation, marketing and export-promotion. Our universities should consider a degree equivalent to the MBA for the social economy, possibly a Masters in Social Business (MSB). Governments, with ILO support, need to strengthen the institutions that nurture and support the social economy.

The third suggestion is to build more linkages between different parts of the social economy, between its financial institutions, manufacturing enterprises and distribution cooperatives but also within a product supply-chain. The unity of basic values should make such a cooperative model not only sensible but a logical progression of the social economy principle. Perhaps social enterprises can voluntary commit to disclosing in their annual reports the extent of business that they contract with other social enterprises and some best-practice standard can emerge from that.

The fourth suggestion is to secure better public-sector support for the social economy. This may take the form of public funding or special taxation regimes, tied to specified social returns. It may also take the form of public procurement set-asides for the social economy. In the context of South Africa, part of our broad-based black economic empowerment model can be directed to promote social economy enterprises to ensure that empowerment is directed at the largest number of beneficiaries. There are also opportunities with public-social economy partnerships including in areas such as public works programmes. We have recently launched a community-based component to our public works programme through which community entities would be able to identify work that needs to be done to improve quality of life at local level, employ community members to do it and use community organisations in the design of the programmes.

A fifth suggestion is to globalise the social economy by more actively sharing resources, market know-how access, suppliers, technical capacities, technologies and policy innovations across national boundaries. While strongly rooted to the local dimension, social economy enterprises and undertakings can and should grow beyond their own borders, expanding the social ownership model beyond the nation state. This can have a number of benefits. It can increase the size and performance of enterprises by providing larger markets and thus reaping economies of scale. It can provide strong networks of support and lobbying that can assist to promote regulatory friendliness to the social economy across the world. It can help to share the costs of research and development that is at the heart of technological and product innovation where social economy enterprises have so often lagged.

A sixth suggestion is to strengthen the commitment to social values and positive social outcomes. In a sector as large and diverse as the social economy, there will many different enterprises with varying commitment to the goals of the social economy. There are cases where ordinary enterprises disguise themselves as social economy actors to take advantage of the labour regime or the public incentive structure. This requires both effective self-regulation and public regulation. Some normal profit-making enterprises coordinate parts of their activities through coops, as is often the case in agriculture. The underlying enterprises may operate no differently from their competitors in the private sector as regards social outcomes. Whether such enterprises should properly be classified as part of the social economy requires consideration.

The social economy is confined to the most marginal, survivalist parts of the economy and receives no support in becoming part of the modern dynamic economy and thus is characterised by weak social outcomes. Through effective work on both the commercial and social values side, these enterprises can be assisted to overcome this disadvantage.

The seventh suggestion is to brand and market the social economy's products more effectively. For consumer goods, it may be possible to consider a social label on clothing, food products and electronics. A common brand identity makes it easier for consumers to locate goods and services from the social economy. A common consumer marketing strategy would work to publicise the social outcomes of the enterprise that makes the goods or provide the service. This will require common standards for quality, environmental impact, consumer satisfaction and labour rights. Based on these, consumers and public procurement officers can be given the opportunity to exercise a choice in their daily decisions that can increase the social impact of each Rand, Euro or dollar that they spend.

The final suggestion is to see the economic crisis as an opportunity and a mandate to build the social economy. Worker cooperatives can be promoted actively to address the problems of enterprise closures or large-scale worker layoffs. Consumer cooperatives can take up the gap that is created as larger retailers shrink their operations by closing stores in areas with a smaller customer-base as is often the case in rural areas. Financial coops and credit clubs can be formed to address the decline in flows of credit from larger financial institutions in the wake of tighter credit conditions. To do so, social economy groups may need to draw on many other policy means to be able to effectively respond to increased needs. This includes making a compelling case for public funds, accessing more savings into the coop banking system, drawing on technology and marketing skills to lower costs and increase demand for its goods and services.

In conclusion, friends and colleagues from across the continent, we have the opportunity to build that balanced model of development with the strong social economy that I spoke of earlier, to affirm in fact and demonstrate in practice the value of economic solidarity between people particularly in the dark moments of economic crisis and so lay the basis for a more equitable, fair model of economic development for the future.

Thank you and best wishes for the Conference.