

Cooperatives in South Africa: A Review

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Abstract

Objectives: The main objective of this paper is to explore the contribution of cooperatives in economic development of South Africa in post-independence period. It examines how the cooperatives help the members to attain the economic goals. **Methods/Statistical Analysis:** This article is based on the qualitative research approach and presented in the format of a literature review on the ways in which cooperatives began to play an important role in economic development process. **Findings:** From the literature review, it was found that, by developing and promoting cooperatives in South Africa create sound platform that is useful especially in the development of rural and semi-urban areas of the country. The role of cooperatives especially in agriculture sector will provide a momentum for the rural development. Further, big business development in South Africa and contribute towards social protection in the country. **Managerial implications and Improvements:** This article provides an in-depth discussion on cooperatives and their role in uplifting the rural and urban masses of South African in a sustainable manner. Analysis of the literature on cooperatives provides a unique business opportunity to its members those who are committed with positive energy to contribute for the development of South Africa.

Keywords: Apartheid Era, Agriculture Sector and Entrepreneurship, Cooperatives and Economic Development, Rural Development, South Africa

1. Introduction

Globally, there have been many significant improvements made in science and technology since the 21st century. Despite all these improvements, over 350 billion people in the world are still poor and vulnerable to seen and unforeseen harsh socio-economic factors. Most of these people cannot cushion themselves against most of these harsh factors as they have limited or no resources at all to sustain themselves. If only these limited resource as could be pooled together and utilised collectively, noticeable welfare changes may be observed. As an economic alternate, cooperatives are viable, strong and vibrant. With such cooperatives, there is a belief that more could be achieved that would benefit poor and vulnerable communities who operating by themselves, would not have achieved any of the outcomes achieved by the cooperatives.

Cooperatives have the potential to achieve many economic targets despite operating in a competitive global

market. According to RBCDS¹, cooperatives have the ability to increase their bargaining power when dealing with other competitive organisations, they have economies of scale, they can broaden obtaining products or services otherwise unavailable, market opportunities, they have the ability to obtain goods that are unavailable, and they are able to secure operating loans from financial institutions for the operation and improvement of the organisation.

Cooperatives have effectively controlled the economic lives of many people. In such an increasingly competitive economic world, cooperatives have provided a certain set of exclusive tool that have enabled the members to attain more economic goals. With the withdrawal of most governments from regulating the economic activities, cooperatives are being considered as valuable instruments to manage most economic activities. Such activities may include increasing savings amongst the working population, risk management for agricultural or similar

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cooperatives and community (and even nationally) interactions and creating more work opportunities.

In South Africa, cooperatives have not yet gained much popularity. They have only been thought to be only for small-scale farmers, small and developing merchants together with low-income earners in the country. This is the possible explanation why there are many cooperatives for farmers in South Africa.

There is certainly recognition in South Africa that cooperatives offer an opportunity for impoverished communities to participate more meaningfully in the economy. It is believed that cooperatives are a mechanism through which the impoverished communities can organise themselves and draw strength from the group. The dominant hindrance is the unpopularity of the mechanism of cooperatives to many South Africans, how they work and how they can contribute to economic development. It should be known that cooperatives are considered as a third force in the world and some large businesses and governments have collapsed from competing among themselves and not formulating cooperatives.

This article examines how cooperative societies can contribute to economic development. Emphasis is made on the nature as well as the design of such cooperatives, how the economy can benefit from such societies and how to properly formulate and manage these cooperative societies in South Africa. Although cooperative societies have been widely analysed in the international community, there has not been extensive and comprehensive research on the subject matter in South Africa. Hence, this study aims to fill in that gap in literature.

This article is based on a descriptive survey; data on cooperative societies was collected and analysed to identify the purpose of cooperative societies and how they support economic growth. The rest of the article has the following structure: Section 2 gives a background on cooperative societies. This section is the theoretical framework of the article. Section 3 analyses how cooperatives are structured and implemented to make positive contribution to economic development. Section 4 highlights and discusses the key challenges of cooperatives in South Africa and Section 5 provides summary and conclusions of the paper.

2. Background of Cooperatives

The International Cooperative Alliance (ICA)² defined a cooperative as “an association that is independent and

people come together voluntarily hoping to conjoint economic, social, and cultural needs and ambitions by such an enterprise that is jointly owned and democratically controlled”. UWCC³ explains a cooperative as “a business that is voluntarily controlled and owned by its member patrons”. These patrons also manage the operations of the cooperative society to their benefit on a non-profit or cost basis. Another explanation of a cooperative is by Laidlaw⁴ who explained that a cooperative as “a business enterprise that is aimed at complete identity of the component factors of ownership, control and use of service, which distinguishes it from other businesses”.

The earliest cooperative that could be recorded dates back to 1750. This cooperative was established in France, the Franche-Comté community, among local cheese producers in this community. Apart from this cooperative, there appears to be no consistency with regards to the exact origin of cooperative societies although there are some arguments that it started Europe⁵.

As time progressed, cooperatives were established in other countries like Greece, United Kingdom and the United States. With the development of more cooperatives, cooperative principles emerged. The Equitable Pioneers of Rochdale Society (EPRS) was established in 1844. This cooperative constituted a group of twenty-eight members of the community who were unemployed and thought of combining their limited resources for the good of the group. The EPRS was the first cooperative was formed under the cooperative principles and as such; it was considered the first modern cooperative^{6,7}.

Between 1850 and 1855, the successful EPRS cooperative business established small businesses such as a flourmill, a textile plant and a shoe factory. These businesses expanded rapidly throughout the country and they were very successful. Over 400 British cooperative societies were formulated by 1863 that were modelled after the Rochdale Society. The cooperatives became popular worldwide as they grew steadily into a model for similar cooperatives worldwide. Some of the countries noted by Abell⁷, that adopted a similar movement included France, Belgium, Germany, Austria, Denmark, Italy, Finland, Sweden and Norway.

In 1895, the ICA was established as a non-governmental organization to act as an umbrella organisation that would facilitate all friendly and economic transactions and interactions among cooperative societies, nationally and internationally. Its main objective was to promote and fortify autonomous cooperative societies

globally. The ICA also targets to enhance the information exchange among cooperative societies. Such exchange of information can be done through international conferences; directories, research and reports, and two publications released quarterly, "ICA News and the Review of International Co-operation". To meet this main objective, the ICA organizes sectorial, regional and international meetings.

Ever since the ICA was formed, it has provided underlying cooperative principles that have been generally accepted by co-operators throughout the world. These co-operators advocated for more cooperative societies and more people decided to form them. In 1895, there were 194 members for the founding congress and this number has increased exponentially to more than 800 million members from different organisations such as agriculture, energy, fisheries and tourism, among others^{8,9}.

The following section describes how cooperatives were established in South Africa during both pre and post the Apartheid periods as it pertains to the agricultural sector. These periods are distinct from one another in terms of the support provided to cooperatives and explain, to a large extent, why cooperatives were so successful during Apartheid and why they are struggling to survive in post-Apartheid South Africa.

2.1 South African Historical Perspective on Cooperatives- The Apartheid Era

The Apartheid regime actively supported the development of cooperatives in the agricultural sector to develop an economically successful class of "white commercial farmers who operated with disregard to the black farmers". The Land Acts of 1913 and 1936, according to Piesse et al.¹⁰, was implemented (in conjunction with other regulations) by government in a way that would benefit (white) commercial farmers and not the black population. The implemented laws drove all the black people to marginalised homelands and away from designated white areas.

In addition to the legislative laws implemented, other measures were also issued to ensure that cooperatives white farmers develop successfully and thrive. For instance, these cooperatives received subsidised loans from the Land Bank (fully known as the Land and Agricultural Bank) that was established in 1912 as well as receiving input supplies and markets for the outputs from the Marketing Act of 1937 and the Cooperatives Societies

Acts of 1922 and 1939. With these conditions in place, agriculture under cooperatives of white farmers thrived. Traditionally, there have been three main areas of operations for cooperatives: 1. Buying and selling equipment and inputs for agriculture; 2. Buying and selling commodities for agriculture and 3. Delivering goods¹⁰.

Cooperatives for white farmers also received loans at low costs from the Land Bank. Also, assistance was provided to farmers who might have encountered any disasters usually as debt consolidation. These agricultural cooperatives then later acted as financial intermediaries. Furthermore, the Marketing Act 59 of 1968 allowed various policy instruments to be used to market agricultural products such as export monopolies, pool schemes, and single-channel schemes. All these policy instruments were established under the Act. Cooperatives had thus, regional monopoly power as they represented the white farmers to the marketing boards¹⁰.

However, the considerable demerit the price supports was that long-run subsidies to commercial farmers could continue forever. As such, a series of reforms began to take place in the 1980s. These reforms were also caused by political changes. According to Ortmann and King¹¹, there was an abolishment of subsidies in the 1990s together with tax reductions on agricultural marketing and finance. Agricultural cooperatives were reduced and they became less dependent on government support.

The Department of Trade and Industry (DTI), there was a transformation towards agricultural cooperatives that were owned by blacks during the 1970s and 1980s. There was also the introduction of the registration of cooperatives (even the black-owned cooperatives) and this initiative was promoted by the Cooperatives Act passed in 1981¹². This support for black-owned agricultural cooperatives was launched to provide assistance less developed black cooperatives in the 'homelands'. However, this economic grand plans for the homelands seemed unreasonable and unfair towards their cooperatives and as such, these cooperatives remained weak and underdeveloped leading to the collapse of other cooperatives.

2.2 Cooperatives during the Post-Apartheid Era

In South Africa, the Cooperative Act of 2005 underlined that all cooperative societies must be self-sustaining and self-reliant. This notion of self-sustenance and self-

reliance was brought by the political change as well the historic development of cooperatives in South Africa. The Cooperative Act¹³ also stipulated how cooperatives could contribute towards income generation particularly for the black population. This could provide a tool to alleviate poverty amongst the blacks in South Africa.

The Cooperatives Act of 2005 was the first initiative towards the development and creation of legal environment in support of black cooperatives. According to¹¹ the DTI came up with a policy to develop cooperatives (DTI, 2004)²¹. The policy focuses on emerging cooperatives although it also considers and supports cooperatives formulated under the previous (apartheid) government. Furthermore, to enhance the development of cooperatives, the DTI established a Cooperatives Development Unit which was in charge of reviewing policies and strategies, promoting the cooperative concept and coordinating donor activities and government institutions.

The government of South Africa is committed to providing support to the growth of cooperatives in South Africa, especially amongst previously disadvantaged communities. The government has put in place the Cooperatives Advisory Board, which acts as a representative of all cooperatives and gives advice to Minister of Trade and Industry on all matters that relate to cooperatives in South Africa¹³. However, it was clearly stipulated that only genuine cooperatives that are registered under the ICA principles will receive any support measures and such assurance has to be provided by any cooperative organisation seeking assistance¹⁴.

According to¹⁵ explains that cooperatives in the agricultural sector are considerably less intellectually and administratively capable to perform at their best level since the move of the Registrar of Cooperatives to the DTI. This move to the DTI has resulted in a centralised approach to all issues even those pertaining to cooperatives. The author further explains that such approach (together with the new Cooperative Act)¹³ enables an easier process to formulate and run a cooperative.

Quite a number of large cooperatives have transformed to IOFs in in South Africa. There are still however, argument around the communities that are still based on agriculture, whether such a community operates best under cooperatives or IOFs¹⁶. A main area of concern remains revolves around the interests of farmers; whether such interests are best recognised by cooperatives with its own members or IOF managed by shareholders. Some of the advantages expressed in in favour of IOFs include

having easier accessibility to various sources of capital; improved management; having an entrepreneurial flair and the orientation of combined interests (between customers and shareholders). Cooperatives received a lower return on capital and as such, they do not provide services with better quality than IOFs. Furthermore, cooperative members are always facing the risk of conflict between members and shareholders; good service might be provided but there always lower return on investment and poor capital growth when compared to the return from IOFs¹⁶.

There are numerous statistics which we will examine later, which suggests that the cooperative regime for emerging cooperatives have been a failure under post-Apartheid South Africa. Satgar¹⁷ states that there are two phases that characterise the post-Apartheid cooperative movement in South Africa. In 1995, the initial groundwork was laid. This marked the beginning of the first phase where the South African National Association was formed and it comprised 30 cooperatives and some cooperative associations. A provisional committee was set up and there was an encouragement to all provinces to establish cooperative forums. By 1997, more sectorial bodies such as the Agricultural Cooperative Business Chamber (ACB), the South African Cooperative Network (SACNET), the National Community Cooperative Union (NCCU) and the Savings and Credit Cooperative League (SACCOL) came together and formed the “National Cooperative of Association of South Africa (NCASA)”.

The ICA, together with the new government, supported the formation of cooperative associations. The Canadian Cooperative Association provided significant financial support to these cooperative associations together with the support from CIDA. However, the changing of organisations in a top-down way resulted in the failure to properly establish provincial and sectorial structures. With such tensions and poor provincial and sectorial structures, many of the original sectorial cooperatives left, with the exception of SACCOL. Also, with such tensions, the Canadian Cooperative Association withdrew its funding towards cooperatives. There were also other issues that were related to the Canadian Cooperative Association funding which may include a stipulation, in a top down way, some of the operations of the organisations formed.

The second phase was mainly concerned with the restructure of all cooperative organisations (including the provincial and sectorial organisations) with the assistance

of the South African government. The national, provincial and sectorial leaderships were brought together and restructured and the board of cooperatives was broadened. The newly formed organisations retained the strong emphasis on building provincial cooperative associations were most of them were divided and under-resourced.

By the end of the last phase, the national restructured organisation attempted and failed to define the roles of cooperatives at a national voice in the policy environment. Fatal mistakes were made which led to the collapse of the National Cooperative Association. The failure of NCASA is not a collapse of the entire cooperative system as a whole, although it will take some time to rebuild and restructure the organisation¹⁷. It is against this political framework that we will examine the management of cooperatives in South Africa. The following section devoted to provide a review of some pertinent literature.

3. Literature Review

3.1 Definition of Cooperative

There are quite a number of definitions for cooperatives. According to¹¹, “a cooperative is 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”. To be considered voluntary and open membership, Ortmann and King¹¹ recognise seven international principles for cooperatives. These principles are, “democratic member control; autonomy and independence; member economic participation; provision of education, cooperation among cooperatives; training and information; and concern for the community which generally acts as a guiding framework for cooperatives”¹¹.

DTI explains that “the National Cooperative Act, No 14 of 2005 and the DTI Cooperative Enterprise Development Strategy, 2006 govern cooperatives primarily”¹⁸.

Like any other business, cooperatives must also be well managed, be efficient and effective in any market, and financially viable. There are however, other important features that differentiate between cooperatives and other businesses. Laidlaw identifies⁴ these features with regards to groups of people responsible for formulating and enforcing these features for cooperatives. These include the owners of the cooperatives, the controllers of the cooperatives and the users of the cooperatives.

Shareholders and investors are the owners, the effective decision makers are the controllers and the customers are the users of cooperatives.

According to¹⁹, the National Cooperative Act¹³ provides a distinction on how the primary, secondary and tertiary cooperative differs from each other. A primary cooperative is defined as a cooperative established by at least five natural persons with the objective of developing the community and creating employment opportunities for its members. A secondary cooperative comprises of at least two primary cooperatives and it may also include juristic persons. Sectorial services are to be provided by the secondary cooperative to the members. A tertiary cooperative) is formulated by secondary cooperatives that aim to engage with state organs, private sector and stakeholders to represent it members¹⁹. The tertiary cooperative has more responsibilities when compared to the primary and the secondary cooperatives.

According to¹⁷ explains that cooperatives can be named under different labels in South Africa. These different labels may include projects, mutual societies, credit unions, self-help groups, village banks, and an association. What they do have in common though is shared ownership and democratic decision making.

All cooperatives have to be registered according to the principles of the Cooperatives Act¹³. No cooperative can exist informally. Cooperatives should adhere to all legal requirements, values and principles of cooperatives in all its operations. Furthermore, a cooperative cannot be used as a ‘front’ for a few individual businesspersons or an extension for government bureaucracy¹⁷. Examples of different types of cooperates include worker cooperatives, agricultural, customer and marketing, social, funeral service cooperatives, among others¹⁹.

3.2 Cooperative Structure

All cooperatives should consist of at least five persons. It should comprise of voluntary and open membership. Voluntary membership refers to all members choosing freely to join the cooperative without any coercion. Also, open membership gives room for anyone willing to accept responsibilities of the cooperative and is able to provide their services as well. As such, all forms of discrimination are not allowed.

Furthermore, any cooperative should have democratic member control which means that all members who actively participate in the cooperative should be able to contribute towards decision making either proportion-

ally linked to the cooperative business or on a one vote per person basis. In addition, members of the cooperative decides on what economic activities the cooperative engage in and all economic needs of the members must be met by the cooperative. This is regarded as member economic participation.

Cooperatives are autonomy and independence. They are controlled by their members and these members are also the owners. An agreement entered into by the cooperative must always ensure democratic control by the cooperative members. Although independent, cooperatives are strengthened by working together with other cooperative organisations either internationally, nationally, provincially or locally.

Finances for cooperatives are raised from membership fees, shares and members' funds (loans). Shares and loans are paid a limited return although they have to be paid according to the market rates. Also 5% of every surplus should be reserved for future investment and thus should not be distributed amongst members.

All cooperatives should be in a position to provide education and, information to members. Such training should also be provided to managers, elected representatives and employees to ensure that they are able to provide maximum contribution to the development of the cooperative.

3.3 International and National Perspectives

In South Africa, there are three main assumptions that govern the formation of cooperatives. The first assumption concerns the role for the state. This assumption states that the state may contribute towards the creation of cooperatives and such assistance must always ensure that the cooperative is autonomous and self-sustaining. Although the state may contribute towards such establishment, the Cooperatives Development Policy and the Cooperative Act clearly stipulates that the state should not intrude on the ownership and control of these institutions. The policy framework and legislation also makes an effort to create the cooperative sector with the supported of panoply of institutions that may support (either by mandates, resources or policy) and address the structural imbalances for cooperatives. In short, legal reforms and policies for cooperatives are also cautious of systemic hindrances that may potentially hinder the development of cooperatives in post-apartheid South Africa. As stated earlier, although cooperatives might receive support from the state, they should they should always remain autonomous and self-sustained¹¹ (P7).

The second assumption revolves around the maintenance of authenticity of people centered cooperatives in South Africa. The new Cooperatives Act together with the Cooperatives Development Policy implemented by the South African government aim at retaining such authenticity in accordance with the international cooperative movement. As such, cooperatives cannot be "ideologised" and limited only to the formation of capitalism in South Africa. Cooperatives should focus first on meeting human needs and not be regarded as means to foster capital accumulation. This assumption has already been violated in most instances with the many government officials viewing cooperatives as organisations that should confine profit maximization and the discipline of competition (P8)¹².

The third assumption of cooperatives states that the fact that cooperatives may receive support from the state in establishing themselves does not guarantee the development of genuine, independent and self-sustaining cooperatives. The new South African government system aims to create a dynamic cooperative movement. The set legislation and policies strive to ensure that the different cooperatives can develop and organise themselves from a primary level until they even become national apex body. It is necessary to have a cooperative movement is capable of representing the voices of its members fully in any development processes in order for the state or the market not to distort the identity of such cooperatives. Fundamental aspects to achieving such genuine, independent and self-sustaining cooperatives are the symbolic and material capacities of the national cooperative movement. Hence, the post-apartheid South Africa government aims to empowerment these cooperatives. However, it has proved to be quite challenging to building up a cooperative movement although there appears to be a vibrant civil society towards them. Such challenges are presented in the Section 5 (p8)¹².

3.4 Institutional perspectives

To fully understand cooperatives and to formulate a strong cooperative movement, it is imperative to understand the critical factors that impact success as well as factors that may weaken them. This section provides lessons that have been observed from cooperatives previously established.

A functioning cooperative should have trust amongst members because all cooperatives are based on trust and social cohesion. Also, a lack of shared vision, strong social links and financial trust weakens the relationships

amongst members. In environments where management and tough choices are to be made (for primary productive and service cooperatives), trust amongst members is really fundamental.

Additionally, tension may arise within cooperatives due to the complexity of decision making in a democratic systems. Management of cooperatives in a democratic system (like South Africa) usually lack clarity or consensus when it comes to the scope of decision-making authority. They sometimes cooperative Boards overstep their mandate and fail to provide information to all members. Also, it may be possible that the leading Boards lack corporate governance skills and they find it complex to management even the simplest democratic process.

A complex range of skills are required to properly management an enterprise. Managing joint resources appears to be complex as more transparency is required by the different members of the cooperatives who would have pooled their resources together. The management process becomes more challenging when the organisation is working with people who do not have any work or managerial experience. Such skills (especially in financial management) are required since all members need to participate in the decision making process and failure to recognise such need may cause tension in a cooperative.

In addition to managerial skills, technical skills also required for any cooperative. With initially having many members of the cooperative being unemployed, no prior business experience and low skills levels, the cooperative may need to hire in (or buy) short-term technical skills to avoid the chances of collapse. Such cooperatives may include agricultural, productive and housing cooperatives which require specialist technical knowledge. Such technical skills may not be available within the cooperative itself and the cooperative should train its members or employ people with the necessary skill.

Furthermore, cooperatives should always have the interests of all members above any other individual interests. Some cooperatives have tried to have greed, self-interests, free riders and opportunism which have only led to their demise. As such, clear systems and precise policies designed are required to safe guard the collective interests above individual interests. Also, there is no need for champions in any cooperative and as such, the vision and mission of the cooperative should be practiced cautiously. In addition, the leadership (the Board of Directors) should always maintain high ethical standards and not be self-ambitious or corrupt in any operations. A

failure to maintain these standards may lead to the demise of the cooperative.

Self-sufficiency should be a culture for all cooperatives. Although different types of cooperatives may require a certain level of assistance from the government during certain stages of their development, the cooperatives should consider self-sufficiency in the long run. For instance, although it may be agreed that asocial housing cooperative may require high levels of subsidy during the construction stages, post construction should aim to be self-sufficient.

Cooperatives should never be considered as source of money and also lack real commitment to self-sufficiency. Such perverse incentives should be avoided. Start-up funding should carefully be managed and the screening process carefully reviewed to avoid any abuse from opportunists²⁴. The cooperative Incentive Grant is an example that should be carefully monitored to avoid any abuse by opportunists.

All cooperatives must be well diversified with members that have diversified skills, income and backgrounds to enhance the sharing of greater knowledge and resources. The cooperatives should also have a broad network of support and administrative networks as they are more likely to enhance their successful.

It is imperative for any cooperative society to clearly state the number of membership numbers it requires. Some cooperatives have had issues of an oversupply of labour when they only had a few opportunities for the relative markets they were targeting. Such cases have occurred in the primary cooperative (work or agricultural cooperatives). It is possible that this mismatch emerges from social goals or conditions provided by donors and external agencies. On the same issue of clarity, the social and economic rationale of the cooperative must also be clear. It is however quite complex and challenging viably run a cooperative but nonetheless, its economic and social rationale must be clear²⁵. In the same vein, a clear business plan for the cooperative should be presented and evaluated for economic viability. The plan should clearly indicate the required inputs, goods or services provided the production process and the targeted market. A cooperative's business plan that fails to clearly present these aspects may not be approved.

Some cooperatives fail to access appropriate support to smoothen the function of the cooperative. Some barely survive with limited access (or none at all) to skills, services, supplies, finance, information, credit and markets. Most of these cooperatives require multi-dimensional

assistance to develop over time. Such incentives could be based on compliance with cooperatives principles or terms of turnover and profits (p12)¹⁹.

4. Cooperatives in South Africa

There are an estimated 43 062 cooperatives located in South Africa. Figure 1 presents the geographical distribution of these cooperatives (as of 31 March 2009). From Figure 1 below, KZN, Gauteng, Eastern Cape and Limpopo provinces have more registered cooperatives (with 26%, 20%, 16% and 12% respectively) when compared to other provinces. Other remaining provinces had a few cooperatives registered in these provinces (with Mpumalanga having the most of 8% cooperatives and Northern Cape the least, 2%) during 2009. It is possible that such distribution could be attributed to different support measures available in each province as well as the availability of the opportunity to create cooperatives in the different provinces, amongst other reasons. Cooperatives in KZN appear to be outstanding in terms of best practice and new cooperative entrants within the country. Possible lessons of such success could be acquired and adopted in other provinces throughout the country (p35)¹².

Whilst there has been a high rate of cooperative registrations, however their survival rates are quite disconcerting. It is estimated that there are high rates of mortality among cooperatives. Survival rates are extremely low.

There is high need for interventions within the sectors of the cooperatives. Empirical evidence indicates a high mortality rates within sectors which appears to be mostly linked to poor networks among cooperatives. Furthermore, these support systems have failed to adequately cover the entire value chain of some cooperatives. There are also disorganised and poor cooperative movements that have caused the demise of many cooperatives. From Table 1 above, the trading sector (98,2%), multipurpose and transport, (94%) and services (91,5%) are the sectors with the highest mortality rate (pp40-41)¹².

5. Challenges for Cooperatives

5.1 Challenges of Cooperative Societies in South Africa

There appears to be a flux in the state of cooperatives in the world nowadays. According to²⁰, “cooperatives face

either face credibility crisis capital crisis, ideology crisis, and/or management crisis globally”.

Cooperatives in South Africa have continued to emerge even though the National Cooperative Association has collapsed. These new cooperatives (together with the other existing ones) face the setback of having to establish themselves and building onwards. A self-establishment is a crucial part of any cooperative (whether primary, secondary or sectorial) and such cooperatives require appreciation as they are rooted in collective and self-empowerment. Such tradition of learning from experience deserves to be passed on to other generations.

The seven international principles of cooperatives capture the core of ethical practice that defines the identity of a cooperative. These principles of cooperatives must always be emphasised concretely in all activities and struggles of the cooperative. For instance, ‘democratic member control’ (being the second principle of ICA) means leadership, all participants of the cooperatives (both women and men), should account for all the decisions they take to the members of a cooperative. Therefore, accountability should be entrenched within the leadership of the cooperative movement. Some cooperatives have failed to comply with this principle.

The success of establishing of any cooperatives is also anchored on financial stability and such finance should also come from within the cooperative. A failure by cooperative members to pay their membership fee crumbles the society to its knees and it will head to an inevitable collapse. A solid financial foundation ensures the survival and independence of the cooperative.

Intra-governmental coordination is one of the changes that face the development of cooperatives in South Africa. Although there are various government linked institutions that are aimed to support cooperative development, the roles of these institutions and how they contribute should be institutionalised. The national Cooperative Advisory Board is provided for by the new Cooperatives Act¹³ to establish policy recommendations and other strategic and important issues that are related to the development of cooperatives. As such, this structure should have representatives from all governmental linked institutions that promote the development of cooperatives to increase their awareness of the principles of cooperatives and align them with their own objectives.

It always seems that there are two categories, white cooperatives and black cooperatives. It is of significant importance for the government to eliminate the notion of any racial divisions and different support systems to

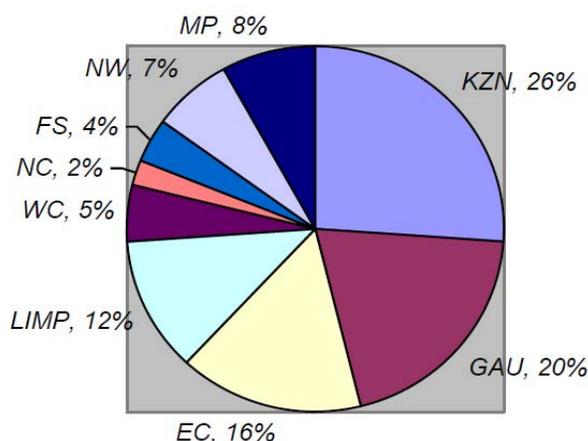


Figure 1. Overall provincial picture of cooperatives.

Source: CIPC Register 1922 – 2011.

Table 1. Sector analysis of cooperatives in South Africa

Type of Co-ops	CIPC 2009 Data	the dti Baseline Study	Survival Rate(%)	No. of Dead Co-operatives	Mortality Rate (%)
Food and Agriculture	6 086	671	11%	5 415	89%
Services	4 209	357	8,5%	3 852	91,5%
Textiles	1 247	272	22%	975	78%
Multipurpose	3 160	187	6%	2 973	94%
Construction	1 280	202	16%	1 078	84%
Manufacturing	1 093	137	12,5%	956	87,5%
Arts and crafts	340	103	30%	237	70%
Social	311	90	29%	221	71%
Other	328	89	27%	239	73%
Home Industry (Baking)	334	83	25%	251	75%
Transport	856	50	6%	806	94%
Trading	2 708	47	1,8%	2 661	98,2%
Financial/Credit Services	233	36	15%	197	85%
Housing	78	25	32%	53	68%
Burial	65	19	29%	46	71%
Mining	78	12	15%	66	85%
Consumer	128	11	9%	117	91%
Recycling and Waste Management	85	7	8%	78	92%

Source: CIPC Register: 1922 – 2009 and Baseline Study, DTI.

different racial cooperatives²³. Most of the supporting organisations should remove such barrier and foster cooperation between black and white cooperatives.

There are weak links between the historically white cooperatives and developing black cooperatives²². The BBEE has failed in its approach to foster cooperation and solidarity between these two societies. Some of its approaches actually reintroduce the racial divisions. Efforts are however, being made to eliminate these racial divisions by ensuring that all decisions are based on the cooperative principles and such principles are to be encouraged. In short, all approaches by the BBEE should not undermine cooperatives that are developed in post-apartheid South Africa (p.6)¹⁷.

Another challenge for cooperatives is the issue of tax reforms amongst cooperatives. Prior to 1970, cooperatives in agricultural, trading and farming had tax benefits to stimulate their growth. Such benefits incentivise capital formation and improved benefits to members. After 1977, such benefits ceased to exist²². Cooperatives were taxed at the company rate whilst only a few agricultural cooperatives obtained a concession through the Income Tax Act. New tax dispensation for tax exemptions, prohibition and limits for cooperatives has been put in place in South Africa to protect both the developing as well as the established cooperatives²⁶. Such tax dispensations are for dealing with pressures that cooperatives face in an open economy.

The measurement of the social and economic impact of cooperatives is also another challenge. As statistics for cooperatives in South Africa does not measure the impact of the societies, the Registrar of Cooperatives produces a bi-annual "State of the Cooperative Sector Report" which explains the performance of cooperatives²². This report contains information on surpluses, turnover, assets, growth trends, membership densities and the contribution of cooperatives to employment creation. As 'concern for the community' is one of the ICA principles, it is fundamental if the report could include cooperatives' community development in its report.

The development for new markets is another difficult challenge for cooperative development in post-apartheid South Africa. Community demand markets have acted as a major market for cooperative development in South Africa. This market, however, has failed to sustain all the products of the developing cooperatives and hence, other channels of operations are required to promote these products (pp 20-21)¹⁷.

DTI²¹ also identified other major challenges that face cooperative development. These challenges include wage solidarity, competition and expansion, cultural transformation, programmes to increase productivity and participation and centralization and reorganization. As such, a cooperative should be a business organization that has social movement in order to maintain their special character. These attributes makes cooperatives difficult to manage as it is a business enterprise with a human face. Imitating other business to increase efficiency and pursuing a social purpose will make cooperatives different⁴.

The provision of educating and training to all members of the cooperatives (officers and the general too) possess to be a challenge to many developing cooperatives. Some members require training from the start to finish whilst other only require to be retrained. A cooperative with a weak level of education amongst its members loses its strength as a cooperative. Skills development and education is vital for any cooperative. Not considering the officers, directors, members of staff, all members (if educated) are easier to lead although difficult to drive. They might also be impossible to enslave but they are easy to govern.

Cooperatives also face the challenge of deciding the type of business most appropriate for its society. These cooperatives are always faced with the question of deciding the type of business activity that is suited with either public, private or the cooperative sector.

Adaption is another challenge for cooperatives. Total independence and self-sufficiency is not easily achieved by a developing cooperative. There is high dependence and interdependence with other support units, mainly State provided support systems. Correspondingly, public enterprises and the State also depend largely on private enterprise, or on cooperatives. Thus, cooperatives should be considered as a part of any economy not an exclusive system. They operate in conjunction with other businesses. Cooperatives should then adapt to the complex environment.

Some sectors of a cooperative have failed to work together closely which has led to its collapse. Some cooperatives lack strict discipline within the society due to their voluntary and democratic nature. Often, the management team of the cooperatives are reluctant to act accordingly to any action contrary to the rules of the organisation. Such actions are detrimental to the cooperative. This internal handicap has weakened the cooperative society.

When rebuilding the cooperative movement, it is clear that the sectorial bodies in all provinces should be the

backbone of the cooperative movement in South Africa. Taimni²⁰ suggested that cooperatives should fully utilise all resources and maximize productivity at all times; put more emphasis on internal capital formation and accumulation; ensure highest efficiency; better design the structures by enhancing the management capabilities and competencies; progress and sustain integrated vertical structures; take value-added operations to advance socio-economic of members and out more emphasis on honesty, caring openness and concern for community and environments.

To enhance the success of cooperatives in South Africa, a balance should be maintained between national and international levels, between social and economic purposes and maintain a favourable public image. Once this is completed, it is hoped that cooperatives would increase efficiency and enhance their development in a developing community.

6. Summary and Conclusion

A cooperative society is used for mutual benefit by all members. This unique form of business, although it will benefit all members to it, requires considerable commitment, energy, time and technical resources to properly establish. For any successful operation of the cooperative, there should be a recognised mutual need. This recognition is fundamental for the cooperative. The business must be developed by the potential members by coming up with new ideas and business plans. These members must also nominate knowledgeable directors who will employ a competent manager. Furthermore, such members must be to providing finance to the cooperative business.

To increase efficiency and maximise their effectiveness, cooperatives must be a separate sector although it will be part of the national economy of any country. Cooperatives are a combination of private and public sector enterprises. As such, they are an economic sector in their own right and they should not be limited by either laws or regulations of the public or the private sector.

Cooperatives must also contribute to reducing poverty and unemployment in South Africa by acting as a *third force*. The cooperative will be a countervailing and alternative power support Big Business development in South Africa and contribute towards social protection in the country. In this regard, cooperatives are viewed as both an economic enterprise and social an organization.

As an economic and social enterprise, the cooperative must contribute significantly towards solving some of the human massive problems. With a mixed economy, the cooperative's contribution is substantial.

A well-developed cooperative with legislative support, delivery institutions and support programmes develop rapidly in these environments and aid significant and positive contributions to employment creation, economic development, and human resource development and economic ownership by local communities. Examples of international countries with evidence of such successful cooperatives include Italy, Kenya, Canada, India, Spain and Bangladesh.

The instruments of support (such as the legislative support) may contribute towards the cooperatives' success based on the Western model. These models date to 1904, when cooperatives were established in that country. The Cooperative Societies Act, introduced in 1904, enabled socio-economic revolutions in mostly underdeveloped rural areas. These reforms were noticed mainly amongst subsistence farmers when these farmers were disadvantaged. In 1912, there was legislative support to assist the development of cooperatives so that they would contribute in developing economies and alleviate harsh economic circumstances in the country. The Multi-State Cooperatives Societies Act of 2002 is the new act which oversees the movement of cooperatives (p.25)¹².

The South African Government should put in place legislative support, policy support and institutional framework that provide strong and vibrant measures to develop cooperatives. These measures should come as a support to the disadvantaged groups of people (either through financial support or the creation of employment opportunities) and to also promote the formalization of the informal economy. The main contributing factor that the Government can also do for cooperatives on top of providing financial support for primary establishment is to increase human knowledge and skills on how to efficiently manage the operations of a cooperative.

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