

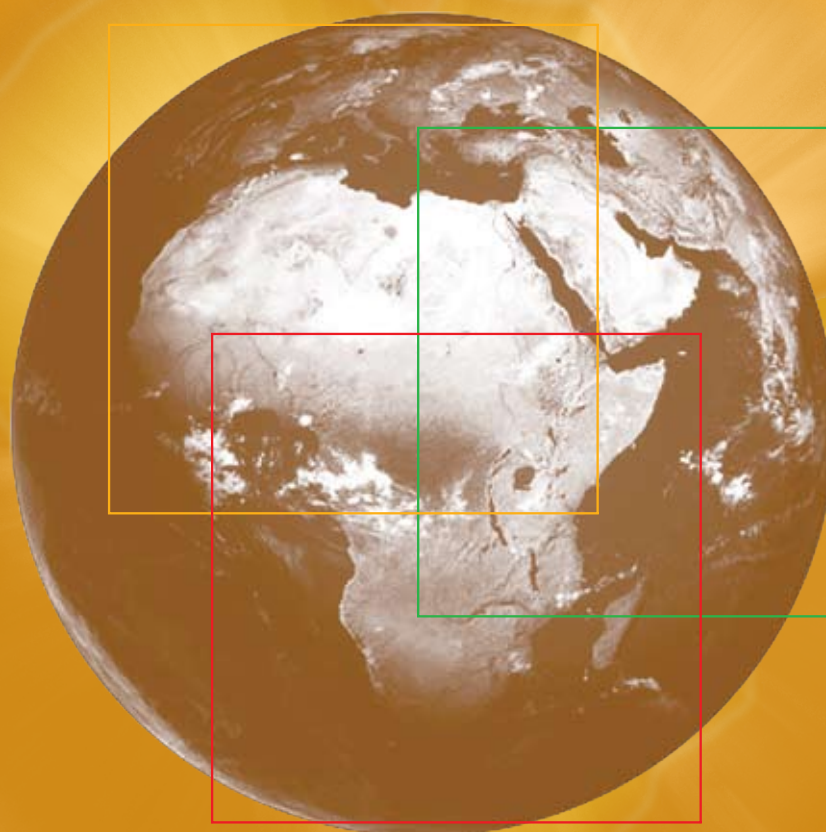


International
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Coop^{AFRICA} Working Paper No. 2

Enterprise future lies in cooperation - Entrepreneur Cooperatives in Africa

An introductory paper
Nicole Göler von Ravensburg





The Cooperative Facility for Africa (Coop^{AFRICA}) is a regional technical cooperation programme of the ILO contributing to the achievement of the Millennium Development Goals and the promotion of decent work in Africa by promoting self-help initiatives, mutual assistance in communities and cross border exchanges through the cooperative approach.

Coop^{AFRICA} contributes to improving the governance, efficiency and performance of primary cooperatives, other social economy organizations and their higher level structures in order to strengthen their capacity to access markets, create jobs, generate income, reduce poverty, provide social protection and give their members a voice and representation in society.

Coop^{AFRICA}'s approach consists of assisting stakeholders to establish a legal and policy environment conducive to the development of cooperatives; providing support services through identified "Centres of competence"; promoting effective co-ordinating structures (eg. unions and federations) and establishing and maintaining challenge fund mechanisms, for 'services', 'innovation', and 'training'. These funds are accessible through a competitive demand-driven mechanism and a transparent selection of the best proposals.

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2009

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ILO Office for Kenya, Somalia,
Tanzania and Uganda
Cooperative Programme (EMP/COOP)
Job Creation and Enterprise
Development Department
(EMP/ENT)
Employment Sector

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ILO Cataloguing in Publication Data

von Ravensburg, Nicole Göler

Enterprise future lies in cooperation: entrepreneur cooperatives in Africa / Nicole Göler von Ravensburg ; International Labour Office. - Dar es Salaam: ILO, 2009

(CoopAfrica working paper ; no.2)

ISBN: 9789221225508; 9789221225515 (web pdf)

International Labour Office

interenterprise cooperation / entrepreneur / cooperative / business strategy / partnership building / business support network / cooperative development / small enterprise / Africa south of Sahara
03.04.5

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Printed in Tanzania
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First published 2009

Table of Contents

Acknowledgments.....	iv
Notes on the author.....	iv
Executive summary.....	v
Preface	vi
1. Introduction.....	1
1.1 Context and rationale.....	1
1.2 Aims of the working paper.....	1
1.3 Who is this working paper for?	2
1.4 Guide to the working paper	3
2. Cooperation among MSME – Survival strategy and competitive edge.....	3
3. Approaching a definition	5
4. Cooperating in an Entrepreneur Cooperative	7
4.1 Individual business economics.....	7
4.2 Benefits to regional or national economies and societies.....	11
5. Positive framework conditions	13
5.1 How employers’, workers’ and government organizations can contribute to a positive environment.....	13
5.2 The state has an essential role in creating supportive conditions.....	14
5.3 What cooperative federations can do	15
5.4 Limits of an enabling strategy	16
6. Measures to actively promote Entrepreneur Cooperatives.....	16
7. Conclusions.....	18
8. Bibliography	20

List of Boxes

Box 1: Service Station Cooperative - Capricorn Society Ltd., Australia, New Zealand, South Africa.....	3
Box 2: Hotel owners’ cooperative - Best Western International.....	4
Box 3: Hairdressers’ Cooperative in Australia	5
Box 4: Taxi owners’ cooperative - Assetamorwa, Rwanda	6
Box 5: Scavengers’ cooperative in South Africa	8
Box 6: Roofing cooperative Dachdecker-Einkauf Ost eG, Germany.....	9
Box 7: Hardware store cooperative - Ace Hardware, USA.....	11
Box 8: Yebo, South Africa.....	17

Acknowledgments

The author gratefully acknowledges the support of the ILO's Cooperative Facility for Africa (Coop^{AFRICA}) in the undertaking of this introductory paper on Entrepreneur Cooperatives in Africa. This paper was originally commissioned to launch a process of technical assistance for the introduction and development of Entrepreneur Cooperatives in nine countries across Eastern and Southern Africa. The final publication has benefited from many fruitful discussions with stakeholders from employers' and workers' organizations, the cooperative movement, representatives of enterprise, as well as Coop^{AFRICA} staff members. In particular, comments, suggestions and other inputs provided by Emma Allen, Carlien van Empel, Hagen Henry, Eva Majurin, Elizabeth Mwakalinga and Philippe Vanhuynegem are gratefully acknowledged.

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Professor Nicole Göler von Ravensburg is a researcher at Frankfurt University of Applied Sciences, specializing in cooperative research in national, European and development contexts. Her PhD concentrated on the integration of cooperatives into mainstream economics in South Africa, dealing with all aspects of cooperative development, including legal and policy framework, institutional arrangements for promotion, tax and management issues and the need to accommodate varied business aims and norms. She has spent many years consulting in cooperative development in Africa.

Executive summary

This working paper draws upon a comprehensive scientific study¹ that was commissioned by the International Labour Office in 2007, and seeks to analyse the features and benefits of Entrepreneur Cooperatives. It indicates those features that would allow for replication of the model in Sub-Saharan Africa and concludes with a number of strategic recommendations on the promotion of Entrepreneur Cooperatives.

Entrepreneur Cooperatives are a form of organization that can help private sector businesses, professionals or public bodies to improve their effectiveness through enhancing access to goods and services that otherwise would not have been available. Aside from the direct benefits to members, Entrepreneur Cooperatives can have broad reaching positive effects that can be attributed to the specific organizational characteristics of Entrepreneur Cooperatives and the positive impact on that they have on the businesses of their members (Göler von Ravensburg, 2009).

This working paper concentrates especially on the positive effects of Entrepreneur Cooperatives for micro-, small- and medium sized enterprises (MSME). As none of the benefits would be possible without the efforts of the individual entrepreneurs and the success of their enterprises, it is suggested that entrepreneurs should be free to choose the form of organization that promotes their individual business in the best possible way. This paper argues that the option of forming Entrepreneur Cooperatives should not be discriminated against in any legal, political or economic way. Any promotional strategy for Entrepreneur Cooperatives should involve cooperation between government, cooperative administration, cooperatives and MSME apex organizations, as well as MSME promotion agencies. It should encompass both formal and informal training, in order to ensure the autonomy and sustainability of Entrepreneur Cooperatives and to ensure that they are empowered to have a positive impact within the locality that they operate.

¹The full study is titled, “Göler von Ravensburg, N. (2009) Economic and other benefits of Entrepreneur Cooperatives as a specific form of enterprise cluster, Geneva, International Labour Office.” The study offers sound background and proof for the arguments stated in this working paper. For the sake of reading ease, explicit reference are only be made occasionally. Except where stated otherwise, this working paper is based on the abovementioned study.

Preface

Experience shows that in many instances where Entrepreneur Cooperatives have been established, they have supported the development of MSME and informal sector businesses, created sustainable employment and improved the social standing of the members and their families. Entrepreneur Cooperatives have thus supported the implementation of the ILO's Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 183). For women's groups as well as women and youth entrepreneurs, Entrepreneur Cooperatives offer a means of helping to sustain and develop their business activities, while at the same time enhancing their voice and status within their communities. Entrepreneur Cooperatives thus support the efforts of the ILO in its decent work mandate, while also fitting well with the mandate for cooperative development outlined in the ILO Promotion of Cooperatives Recommendation 2002 (No. 193). Entrepreneur Cooperatives are an expression of the ILO's Freedom of Association and Protection of the Right to Organise Convention 1948 (No. 87), which entails the right of employers and workers to freely establish organizations of their own choosing, in order to promote protection of their occupational and industrial interests.

Despite the many benefits of the model, Entrepreneur Cooperatives have not spread equally throughout the world. Entrepreneur Cooperatives have proven to be highly effective over the course of nearly 150 years in several Western European countries, with professionals and public bodies in both Western Europe and North America increasingly making use of Entrepreneur Cooperatives in recent times. However, to date Entrepreneur Cooperatives have hardly diffused into Eastern Europe, African, Asian or Latin American markets.

It was for these reasons that the Cooperative Programme of the International Labour Office and the ILO's Cooperative Facility for Africa (Coop^{AFRICA}) commissioned a comprehensive study on Entrepreneur Cooperatives in 2007 (Göler von Ravensburg, 2009). This working paper forms part of this study, and is designed to convey general experiences with the Entrepreneur Cooperative model and seeks to strengthen capacity among cooperative stakeholders in Africa, so that the model can be implemented.

1. Introduction

1.1 Context and rationale

Cooperation is a necessity for many Micro, Small and Medium Size Enterprises (MSMEs), professionals and even certain public enterprises, such as those running hospitals, refuse collection or water and sanitation services. Globalization and liberalization of economies are intensifying the need of enterprises for cooperation.

MSME the world over, are facing particular challenges resulting from global financing patterns, increasing customer expectations and the revolution in information technology. Trade and financial liberalization, along with a shift towards deregulation and privatization have allowed the so called “global players” to find it easier than ever to infiltrate local markets. They use decentralized holding structures, develop systems with which to address customers individually, and redirect risk to their medium sized suppliers. In doing so, large companies successfully emulate comparative advantages that were unique to MSMEs and other local providers (Grothus, 2000: 19). At the same time transnational corporations try to extend their advantages of scale through developing strategic alliances and negotiating mergers and acquisitions (Krüger & Danner, 2000: 92).

Ever faster change produces growing demands for and expenditure on research and development and product life cycles are shorter. Small service providers thus face increasing competition costs and profit margin pressures. They can only respond to these pressures by engaging in sustainable diversification and/or differentiation. To do this they have to improve their core competences through continually engaging in innovation and by systematically identifying and exploiting their potential for cooperation (Pinkwart, 2001: 191). Both strategic approaches must be looked at together. The way in which enterprises cooperate and develop clusters ought to reconcile the external factors forcing enterprises to cooperate and focus on the potential benefits for individual enterprise.

Cooperation is one way for professionals or MSME to build or gain power within the market, as it allows them to become part of a larger system without losing legal or economic independence (Commission of the European Communities (CEC) 2004: 5; Mandewirth 1997: 1). Beyond networking for lobbying or information purposes (as takes place in most clusters and (small) business associations), professionals and enterprises can form expert consortia or joint ventures. They usually cooperate to reduce the cost of production in ways that emphasize their individual core competences and concentrate on those areas that contribute most to enterprise development. Using partners whose specified inputs lower the cost or increase the quality of production has always been the single most important factor for cooperation. This has not changed and works best where partners can make use of economies of scale to reduce costs and increase benefits from knowledge sharing to catalyses experiential learning curves.

1.2 Aims of the working paper

The choice of legal form for such a joint venture is of prime importance, as it may influence the sustainability of the initiative. Further, it should support development of partnership and trust amongst stakeholders that is so essential for success.

When compared with other joint venture facilities, such as business or trade associations, an Entrepreneur Cooperative is characterized by the equity position of its members and by distinct “bottom up” decision-making process. Combined with those criteria, which differentiate the cooperative from other company forms, the organizational form of Entrepreneur Cooperatives promises specific economic benefits. The services that Entrepreneur Cooperatives can provide for their members may include from bookkeeping, purchasing, marketing, joint research and development activities (horizontal cooperation), or be based on the integration of certain steps of members’ production processes (vertical integration).

In this paper we will concentrate on the Entrepreneur Cooperative as one organizational form particularly suited to certain kinds of cooperation between MSME, professionals and even public enterprises, which is legally well defined in many countries.²

1.3 *Who is this working paper for?*

The initiative to promote the Entrepreneur Cooperative model in any given region can come from various interest groups or persons, including:

- policy makers in ministries of industry and trade, who want to expand the income earning potentials of MSME;
- local government agencies wishing to improve the competitive situation of public services enterprises or entrepreneurs;
- leaders of business associations or chambers of commerce seeking to reposition local enterprises in the global economy;
- heads of trade unions concerned about the treat of foreign competition for local jobs;
- NGO representatives aiming to bring local producers into closer conformance with international labour and environmental standards;
- employees of bilateral donor projects seeking to reduce poverty by helping small producers to produce for markets further away;
- regional governors trying to make foreign donors fit with a regional development agenda;
- strategists in multilateral agencies seeking to achieve donor inputs that complement MSME development; or
- researchers studying circumstances that enable regions to increase their competitiveness.

² In the course of the working paper we will frequently refer to MSME only. This is because they are the most frequent founders and members of Entrepreneur Cooperatives. However, professionals and local public enterprises are always included in our reasoning.

In short, all those that intend to assist MSMEs, professionals and small public enterprises to develop their skill, maintain or enlarge the number of employees in their organization and increase the income to all that depend on their entrepreneurial activities.

1.4 *Guide to the working paper*

After introducing the context in which MSME, professionals and public enterprises might consider using an Entrepreneur Cooperative-model (section 1) and describing the range of services Entrepreneur Cooperatives can provide for their members (section 2), the concept is defined in section 3. Section 4 of the working paper outlines the way Entrepreneur Cooperatives work and highlights the comparative advantages of this organizational form, both for the entrepreneur as well as for socio-economic development. Section 5 examines the framework conditions needed and section 6 deals with the potential to actively promote Entrepreneur Cooperatives, followed by some conclusion in section 7.

2. **Cooperation among MSME – Survival strategy and competitive edge**

By cooperating in a formalized way Entrepreneur Cooperative members achieve what little fish do by swimming together in a “school” - they seem much bigger than they are, with the ‘school’ providing an environment that increases economies of scale and scope that leads to increased competitiveness and market share, while the ‘fish’ maintain their individual enterprise independence.

Box 1: Service Station Cooperative - Capricorn Society Ltd., Australia, New Zealand, South Africa

Capricorn Society Limited was formed as an unofficial buying group in the early 1970's by a group of Western Australian service station proprietors and established as a cooperative to assist automotive repair and service businesses in 1974.

Today, auto electricians, paint & panel shops, mechanical workshops, auto transmission workshops, service stations, among others and more use Capricorn to buy over three quarters of a billion dollars in parts at competitive prices every year from more than 1,300 preferred suppliers in Australia and also in New Zealand and South Africa.

In July 2003 Capricorn Mutual was established, as an initiative of Capricorn Society, to provide the members with an alternative to insurance. Capricorn Mutual provides business and personal risk protection to its members and has been granted a licence under the rigorous Australian Financial Services laws.

Source: <http://www.capricorn.com.au/> and http://www.australia.coop/publish/article_35.php

In practice, this kind of cooperative is also sometimes named “Shared Services Cooperative” (for example Crooks, Spatz & Warmann, 1995), or “Cooperative Business Association” (for example Couture, 2003), among others. Though we might find nuances in those terms, the concept is the same.

Entrepreneur Cooperatives occur more frequently in towns, rather than in the countryside. They can form networks to represent their interests and formalize these networks into federations or they can form second tier cooperatives to bundle businesses, thus attaining still more scale effects.³

Entrepreneur Cooperatives have proven to be highly effective for most neighborhood businesses over the course of nearly 150 years in several Western European countries, North America and Australia. Although this form of business clustering has not traditionally been widely used in Africa, Asia, Eastern Europe and Latin America, there are signs that its development and entrepreneurship effects are gradually being adopted (Göler von Ravensburg, 2009). Entrepreneur Cooperatives are also becoming quite popular in new areas of business, including fair trade, international marketing for crafts and service industries around the world.

In industrialized countries Entrepreneur Cooperatives thrive in competitive markets and although they do not only seek to maximize profits, they have achieved significant market share in sectors where capital-driven enterprises are very strong (such as insurance, food retail, pharmacy and various trades). Throughout Europe, Entrepreneur Cooperatives are growing fast in the sectors of health care, business services and in education (CEC, 2004: 3). Even professionals and public bodies in both Northern America and Western Europe are making increasing use of Entrepreneur Cooperatives.

Box 2: Hotel owners' cooperative - Best Western International

Best Western is a cooperative of over 4000 hotels in over 80 countries, which makes it the largest hotel chain in the world. Hotels are independently owned and operated, and each member-owner has a voice in the operation of the cooperative, which operates on a not-for-profit basis and solely for the promotion of its members.

Best Western member hotels can attain a wide range of services from their cooperative, such as:

- support in the design of the hotel and its rooms;
- training for owners and staff;
- business consulting and monitoring;
- toolkits for the management of events;
- central booking;
- a known brand name and central advertising;
- toolkits for the management of events; and
- purchasing, for example of furniture at lower prices.

Source: <http://www.bestwestern.com> and <http://www.bestwesterndevelopers.com>

³ The terms federations and second tier cooperatives (also known as cooperative unions) are introduced purposefully by the author to indicate the difference in purpose and task.

However, many African, Asian, Eastern European, or Latin American Countries have yet to overcome the legal and/or administrative barriers preventing juridical entities from forming or joining a primary cooperative. More often than not, the Entrepreneur Cooperative-model for clustering enterprises is not known or the preconceived notions of cooperatives do not contain such forms of association (Göler von Ravensburg, 2009: 130).

3. Approaching a definition

Cooperation between MSME provides one option that could enable MSME to build, gain or enhance their power in the market without losing their own legal or economic independence (CEC, 2004: 5; Mandewirth, 1997: 1).

Box 3: Hairdressers' Cooperative in Australia

The Hairdressers' Co-operative Society (Hair Co-op) was founded in 1944. Today, more than 3200 independent Hairdressers in South Australia use their cooperative to purchase hair-care and beauty products, as well as professional equipment for their hair salons. At the same time, they benefit from the frequent "cutting edge" education courses and the support of qualified technical advisors. The high service level offered inside the cooperative is reflected in its efforts to deliver ordered products on the same day and its strong orientation towards the members' needs.

Source: <http://www.haircoop.com.au/index.html>

Different forms of cooperation can express themselves in different organizational structures. According to Abel (1992: 94-96) and Bullinger, Ohlhausen and Hoffmann (1997: 46-47), the most frequently used three forms include:

- the more decentralized form of cooperation, where partners act largely independently from each other and only share resources for one or two processes, such as common purchasing or bookkeeping service;
- the leadership firm type cooperation, where certain functions are fulfilled by only one of the cooperating partners; and
- the cooperative outsourcing, which forms a business entity quite separate from the cooperating partners.

The third option is a type of cooperation which warrants a separate management unit and legal entity. In this case, there is a question of what corporate form should be chosen. In theory, all legal forms available in national legislation can be used. However, the cooperative legal form offers several benefits, including promotion of maximum entrepreneurial efficiency, autonomy of the joint venture and democratic member control of the initiative.

The internationally accepted definition of a cooperative, as included in the ILO Promotion of Cooperatives Recommendation 2002 (No. 193), states that cooperatives are:

“...an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”.⁴

The Promotion of Cooperatives Recommendation 2002 (No. 193) thus gives a broad definition of what a cooperative can be. For example, it does not specify the need for registration as a cooperative. For our concept of an ‘Entrepreneur Cooperative’ this could mean that all MSME owned societies that maintain cooperative principles could be considered Entrepreneur Cooperatives, whether they are registered or not.

However, for joint ventures with serious economic intentions, registration as a cooperative can be very useful. It serves the purpose of an external, independent institution assuring that members are not being misled or exploited by management and at the same time protecting third parties such as customers and suppliers particularly in case of bankruptcy. Pre-cooperatives, or marketing, purchasing or protective associations of the informal economy that want to help their members to achieve transformation from subsistence to market-based economies seriously need to consider formalization and the benefits that could be derived from the cooperative form (Göler von Ravensburg, 2009; Kirsch, Armbruster, Kochendörfer-Lucius, 1984: 13).

Box 4: Taxi owners’ cooperative - Assetamorwa, Rwanda

The Association de l’Esperance des Taxis Motor au Rwanda (Assetamorwa) is a cooperative of motorcycle taxi owners in Kigali, the capital of Rwanda, which counts more than 2500 members. Each of the motorcycle taxi owners is an individual trader, but together they support each other and can negotiate with authorities such as the traffic police. In turn, the cooperative helps the city authorities to organize and keep order in the public traffic. Establishing the cooperative has also given the members a better chance to protect themselves against crime on the dangerous streets of Kigali and to improve the security of the passengers and the drivers themselves.

The members of Assetamorwa are conscious of the need to help young people. The cooperative has therefore established a training school where students can learn the business of being a motorcycle taxi driver, as well as the Highway Code and basics in mechanics. To further support its members, the cooperative also runs a garage and spare parts depot. The members are encouraged to participate in savings and credit cooperatives (SACCOs) and this enables them to access long and short-term loans. The cooperative has been able to buy 57 motorcycles for members to use. If this service was not available, beginners would have to rent their motorcycle from an owner charging premium rates.

⁴ <http://www.ilo.org/ilolex/cgi-lex/convde.pl?R193>

Assetamorwa is a perfect example of how organizing in a cooperative can help entrepreneurs in the informal economy improve their individual businesses through helping each other.

Source: Smith, S. & Ross, C. (2006) How the SYNDICOOP approach has worked in East Africa -Organizing out of poverty: Stories from the grassroots movement, a joint publication of the ILO, ICA and ICFTU. Available from: <http://www.ilo.org/dyn/empent/docs/F644557485/2006-SYNDICOOP-Case-Studies.pdf>

Yet, many potential cooperators or entrepreneurs are not aware of the possibility of organizing in the form of a cooperative. The cooperative legal form is frequently perceived only to be applicable in sectors such as agriculture, banking or common production. (See for example Göler von Ravensburg, Pinkwart, & Schmidt, 2003: 40).

At the same time administration costs of using this corporate form sometimes surpasses the savings to be gained. This can be because the (public) administration entrusted with registering (and maybe auditing) is too centralized. The Entrepreneur Cooperative can be too closely supervised by the state or negatively discriminated through particular accounting requirements or heavy taxation. Central administration or state control can also contribute to the fear of losing entrepreneurial independence.

Furthermore, the curricula for the management training of cluster organizations of MSME, professionals and other local development actors tend to be based on the predominant business models. It is therefore hardly surprising that young entrepreneurs, professionals or local governments rarely consider the “cooperative option”, even when it might be the most appropriate for their activities.

Also, in some countries the term ‘persons’ included in the ILO Promotion of Cooperatives Recommendation 2002 (No. 193) is understood to mean ‘natural persons’ only. However, in legal language the term ‘persons’ can mean both, natural as well as juridical persons, such as companies, associations or primary cooperatives.

Entrepreneur Cooperatives emphasize cooperatives in the legal sense (registered under national law). The following section considers how Entrepreneur Cooperatives can serve MSME.

4. Cooperating in an Entrepreneur Cooperative

4.1 Individual business economics

The expectation to improve one’s own economic situation is usually the most important motivational factor that either triggers the birth of a cooperative or incites individuals to become a member of an existing cooperative. Members mainly expect that the cooperative will supply them with services and goods in an effective and efficient manner (Hanel, 1992: 58), in order to generate more favourable conditions than they could individually produce or obtain from markets, public institutions or development projects.⁵

⁵ For details concerning individual considerations see *Röpke* (1992: 41 and 1992b: 23)

Box 5: Scavengers' cooperative in South Africa

Yebo-Mayibuye Waste Recycling Cooperative brought together 38 scavengers who collected recyclable waste to sell to recycling companies. By organizing in a cooperative, the members were able to end victimization by municipal officials and exploitation by the recycling companies who offered low prices. Today the 128 member-strong cooperative is purchasing equipment and setting up a savings and credit cooperative.

Source: http://www.ilo.org/dyn/media/slideshow.curtainUp?p_lang=en&p_slideshow_id=18

Entrepreneur Cooperatives frequently offer one or a combination of the following services to their members.

Table 1: Features and benefits of Entrepreneur Cooperatives

Features	Benefits
Supplies of raw materials or commodities (food and non-food products)	Usually at a lower costs than would be available to individuals
Plant and machinery supplies	Usually at a lower costs than would be available to individuals
Purchase of machinery and equipment shared among members	The investment costs of which would be prohibitive to individual member enterprise
Storage of products	Smoothing of prices
Marketing and distribution	Economies of scale and scope
Publicity and promotion	Reputation and visibility
Creating brand names	Increased public recognition and eventually market share
Setting and certifying of quality standards	Operation in new markets, such as fair trade or 'slow food'
Information about products, production and the sector	Product design and production planning improved
Education and training	Management and production skills enhanced
Insurance services	Cheaper and more appropriate risk coverage
Accountancy, management services	Concentration on key business areas
Legal and tax services	Concentration on key business areas
Investment	Improved financial management

Advising members (tax and legal advice, management advice, among others)	Enhanced strategic decision making
Market analysis and strategic planning	Enhanced strategic decision making
Occasionally access to business and household finance	Bridging bottlenecks in liquidity
Risk cover	Innovation becomes easier

Source: Göler von Ravensburg (2009) and Couture (2003)

Initially Entrepreneur Cooperatives address a limited number of business needs for their members; some even begin by offering just one service (Crooks, Spatz & Warmann, 1995: 5). Ideally, the Entrepreneur Cooperative is steered by the interests of its members (cost reduction and innovation) and as these interests change, the cooperative should follow suit.

Members share the gains and risks involved. They invest in the Entrepreneur Cooperative start up and engage in contractual relationships with it. When the Entrepreneur Cooperative operates successfully, members can expect to obtain some of the surplus achieved, based on each member's transactions with the cooperative and share capital.

As Entrepreneur Cooperatives grow more mature, they can diversify and eventually create intricate structures of ownership and governance. They have also been known to form financial networks and second tier structures (cooperative unions).

Box 6: Roofing cooperative Dachdecker-Einkauf Ost eG, Germany

Dachdecker-Einkauf Ost eG was founded in 1964 as a purchasing cooperative for roofers. Today, its 1297 members and 2900 customers are not only roofers, but also craft MSMEs from other sectors of the economy. They use the cooperative to supply them with a wide range of goods at competitive prices. Beyond mere purchasing, the cooperative promotes its members through a wide range of services, such as business and legal consulting, education, marketing and logistic services.

Source: <http://www.de-ost.de>

The composition of services most frequently rendered by Entrepreneur Cooperatives in developing and transitional countries differs from that which is most frequently rendered in industrialized countries. Most Entrepreneur Cooperatives in developing countries provide their members with assistance for the promotion of products (74 per cent). Marketing services (57 per cent) and education and training services (34 per cent) are also commonly delivered through the Entrepreneur Cooperatives. By contrast, Entrepreneur Cooperatives in industrialized countries predominantly render purchasing services (52 per cent), marketing services (38 per cent) and different

kinds of legal and taxation services (29 per cent), as well as accounting services (26 per cent) (Göler von Ravensburg, 2009: 30).

The services offered by Entrepreneur Cooperatives can produce a huge number of direct economic and socio-economic benefits for their members:

1. diversification of production or increased volumes of production, followed by improved labour and capital productivity;
2. higher incomes and employment effects;
3. improved company sizes in the informal and formal MSME sector;
4. better access to and mobilization of local resources;
5. diffusion of innovation;
6. increased knowledge-transfers, resulting in human resource development and commodities with higher 'value-added' (cost of search for markets, screening of contractual partners, negotiation and contract supervision are reduced);
7. increased efficiency and savings on transaction costs can credit worthiness, and therefore introduce new investment possibilities;
8. enhanced risk management;
9. possibility to invest in infrastructure development; and
10. complementary to democratization efforts of local government with regard to allocation and distribution of resources.

No matter what their activities and associated efficiency gains in production and revenue, Entrepreneur Cooperatives can undoubtedly also generate transaction cost advantages. They do so by building up trust and interdependencies or 'social capital' among members (CEC, 2001: 9). Information costs can be lowered (Grosskopf, 1994: 861) and an "additional layer of knowledge and learning" can be said to have been introduced between member businesses and the market (Schreiter, 1994: 332).

However, in developing and transitional countries the biggest achievement of Entrepreneur Cooperatives might well be the economic integration of their members into regional, national or even export markets for the first time. Especially for women entrepreneurs, who generally suffer more from limited access to services. Entrepreneur Cooperatives create options that individual businesses would not be able to access otherwise (Göler von Ravensburg, 2009: 37).

Box 7: Hardware store cooperative - Ace Hardware, USA

In 1924, three entrepreneurs from the Chicago area united their hardware stores to increase their purchasing power. The retail network grew rapidly and was supplying services to 325 stores by 1959.

In 1973, Ace Hardware, which had been a private company operating as a franchise up to then, was sold to its retailers and has been operating as a cooperative ever since. Besides purchasing goods for their individual hardware stores, members of Ace Hardware can make use of the cooperative's logo, brand name and specially designed product lines that are exclusive to member stores. At the same time, the cooperative also manages advertising and marketing campaigns.

Today, Ace Hardware has a membership of over 5000 stores in more than 60 countries. Worldwide, there are nearly 80,000 Ace team members, including store owners, store personnel, retail support personnel and corporate employees.

Source: <http://www.acehardware.com> and <http://www.acehardwareintl.com>

4.2 Benefits to regional or national economies and societies

Aside from the direct benefits to member enterprises, Entrepreneur Cooperatives can also produce external benefits to whole economies and societies. Although final empirical proof is still outstanding, it is fairly safe to assume that one of the major external effects that Entrepreneur Cooperatives can have on a country's economy is associated with their potential to create employment (See CEC, 2001: 24-26; CEC, 2004: 15; Bhuyan, 1996: 5-7; Couture, 2003: 43, ILO, 2000: 45; ILO, 2003: 10). The level of employment in a population directly affects economic and social development. As Couture (2003: 43) astutely notes, 'having an income means that the standard of living improves and the region's economy is boosted'. Therefore employment creation and stabilization, both in the formal and informal economies, are among the best ways to help people and nations to develop themselves and to prevent poverty.

Most economic activities in Africa are carried out by small and micro-enterprises in the formal and the informal economy. However, the low level of productivity, income and sustainability of enterprises, as well as insufficient or instable levels of aggregate demand, generally result in precarious employment relationships and in poor living standards (ILO, 2003: 10-11). This is why in several East and Southern African countries development strategies are especially aimed at employment creation among women and youth, while also targeting stabilization of activity in the informal economy.

The potential of Entrepreneur Cooperatives to create employment is a result of:

- the use of economies of scale and scope;
- increasing bargaining power of the member enterprises;
- active membership participation; and
- the production of added membership value through:
 - representation of interest,
 - organizational stability,
 - innovation, and
 - legal protection.

Furthermore, Entrepreneur Cooperatives can contribute to the stabilization and enhanced success of member businesses, crafts people or professionals by enabling a certain amount of risk sharing and mutual help between members.

Apart from their potential to create and safeguard employment, the democratic, voluntary and community-based nature of cooperatives emphasizes their commitment towards quality employment, increased incomes and satisfactory conditions of work (Schwettmann, 2001: 16).

Entrepreneur Cooperatives help to prevent poverty by enabling MSME to offer jobs to the poorest segments of the population and also by initiating mutual self help projects in communities (ILO, 2003: 10). Furthermore, Entrepreneur Cooperatives are open to new members, do not require people to invest such large amounts of capital (as with capital driven firms) and tend to share economic results more equitably. Therefore, they have an automatic tendency to benefit all segments of the population, including the relatively poor (Birchall, 2003: 4).

However, the potential of Entrepreneur Cooperatives to help their members to prevent poverty has to be judged on a case-by-case basis. As observed in the past, membership numbers and turnovers might be few, members might be too poor and their enterprises too small for an Entrepreneur Cooperative to really have an impact on the wealth of its members (Marburg Consult, 1989: 13; Hyden, 1982: 92). There might be a need for high amounts of external financial support and/or advice, which carries the danger that the cooperative becomes subject to the goals of an external authorities and is therefore no longer purely oriented towards the goals of its members (Hanel, 1992b: 28).

Aside from their possible impact on employment and potential for poverty prevention, social dialogue and empowerment of disadvantaged groups, Entrepreneur Cooperatives can provide a large number of additional socio-economic benefits including:

- provision of services previously offered by the state;

- pooling of expertise and collaboration, training and education;
- capacity building;
- improved use and control of local resources;
- opening of markets including export markets (Birchall, 2004: 46);
- access to information;
- protection of natural resources;
- social recognition and new social relations/networking;
- defence against the flight of capital in the case of financial downturns;
- prevention of rural-urban migration, and support of rural diversification; and
- the creation of alternative or increased incomes can contribute to the abolition of child labour and bonded labour.

5. Positive framework conditions

The objective of the promotion of Entrepreneur Cooperatives is to mobilize the cooperative self-help mechanism to solve development constraints - unemployment, lack of social protection, lack of empowerment and poverty. Together and individually, employers' organizations, workers organizations', representative bodies and governments, as well as cooperative organizations are in a prime position to widen the use of the cooperative model in all sectors, across both the formal and informal economy. In remembering that each situation has its own particular characteristics, the following sections provide some indications of a way forward.

5.1 *How employers', workers' and government organizations can contribute to a positive environment*

As pointed out earlier, potential cooperators are not often aware of the option to form a cooperative, or of the services and benefits that this form of organization can offer them. Therefore, any promotion of the cooperative concept needs to convey the benefits of Entrepreneur Cooperatives not only to the converted (existing members), but also to the general public. In other words, a **positive image of Entrepreneur Cooperatives** needs to be created and disseminated. This is a task which can be performed by employers, workers and governments, as well as other players such as NGOs, and international agencies.

In other places the social standing of cooperatives is such that prospective founders are not attracted to this form of organization because they see it as a mere instrument for agricultural development and sometimes even as a model that has failed in the past. The organizations of employers and workers, along with government can

contribute to changing the perception of Entrepreneur Cooperatives by assuming the role of **constructive watchdogs**, safeguarding the autonomy and equal treatment of Entrepreneur Cooperatives.

Aside from those elements, there is a need for training in skills relevant to staff and leaders of cooperative federations and cooperative unions that can also be performed by private sector agencies, such as cooperative federations or MSME promotion agencies. Another factor indirectly influencing the attractiveness of Entrepreneur Cooperatives concerns **adequate statistical data**. Also, all programmes that promote Entrepreneur Cooperatives, regardless of their origin, will be influenced by the surrounding attitudes of the business community.

5.2 *The state has an essential role in creating supportive conditions*

The first step for improving the general climate for Entrepreneur Cooperatives must lie in the reform of cooperative legislation, to ensure that legal persons have the same rights as natural persons to form and participate in a cooperative. Furthermore, modern cooperative policy should give special attention to administrative requirements, to ensure that they are not comparatively prohibitive for users of this organizational form (e.g. time and cost for registration and audit among others). As a next step, national governments could encourage their cooperative promotion agencies to accommodate Entrepreneur Cooperatives and, if necessary, to restructure the cooperative environment in such a way that sees a truly autonomous cooperative movement emerge.

Cooperators wanting to initiate an Entrepreneur Cooperatives sometimes meet legal and policy restrictions. Such situations can increase the opportunity costs of cooperative start-up and might make the legal form of a cooperative less than attractive. The 2003 reform of the cooperative law in Tanzania is good example of this. In this reform process many such obstacles were removed, basic cooperative principles received more focus and the definition of a ‘member’ now includes “...a person or a registered society joining in the application”, (United Republic of Tanzania, The cooperative Societies Act 2003, Act No. 20 of 2003, Part 1, sec. 2 and Part 2 sec. 4).

For more Entrepreneur Cooperatives to come about, it is important that prospective founding members find that they can use the cooperative form with the same balance of effort and ease that they would use with another legal form. The cooperative form of enterprise should **not face discrimination in law, economic policies or administrative practices**. In order that there is policy coherence in regard to cooperatives, it might be useful to conduct an audit of all economic policy frameworks, including tax and subsidization law, welfare law and licensing regulations, among others. It is the state’s responsibility to provide an equitable framework for competition, and this framework should extend to full freedom of association in a broad variety of corporate forms. And it is the state, which can see to it that bureaucratic procedures for registration and audit are kept to the necessary minimum.

Furthermore, it would make sense if **national MSME-promotion-strategies** would include Entrepreneur Cooperatives within their ambit. Ideally, **cooperative policy and law** should cater adequately for Entrepreneur Cooperatives. While the origins of the cooperative movement are best taken into account, it is generally optimal if cooperatives are autonomous from the state. If Entrepreneur Cooperatives are to be promoted by the state in order to achieve certain goals in economic development, it is important that the quality of policy and law in all relevant economic areas be maintained.

Cooperative law works best if it also considers the special characteristics of Entrepreneur Cooperatives in comparison to other forms of cooperative enterprises. This should establish ways for Entrepreneur Cooperatives to acquire capital; guide the business between the members and their cooperative; provide the rules for reporting, accounting and auditing; and outline the norms for dissolution, communication and transparency inside the cooperative. Furthermore, it is important to **define the cooperative's status**, as some see it as a for-profit-company, others as a mutual trading organization and still others as a non-profit organization. Above all, it is important that the legislator clearly outlines the auditing, administrative and taxation requirements of Entrepreneur Cooperatives.

The state, through its national educational institutes and MSME promotion agencies, as well as chambers of commerce and business colleges, could **develop cooperative awareness**. For example, introducing the cooperative form of enterprise to business study courses at secondary and university levels, or promoting the **development of relevant cooperative management skills**. Cooperative administrators responsible for registration procedures ought to be well organized and adequately trained, so that applications do not take longer or appear more cumbersome than other competing corporate forms.

5.3 *What cooperative federations can do*

Incorporated Entrepreneur Cooperatives are frequently members of a cooperative federation. In many countries these federations are dominated by other forms of cooperatives, such as agricultural or financial cooperatives. It might not always be easy for Entrepreneur Cooperatives to gain equal hearing and/or representation within their federation, when compared to the other kinds of cooperatives. It would therefore be helpful if Entrepreneur Cooperatives had **separate bodies within federations**, in order to articulate their specific interests.

The more effective cooperative administrations are, the better they relate to cooperative federations. Chambers of commerce and industries or MSME promotion agencies can give valuable assistance to cooperative federations, by helping them **identify competitive advantages** and advertise the Entrepreneur Cooperative as an attractive corporate form wherever the resulting cost savings or heightened margins promise to outweigh the likely organizational costs.

Cooperative federations themselves can build their capacities so that eventually they can rightfully run their own training facilities or even undertake auditing and

certification functions independently from the state. Where they already maintain training facilities, they can include courses specifically aimed at Entrepreneur Cooperatives development; preferably in cooperation with training institutions from commerce and industry.

5.4 *Limits of an enabling strategy*

All these factors can contribute significantly to the development of a strong and formal Entrepreneur Cooperative movement. Where informal cooperation still remains more appealing, this could well be because all the necessary steps and procedures needed to establish and run a formal Entrepreneur Cooperative are only considered worthwhile by the members where and if an integration into modern and supra-regional market is intended.

6. **Measures to actively promote Entrepreneur Cooperatives**

An approach to the promotion of Entrepreneur Cooperatives that goes beyond creating a positive image and creating an enabling legal and policy framework should include measures based on **national or local partnerships**. Where possible, these partnerships should involve public authorities/organizations, carefully selected MSME promotion agencies, cooperative federations, cooperative unions and Business Membership Organizations, such as chambers of commerce, trade, crafts and industries, among others.

The selection of partner institutions in various sectors of the economy is something that needs a great deal of care. It is reasonable to first promote Entrepreneur Cooperatives in sectors with the highest potential for economic benefits, while also selecting partners who have shown a full appreciation of the importance for self-sustaining institutionalization of Entrepreneur Cooperatives.

Because the ultimate promotional success of Entrepreneur Cooperatives will result from sustainable and reliable local and regional Entrepreneur Cooperatives successes, it seems important that **MSME promoters, local governments and professional associations** be shown how to:

- identify and popularize Entrepreneur Cooperative potentials in their vicinity; and
- react to requests for consulting on cooperative issues.

There are good reasons to be somewhat wary of the risks associated with promotional efforts based on a promotion with loans or equipment, particularly if this assistance is given regardless of the ability of cooperatives and their members to contribute to costs. Indeed, the key factors that increase the likelihood of a shared services idea materializing into an Entrepreneur Cooperative come from cooperative ideals of working together. Therefore these ideals must form the core of any promotion strategy.

MSME promotion agencies also might be good bridging agents for public authorities; similarly, so may national cooperative federations and **cooperative movements from**

industrialized countries. If these other bodies also aim at creating self-sustaining systems, potential cooperatives could be discovered and harnessed through them. It might be possible that certain activities in training and education could be conducted jointly by a federation or MSME promotion agency and cooperative federation. But there should be a clear distinction of responsibilities with regard to trade (inputs and sales for member Entrepreneur Cooperative), production services (packaging, marketing, technical services among others) and consulting. These tasks should be strictly the business of an **Entrepreneur Cooperative Union** and the functions rendered by the promotion agency as well as the cooperative federation of the Entrepreneur Cooperative should be monitored and reported separately to the members.

Box 8: Yebo, South Africa

Created in March 2003, this cooperative union is a secondary Entrepreneur Cooperative serving its member cooperatives in eight of the nine provinces in South Africa. What is particularly interesting about Yebo is that it has brought people working in a wide number of sectors and economic activities together. It consists of people who have the same or similar needs and interests, including entrepreneurs and small businesses such as groups of bakers, street vendors, spaza shops, painters, brick makers, all types of farmers, and more.

The Yebo bakery cooperative is one of the most successful initiatives. Small entrepreneurs in almost all of the provinces of South Africa have made use of Yebo's support and advice to establish bakeries in their local communities. The cooperative enables members to buy flour and other ingredients in bulk, while also providing marketing support through provision of packaging with the logo of the cooperative i.e. branding.

Besides organizing its members, bulk purchasing and giving advice to small entrepreneurs, Yebo also offers its members services, such as:

- training and business advice;
- linking businesses;
- workshops on enterprise development;
- cooperative audit; and
- financial services including saving, insurance and housing schemes and small business loans.

The services of Yebo thus help to reduce vulnerability. Yebo's saving scheme will be the cornerstone for the establishment of a cooperative bank, which will be owned and controlled by the members.

Source: <http://www.yebocoop.co.za/> and own research

In countries where the cooperative climate is favourable for Entrepreneur Cooperatives, but lacking a suitable MSME promotion agency, a **national cooperative federation** could be supported to develop both systems – a group based MSME promotion agency and an Entrepreneur Cooperative Union. The federation may find that it can partner with chambers of commerce, trades, industries or crafts in the promotion of group based enterprises.

Any **possible promotion strategy** could include:

- the selection and training of promotion personnel, such as group consultants, to help groups to identify and prioritize their common problems and develop a joint action plan to overcome these problems. Promotion personnel could also operate as a link to other advisory agents outside the Entrepreneur Cooperative;
- consulting for federations and Entrepreneur Cooperatives in the development of basic routines for strategic planning, adequate monitoring and evaluation in Entrepreneur Cooperatives;
- public relation measures which improve the Entrepreneur Cooperative's image in the eyes of potential members and business partners, as well as policy-makers and representatives of federations; and
- efforts aimed at a certain degree of structural formalization; in their most simple version, Entrepreneur Cooperatives should at least have a code of conduct and a set of rules that establish the criteria for membership, and associated duties, rights and the purpose of cooperation. These rules should further enable Entrepreneur Cooperative members to resolve internal conflicts, govern the election of leadership, as well as guide resolutions on other relevant issues in a democratic manner. Depending on the desired degree of formality, capacities should be created to advise Entrepreneur Cooperatives on how to draw up statutes or bylaws, according to the relevant national law and any regulations enforced by the registrar or federation.

7. Conclusions

While the importance of various international efforts in regard to general cooperative policy and law is being reaffirmed, five key issues seem of particular relevance to Entrepreneur Cooperatives:

1. Concrete group-centered organizational norms can be fashioned in ways that are more flexible and effective for the organization's objectives. Modern economic policies and organizational law should not be obstructive for any organization involved in local production, services or international trade;

2. Entrepreneur Cooperatives don't need a special level of protection, nor do they require special promotion in addition to that which is available to other business networks, professional clusters or public service delivery syndicates;⁶
3. Entrepreneur Cooperatives are best served by competing promotion agencies, as well as market-driven environments that offer room for experimentation with different organizational structures, norms and learning processes;
4. International policy and legal advice efforts can help national policy and law-makers to design institutional paths conducive to additional Entrepreneur Cooperatives being established; and
5. Where MSME and informal economy promotion is to entail Entrepreneur Cooperative promotion, a national cooperative dialogue is needed to tap into the resources which already exist. Such promotion should include the fashioning of an appropriate image, education and training for promoters and Entrepreneur Cooperative leaders, access to finance and capacity building for Entrepreneur Cooperatives, as well as a modern concept that forms the basis for the role of Entrepreneur Cooperative federations and collection of statistics.

Where the promotion of the informal economy or MSME includes special promotion efforts for Entrepreneur Cooperatives, it is suggested that partnerships be forged with carefully selected authorities and Business Membership Organizations, such as chambers of commerce, trade, crafts and industries in national and local contexts. Any assistance, however, must be based on an accurate recognition of the ability of cooperatives and their members to become sustainable. A way forward could involve the drawing up of national rosters, in order to analyse the respective circumstances of Entrepreneur Cooperatives and discuss the findings with the prospective members.

The African cooperative movement and associated support institutions should explore options for working with international development MSME agencies, international cooperative bodies and cooperative movements from developed countries that have complementary objectives for sustainable development. Joint programmes should respect that different promotional tasks, such as trade (inputs and sales for member Entrepreneur Cooperatives), production services (packaging, marketing, technical services) and consulting, might need different organizational answers.

The core elements of any Entrepreneur Cooperative promotion strategy must involve the selection and training of promotion personnel, the development of basic routines for strategic planning, monitoring and evaluation of Entrepreneur Cooperatives, as well as public relation measures that facilitate a planned expansion.

⁶ In such syndicates public institutions, such as hospitals or publicly owned municipal energy suppliers, get together for buying or marketing.

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Coop^{AFRICA} Working Paper No. 2

Enterprise future lies in cooperation - Entrepreneur Cooperatives in Africa

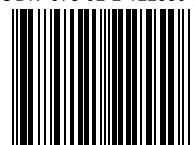
An introductory paper
Nicole Göler von Ravensburg

Entrepreneur Cooperatives are a form of organization that can help private sector businesses, professionals or public bodies to improve their effectiveness through enhancing access to goods and services that otherwise would not have been available. This working paper seeks to analyse the features and benefits of Entrepreneur Cooperatives and how they might be used in Africa. It indicates those features that would allow for replication of the model in Sub-Saharan Africa and provides a number of strategic recommendations on the promotion of Entrepreneur Cooperatives in Africa.

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ISBN 978-92-2-122550-8



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