

# Improving the Contribution of Cooperatives as Vehicles for Local Economic Development in South Africa

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**Abstract:** There has been a growing realization over the years of the importance of cooperatives as vital instruments for socio-economic development across the globe. The article seeks to argue that the success of cooperatives in contributing to local economic development (LED) in South Africa is undermined by the lack of an active cooperative movement and faulty state support for cooperatives. Through a literature review, the LED contribution of cooperatives by way of training, provision of services, social cohesion, and infrastructure development is analyzed. Subsequently, there is a discussion of the challenges faced by cooperatives in the country such as the high attrition rate, leadership and management challenges, interference by government officials, and a lack of stability. The article endeavors to bring to light some of the possible solutions to the current challenges, among which is the need for establishing training institutions on cooperatives, the creation of an enabling environment for a strong cooperative movement to thrive, and provision of adequate funding. The article further underlines the need for a research and evaluation mechanism that will monitor the performance of cooperatives and provide necessary support.

## Introduction

Cooperatives are arguably one of the most common approaches used to improve livelihoods across the globe. Birchall (2004) asserts that the cooperative movement, with millions of members the world over, can be a key partner to reach the Millennium Development Goals (MDGs). In the face of growing unemployment and underemployment in South Africa, the cooperative model provides an alternative approach to dealing with socio-economic challenges affecting the country and of course many others in Africa and beyond. Research on cooperatives indicates that the foundation of successful cooperatives has been self-determination, self-responsibility and collective action, rather than government intervention and mobilization through incentives.<sup>1</sup> This article advances two main arguments. Firstly, it underlines the socio-economic potential of cooperatives in South Africa and argues that the government's current interventionist support model for cooperatives hampers their potential. The article seeks to unravel the importance of cooperatives and their potential in the pursuit of Local Economic Development (LED) in South Africa, which remains untapped due to inherent challenges facing cooperatives. Secondly, the article seeks to point out that the cooperatives' contribution to LED has been undermined by the fault-lines on which cooperatives are formed in South Africa and the weak cooperative movement. Cooperative forms of production characterize African communities.<sup>2</sup> Because these socio-economic arrangements are not alien to South Africa, they have a potential to boost LED. Although the

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organizational formations may have evolved over time, cooperatives remain a business model with which people can easily identify.

As cooperatives find global attention, evidenced by the declaration by the United Nations of 2012 as an International Year of Cooperatives, the article endeavors to evaluate their place in the pursuit of LED in South Africa. In doing so, the article starts by discussing the theory and history of cooperatives and their role in South African development efforts. The place of cooperatives in LED is discussed, drawing linkages and articulating opportunities and challenges. The article examines some of the success stories in the world, drawing lessons for the South African case. Importantly, the article moves on to discuss some measures that could see improvement in cooperatives' contribution to the country's socio-economic development.

### **Methodology**

The article employs a qualitative research method. Firstly, the linkage between LED and cooperatives is discussed using the International Cooperative Alliance's (2012) conceptualization of cooperatives and Rodriguez-Pose and Tijmstra's (2005) key features of LED. The two form the theoretical anchor to the understanding of the two concepts. While there is a paucity of scholarly work that links them together, by using the two perspectives the article attempts to establish the bond between cooperatives and LED. The arguments presented are drawn from the critical analysis of existing data. There is also a close scrutiny of secondary data from scholarly literature, policy documents, government reports, and internet sources to build a sound historical background of cooperatives in general and specifically for South Africa. Deriving from this source of data the contribution of cooperatives to LED through job creation and provision of services is evaluated. The socio-economic and political conditions that influenced the rise of cooperative business and the role this model has played are built from the available literature.

Primary data sources, including the Department of Trade and Industry's records, official speeches, cooperative records, and conference papers, are also analyzed to determine the cooperatives' role in LED and the factors curtailing the full potential of cooperatives. Statistical data from both government and cooperative movement are examined to give a balanced evaluation of the importance of cooperatives in the pursuit of LED. Some case studies are briefly highlighted to substantiate the paper's arguments. The analysis is presented in thematic subheadings covering the types of cooperatives, their contribution, the different challenges that hamper their effective LED contribution, and, finally, a discussion of the possible interventions by the cooperatives members, the government and other interested parties.

### **The Theory and History of Cooperatives**

A cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic needs and aspirations through a jointly owned and democratically controlled enterprise.<sup>3</sup> While there is no agreement on the exact origin of cooperatives, they can be traced to 1750 in Europe, with France's cheese producing cooperatives in the community of Franche-Comte being some of the early-recorded examples.<sup>4</sup> Cooperatives became formalized in nineteenth century Europe against the backdrop of the industrial revolution and related significant social change, and these were viewed as social and economic alternatives to the impacts of an emergent industrial revolution.<sup>5</sup>

The history of cooperatives across the globe is indicative of the centrality of active citizens in the face of socio-economic crisis. While some cooperatives emerged in the colonial period these were used as part of consolidating colonial rule and as such brought about mixed results and outcomes. According to the Overseas Cooperative Development Council (OCDC), the cooperative model transferred to developing countries was used as a means to organize farmers to provide products to the colonial power and were controlled by governments.<sup>6</sup> This legacy of government-controlled cooperatives became the faulty foundation, which has stifled the cooperative work well after the colonial and apartheid periods. Birchall (2004) observes that the past record of the cooperatives set up and controlled by government, which miserably failed to lead to any economic and social development, are not part of the legacy of cooperatives as these were not true cooperatives. Chibanda, Ortmann, and Lyne's 2009 case study of ten cooperatives in three KwaZulu-Natal districts illustrate the challenge of dependency on government. In the ten cases of mainly agro-based cooperatives, nine of them had received capital from the government to start up their operations. While government support is critical, the ability to bring together members' resources and build from there helps cooperatives to own their development and grow with their business. In one of the ten cooperatives the provincial department of agriculture gave the cooperative members fifty cows of the Nguni breed and also assisted them with stock-feed and to determine when they would be ready for sale. An analysis of the study indicates that one of the main challenges for the beef cooperative was the operating capital as the respondents alluded to the fact that the government set the time at which it would be appropriate to sell the cows had not arrived.<sup>7</sup> While the expert advice and capital assistance is very welcome for cooperative development, at times it cripples initiative and self determination, which are critical for sustenance of cooperative business.

It can be argued that the rise of global markets and fair trade response, democratization and the resurgence of civil society, and the demise of socialism have all led to a cooperative renaissance in developing and transitional economies.<sup>8</sup> The African continent has seen a revival of cooperatives in the post-liberalization era after a period of decline brought by structural adjustment programs.<sup>9</sup> The need for accountability and that of promoting true local, regional, and national change are compelling governments to promote cooperatives. These have grown from being community economic development strategies to becoming vital tools towards the realization of Millennium Development goals. The features that define a cooperative make it an attractive model for local economic development. The International Cooperative Alliance (ICA) restated its 1966 draft of principles to guide cooperative organizations into the 21<sup>st</sup> century.<sup>10</sup> These include:

- Non-discriminatory membership: Cooperatives are voluntary ventures open to anyone who is in a position to participate in their line of business and accept the responsibilities of membership without any form of discrimination in the ground of gender, social, religious, racial, or political discrimination.
- Equal voting rights: Cooperatives are democratic organizations run and controlled by their members. Members elect representatives on an equal vote basis and the elected representatives are accountable to members.
- Membership economic participation: Members contribute equitably towards the capital of their cooperative.

- Self-help organizations controlled by their membership: Cooperatives are designed to be democratically controlled by their members.
- Promotion of education, training and information: Cooperatives provide learning, awareness, and training for the effective contribution to the success of the co-operative.
- Cooperation among cooperatives: Cooperatives serve their members and strengthen the cooperative movement by working together through local, national, regional, and international structures.
- Concern for the community: Cooperatives take responsibility for the sustainable development of their communities through policies approved by their members.

According to the cooperative identity statement adopted at the 1995 Congress and General Assembly of the ICA, cooperatives are based on values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Philip notes that the ethical tradition of their founders include honesty, openness, social responsibility, and caring for others.<sup>11</sup> The OCDC postulates that for years cooperatives have been dedicated to conducting business in a way now being recommended as the most effective route to transformational development.<sup>12</sup> This include putting people in charge of their communities, increasing decision making trust and accountability through democratic participation, providing connection to the private sector, building and protecting assets at the community level, limiting the role of government, and working together to resolve post-conflict situations.

The cooperative model to development gives a humanistic angle to the transformation of livelihoods. Theoretically cooperatives stand a better opportunity of integrating the materialistic and social paradigms of development. Davids (2005) posits that the failure of competing paradigms made development theorists and practitioners realize that development had to become human centered. The same author asserts that this realization has resulted in a shift from macro-theories of modernization and dependency to a micro-approach focused on people and the community. The failure of neo-liberal approaches to bring about sustainable and inclusive development has prompted the majority poor to become agents of their own transformation. On the basis of the foregoing thinking, cooperatives with their member economic participation are modeled on an Asset Based Community Development (ABCD) approach. Beginning with what members have, a cooperative through overcoming business and organizational challenges moves members to achieve collectively what each one individually could not achieve. The cooperatives are also seen as an alternative to a capitalistic development as they contribute to the development of the nation on a macro-scale through the direct transformation of the socio-economic situation of their members on a micro-scale.<sup>13</sup>

### **Categories of Cooperatives**

A conceptual distinction is highlighted between worker cooperatives, in which workers in an enterprise own and control the cooperative, and user-owned cooperatives, in which members are users of the services of the cooperative without any necessary employment relationship within the enterprise such as cooperative banks, consumer cooperatives, and marketing cooperatives.<sup>14</sup> According to Nyambe, a workers' cooperative is an entity established to provide jobs to its members instead of providing services, whereas a service

cooperative is established to provide services, such as marketing, credit facilities, and hiring of equipment and vehicles to its members.<sup>15</sup> Furthermore, in a service cooperative members continue to retain independent economic engagements, whereas in a workers' cooperative members are also the employees.

### **Local Economic Development (LED)**

LED has to be understood from a local perspective although the international context is important in appreciating the historical development of the concept and the adaptation of locally implementable good practices. The International Labour Organisation (ILO) (2006) asserts that LED strategies empower local societies and generate local dialogue and by so doing make local institutions more transparent and accountable, therefore contributing to the development of the local civil society. According to Nel and Rogerson, LED is a locality-based response to globalisation challenges, devolution, and local level opportunities and crises.<sup>16</sup> It has won a lot of acceptance as locality-based response to economic crises and to the opportunities and threats brought by globalisation. As Blakely and Leigh (2010) rightly point out, whether poor or rich, local entities in a global economy have to face the challenge and opportunity to shape their own economic destinies. LED has therefore grown in popularity as a response to a number of challenges ranging from persistence of slow economic growth, the changes in the national and global environment, and the failure of the state to intervene at the local level. Swinburn points out that every country is made up of multiple local and regional economies, each different in its own way and each needing to be nurtured in its own way.<sup>17</sup> It is the realization of the need for economic development interventions to be spatially cognitive that has also led to the emergence of LED as a discipline. LED therefore marks a move from a sector-based and state-led plan to a local government led one, which is bottom up and transparently implemented in partnership with public, private, and community actors.<sup>18</sup>

LED has found expression in a number of ways including place promotion, endogenous development, urban entrepreneurialism, and community-based interventions.<sup>19</sup> The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all.<sup>20</sup> It is seen as a process by which public, business, and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. Rodriguez and Tijnstra define LED as a process where local actors shape the future of their territory, a participatory process that encourages and facilitates partnership between the local stakeholders, enabling the joint design and implementation of strategies, mainly based on the competitive use of local resources, with the final aim of creating decent jobs and sustainable economic activities.<sup>21</sup> There are of course numerous definitions for LED, most of which underline two important aspects: first, LED is an ongoing process, and, second, it is driven by local actors from different societal sectors, which implies collaboration and even co-responsibility between the public and the private sector for the economic development of a location.<sup>22</sup>

Rodriguez-Pose and Tijnstra (2005) identify four key facets of LED, which include territory, governance, integration and sustainability. The territory element of LED describes the fact that LED is to be tackled as a locality-defined effort. It emphasizes the adaptation of strategies to prevailing environmental conditions of a locality and broad stakeholder participation. This aspect of LED has seen the local sphere of government spearhead the facilitation of LED in South Africa because of its closeness to the people. The governance

dimension recognizes the need for reforms that empower citizens to participate in local governance. The success of LED strategies depends, to a large degree, on the existence of appropriate local and regional institutional systems and on the availability of the necessary frameworks and skills level at all government tiers.<sup>23</sup> Rogerson (1990) points out that the creation of a sound governance environment provides the starting point or foundation for LED activities. Sound governance will require the partnership of different actors at the local sphere. It takes transformation of the structures and functions of central and local government, the relations between them, and the relations with the market and the community.<sup>24</sup> The third dimension of LED pertains to integration of strategies. The attraction of inward investment, upgrading of human capital and labor skills, and the upgrading to local infrastructure should be tackled in an integrated approach.<sup>25</sup> This helps ensure a balanced approach. Fourthly LED strategies ought to be sustainable. The sustainability dimension basically aims to reconcile economic growth with the maintenance of non-renewable environment assets or natural capital.<sup>26</sup> A comprehensive approach to sustainable development should encompass environmental sustainability, economic sustainability, social sustainability, and cultural sustainability.<sup>27</sup>

Economic sustainability has to do with the incorporation of environmental costs to consumer prices in a way that appreciates the impossibility of never-ending economic achievement based on natural resources. The social dimension of sustainable development highlights the need for citizens' participation in environmental governance. The cultural aspect of sustainability encompasses the emphasis of changes based on core cultural values and the acceptance of cultural differences. As Rodriguez and Tijnstra (2005) observe, LED promotes the formulation of more inclusive development strategies that take due account of the current situation within the locality and the social and environmental consequences of different policy options. In a number of ways cooperative development provides communities with a huge potential for LED.

### **Cooperatives and LED**

Cooperatives by their nature are a critical tool for local economic development. Mensah et al. appropriately note that LED is founded on the belief that problems facing communities such as unemployment, poverty job loss, environmental degradations, and loss of community control can best be addressed by community-led grassroots, integrated approaches.<sup>28</sup> Cooperatives therefore form a very important component of local government's LED facilitation work in South Africa. From a theoretical standpoint, cooperatives provide an avenue by which local development can be facilitated. Firstly cooperatives act as an agent of community economic development by creating room for the direct involvement of communities and their leaders in the fight against poverty. In a study assessing the participation of stakeholders in LED in Alice, a town in the Eastern Cape province of South Africa, Khumalo (2009) notes that most initiatives supported by the local government's LED unit were agricultural cooperatives and mainly women-owned. This trend was not surprising given the long history of apartheid and patriarchy where women were excluded in the mainstream economy. Often, marginalized segments of the community have an opportunity of being represented in cooperatives whereas in many other initiatives they are left out.<sup>29</sup> Tracing the link between LED and Cooperatives, Harms points out that it is at the local level that the potential for job creation can be tapped in crafts, agriculture, retail, manufacturing, and marketing of local produce, tourism, housing, and other

services.<sup>30</sup> Furthermore, cooperatives enhance the employability of the vulnerable and often socially excluded in the locality. Cooperatives bring balance between community versus self-interest, which can lead to improved business performance and increased member benefit by providing distinctive services to the customer/member.<sup>31</sup> According to the OCDC the cooperative business model that has successfully helped build the economies of the developed world can be applied to an even greater extent today to help developing country entrepreneurs rise out of poverty and find their niche.<sup>32</sup> Secondly, the cooperative model upholds skills development, which is fundamental for local economic development as discussed earlier in this article.

One of the features of cooperative entities identified by the ICA is the promotion of education, information sharing, and training for their members which helps upgrade their skills. Mwesigye argues that all-round training is always provided to the membership, leaders, and staff of any genuine and well performing cooperative.<sup>33</sup> Philip observes that the high cooperative mobilization in Kerala State contributed to the state's 90 percent literacy rate by 1991, a figure above that of India's average of 51 percent.<sup>34</sup> The third point of significance of cooperatives in LED is related to closing the local leakage of currency. Cooperatives help in circulating money locally through the locally produced goods and services, which is positive for local development.<sup>35</sup> Cooperatives bring about economic democracy, which is a socio-economic arrangement where local economic institutions are democratically controlled.<sup>36</sup>

The fourth contribution of cooperatives to the local economy has to do with employment creation. Mwesigye observes that with varying sizes cooperatives are employing one hundred million people around the globe and their membership is estimated above eight hundred million individuals.<sup>37</sup> In France cooperatives are said to be responsible for about seven hundred thousand jobs, and about sixty thousand people in Uganda are employed by cooperatives. Where there is a well functioning cooperative organization at least two people are employed directly and many others indirectly through various trades facilitated by cooperatives.<sup>38</sup> Data from OCDC indicate that India's one hundred thousand dairy cooperatives have twelve million members, eight hundred credit coops in Russia have ninety-two thousand members, and Europe has about fifty-eight thousand cooperatives with about 13.8 million members.<sup>39</sup>

In addition to job creation, cooperatives are key players in service provision like in the example of Bangladesh where rural electric cooperatives serve a total of about twenty-eight million members.<sup>40</sup> According to Mwesigye, cooperatives are responsible for providing health care services for 25 percent of the population in Colombia.<sup>41</sup> Cooperatives remain an important instrument for food production the world over as can be seen from the French cheese cooperatives and the Indian dairy coops. ICA statistics indicate that cooperatives contributed 45 percent of Kenya's gross domestic product in 2007, and they had a membership of about seven million with three hundred thousand people directly employed and a further one and a half million indirectly employed.<sup>42</sup> Infrastructure development is another way by which cooperatives contribute to local economic development. Through pooling resources, members are able to develop infrastructure for production, agro-processing, marketing, storage facilities, and information centers.

Cooperatives are critical for less-tangible benefits as much as they are for tangible ones. Merret and Walzer (2004) assert that social capital, which is characteristic of cooperative enterprises, is a factor of economic production, as are financial, human capital, physical capital, and natural resources. Social capital refers to the connections among individuals,

social networks, and the norms of reciprocity and trustworthiness that rise from them.<sup>43</sup> The explicit basis of a cooperative is fundamentally social capital whereas the basis dominant in conventional corporations is financial capital.<sup>44</sup> Research by Putman (2000) in the United States indicates that high social capital goes with high tolerance of racial differences, lower violent crimes, better health, and the improved welfare of children. This study augurs well with David's (2005) argument that development is not about index numbers of national income or about capital co-efficiencies. Instead it is about people's needs, their values, customs, and understanding of their circumstances. Cooperatives are evidently contributing in "significant ways to reducing poverty, promoting gender equality, providing health care services, tackling the HIV/AIDS pandemic, ensuring environmental sustainability and working through partnerships with a wide range of actors."<sup>45</sup> It is evident then that the value of cooperatives cannot be fully understood on financial terms alone, as there are other important benefits that may not be reduced solely to monetary terms.

### **Cooperatives and LED in South Africa**

While self-determination and self-responsibility are indisputably key to the success of cooperatives, the support of the state in creating an enabling environment for cooperatives' business is equally essential. The history of cooperatives shows that this approach was employed during the apartheid era albeit, in an exclusive and limited way. The first to emerge were agricultural cooperatives when white farmers organized themselves into groups after the effects of Anglo-Boer War.<sup>46</sup> In the late 1970s and 1980s the country implemented a reform strategy, which sought to reconstitute the socio-economic bases of apartheid and provide a new structure for capital accumulation.<sup>47</sup> Furthermore, the reform entailed democratization of political and social life, deregulation and privatization of the economy, and introduction of programs for what was termed orderly urbanization. It is these late apartheid era reforms that opened up the room for the birth of new forms of production such as worker cooperatives.<sup>48</sup> Black cooperatives were formed in the homelands as a result of apartheid government, but they did not enjoy sufficient legislative and economic support as compared to white cooperatives due to apartheid policies.<sup>49</sup> The early black cooperatives emerged as a survival effort such as those formed by ex-political prisoners in the 1970s and 1980s as a means of employment creation and at the same time as a way of gaining acceptance into the community.<sup>50</sup> In light of the above, the cooperative model has a social dimension which is absent in other business forms.

The collective nature of cooperatives promotes social cohesion, which is a valid asset for LED. The history of cooperative movements as alluded to in the preceding paragraph indicates their social impact in times of crisis. The impact of jobs losses, due to the industrial revolution in Europe, saw the rise of cooperatives, as they became a source of living for those retrenched. In the same vein Rogerson records the emergence of rescue cooperatives in South Africa in 1989 to provide employment for employees who were at risk of retrenchment.<sup>51</sup> The working together of employers and trade unions to provide employment for employees in the face of recessions that required retrenchment is a good ground for LED. The history of cooperatives in South Africa indicates the important role played by businesses like mines and oil companies, trade unions, churches, and other non-governmental organizations in supporting cooperative enterprises.<sup>52</sup> The working together of different groups in the communities to support cooperative work creates not only economic benefits but also strong social capital for a people-owned development. The first

savings and credit cooperative, the Cape Credit Union League (CCUL), is attributed to the critical role of the Catholic Church in supporting the establishment of cooperative enterprises in the 1980s.<sup>53</sup>

The importance of cooperatives in the economy has seen legislation enacted to provide for the formation and various aspects to their operation. In the preamble to the Cooperatives Act 14 of 2005 there is recognition on the part of the South African government that a self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the country through job creation, income generation, facilitation of broad-based economic empowerment, and the eradication of poverty. The Act also underscores the government's commitment to creating a supportive legal environment within which cooperatives can develop and flourish.

The need to promote cooperative business has seen an establishment of a Cooperative Enterprise Development division within the Department of Trade and Industry (DTI). The significance of this is that the new governing body is open to different sectors of the economy unlike the previous one, which was mainly agricultural. In 2002, South Africa became a signatory to the International Labor Organization's Promotion of Cooperatives Recommendation, 2002 (No. 193).<sup>54</sup> The government has also taken a couple of other steps as a way of promoting cooperatives. Some of the notable ones include the drawing up of the Cooperative Policy of 2004, Cooperative Integrated Strategy on the Development and Promotion of Cooperatives 2012-2022, and the Cooperative Banks Act of 2007.

For a long time, the primary target of cooperative development has been unskilled, unemployed people at the margins of the economy. However, there is a need to move towards encouraging more innovative cooperatives that will also attract the skilled who are not employed or under-employed. According to DTI, the recorded number of cooperatives since the enactment of the new Act up to 10 February 2012 is 40,720, including those that were previously functioning but changed their registration numbers under the new law.<sup>55</sup> The same statistics indicates that the total number of registered cooperatives as of 31 January was 54,461. However, the increased registration should not be mistaken for the socio-economic value of these cooperatives but rather as an indication of the increasing awareness following changes in terms of policy and legal provisions, which simplified the registration processes. In her speech at the launch of the South African Chapter of the United Nations' International Year of Cooperatives, the Deputy Minister of Trade and Industry Elizabeth Thabethe pointed out that although the number of cooperatives in the country has increased significantly in the past ten years, they have not done much to improve the economic and social conditions of their members and surrounding communities.<sup>56</sup> There is a general dearth of data on the extent to which cooperatives are contributing to socio-economic development in the country. Against this backdrop of data scarcity a brief look at some of the recorded examples will help in appreciating the importance of cooperatives in the economy.

### **Types of Cooperatives and Their Developmental Importance**

The cases examined in this section help to assess the potential role of cooperatives in the country. Some cooperatives fall under what is known as user-cooperative category. Under these, there are financial cooperatives, which form the third tier of banking.<sup>57</sup> These financial cooperatives are in the form of *stokvels*, burial societies, savings and credit unions, village banks, and mutual banks. The 2003 estimate by the National Stokvels Association of South

Africa (NASASA) indicated that there were eight hundred thousand of these financial cooperatives with a membership of 8.25 million and estimated R400 million a month in savings.<sup>58</sup> Savings and Credit Cooperatives (SACCOs), the more formal and registered cooperative version of *stokvels*, had 8,884 members with an asset base of R21.7 million.<sup>59</sup> Agriculture Coops form another set of cooperatives, and this group is estimated to have started between 1910 and 1920. They are organized under the Agri-Business Chamber of South Africa with a focus on input supplies, joint marketing, and processing. This is the group rated most successful in 2003.

The third class of South African cooperatives is the Housing Cooperatives and Social Housing Initiatives. These provide a range of models of collective ownership of housing stock and form part of a wider set of “social housing” initiatives that also include self-build schemes, based on collective or cooperative approaches to home building. In 2003, about five thousand people lived in housing cooperatives.<sup>60</sup> The fourth group of cooperatives consists of consumer cooperatives. This group has little track record, though it has potential given the new Cooperatives Policy that allows for cooperative work in sectors where there used to be none. The 2007 statistics by the DTI indicate that the few cooperatives that submitted their financial data for the year 2005 had an assets base of R5.4 billion, 202,226 members, and a turnover of R6.7 billion.<sup>61</sup>

The statistics of cooperatives in the country indicate that the agricultural sector has the highest number of registered cooperatives making up to 25 percent, followed by services with 17 percent, multi-purpose cooperatives make up to 14 percent, and trading cooperatives account for 12 percent.<sup>62</sup> At the bottom of the list are food and beverages, fishing, housing, environmental, burial, mining, and medical cooperatives, with each class contributing less than 1 percent of the country’s registered cooperatives. The data presented points to the need to promote cooperative work in sectors that for a long time have not been explored through cooperative work. One of the challenges limiting the growth of cooperatives in sectors like health and information and communication technology is the scarcity of skills among the disadvantaged groups such as women and the rural poor who have been the traditional focus of cooperative development.

DTI statistics indicates that there is lack of compliance with financial reporting requirements provided for in the Cooperative Act of 2005 by cooperatives with only 185 cooperatives complying in 2007.<sup>63</sup> This non-compliance hinders the establishment of reliable economic contribution of these entities. The current data by DTI shows that in 2007 the cooperatives contributed 0.33% to South African Gross Domestic Product, which is quite low compared to other countries such as Kenya where the figure is 45 percent. This is however, not a full picture given the challenge of non-compliance. It is also a challenge that other social contributions of these enterprises are not well documented.

### **Factors Hampering Effective Contribution of Cooperatives to LED**

Following the attainment of majority rule many disadvantaged people are embracing the cooperative concept, as it promises to be one of the vehicles by which inequality and poverty can be reversed.<sup>64</sup> Despite the economic and social contributions of cooperatives, evidence shows that many of them have been short-lived and others are still vulnerable. The Department of Trade and Industry’s statistics indicate that a huge percentage of cooperatives in the country are struggling to survive. The national picture from the DTI baseline study for the period 2009 to 2011 shows that 22,619 cooperatives were registered, of

which 2,644 were surviving and 19,975 defunct, giving a 12 percent survival rate.<sup>65</sup> The fact that only a handful of cooperatives are commercially viable and sustainable is an indication that there is an urgent need to carefully diagnose the problem and vigorously address it if the economic contribution of cooperatives is to be meaningful. The challenge has been that a number embrace the concept without fully understanding it. A study of cooperatives in the Limpopo Province by Van der Walt indicates that 80 percent of the members did not have the necessary knowledge about cooperatives.<sup>66</sup> This lack of adequate knowledge of cooperative principles and expectations makes members dependent on the government for funding and sustenance, which is a recipe for failure. Besides a lack of understanding the cooperative business model by new participants, there is a plethora of other factors hampering cooperatives from living to their full potential.

### *Cooperative Leadership and Management*

Most cooperatives in South Africa are composed of the formerly disadvantaged groups, particularly old women. In a study of cooperative members in selected areas of Gauteng and Mpumalanga provinces, Nyambe found out that of the cooperatives under study 61 percent were composed of women and that the biggest concentration of the members (21 percent) were between the ages of forty-one and forty-four years.<sup>67</sup> The study also showed that the education levels of cooperatives members were low. This group is characterized by limited skills and as a result management and business technicalities remain a challenge as noted in the case of Limpopo cooperatives by Van der Walt where management and conflict were identified as some of the problems facing cooperatives.<sup>68</sup> Due to lack of conflict management skills, infighting within cooperatives remains an obstacle. Limited technical skills result in poor quality services and products, which cannot compete favorably in the market. Owing to the various inadequacies, the channeling of support from the government and other development agencies tends to create yet another challenge of overdependence. As observed by Muthuma, the introduction of cooperatives in Africa followed a blueprint in which cooperative organizational principles were predetermined and imposed leaving little room for learning and innovation.<sup>69</sup> One other challenge is that the provision of “cheap” capital or material resources reduces the motivation of members to contribute their own resources. Instead of an organic growth that is gradual through members gaining experience by growing their business, a dependency syndrome sets in that leads to demotivation when no further external assistance is received. Government officials have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence.

Related to the challenge of overdependence, prescriptions of external support tend to erode democratic control by the cooperative members. While support is not bad on its own, the complexity comes when cooperatives begin to view themselves as belonging to the government as was the case in the former dispensations where cooperatives were used as a means of organizing farmers to provide products to the homelands.<sup>70</sup> There is still a challenge of moving cooperative members from a handout mentality and culture of entitlement towards embracing individual contributions to projects.<sup>71</sup> The DTI baseline study confirms Mayende’s observation by indicating that some cooperatives have not been formed on a genuine basis but as a way of accessing free money.<sup>72</sup> Financial assistance such as the Cooperative Incentive Scheme is aimed at providing a grant for registered primary cooperatives.<sup>73</sup> Among other things the grant seeks to assist cooperatives to acquire their

start-up requirements, build initial asset base for emerging cooperatives to enable them to leverage other support, and provide an incentive that supports broad-based black economic empowerment.<sup>74</sup> The provision of working capital, infrastructure, business development services and other activities through the grant is an incentive aimed at the historically disadvantaged persons to start up cooperatives.

### *Marketing*

Cooperatives face challenges in terms of reaching wider markets. If their economic contribution is to be enhanced then marketing needs to be improved. Undeveloped networks and value chains impact negatively on cooperatives.<sup>75</sup> Given the limited access to finance, technology, and other critical business infrastructure existing and emerging cooperatives find themselves limited to small local markets. This in turn impacts their profitability, which affects their ability to sustain operations. A lack of adequate government commitment to procure from cooperatives makes it difficult for these ventures to survive the harsh market conditions. And indeed government procurement from cooperatives has been identified as one of the strategies for supporting them.<sup>76</sup> For example, a DTI case study of KwaZulu-Natal Province identified a lack of procurement opportunities from local government and hostility from mainstream business as some of the challenges facing cooperatives.<sup>77</sup> Nyambe's findings in the case of cooperatives in four areas of Gauteng and Mpumalanga Provinces indicate that most cooperatives regarded their struggle to gain market access for finished products as a serious factor hampering their success.<sup>78</sup>

### *External Support*

Given the fact that many formerly disadvantaged people are embracing the cooperative concept and success stories are still limited, the need for external help cannot be overemphasized. The low asset base among communities is a huge factor curtailing the success of cooperatives. This, however, has to be given in a manner that does not undermine the basic principles of cooperatives. One of the challenges facing cooperatives is the lack of targeted support given inadequate economic and social impact statistics on cooperatives. According to Dyi, limited promotion and awareness, accessibility of cooperative registration to local communities, avoidance of formalization of informal self-help groups, and limited support from enterprise development agencies are some of the challenges curtailing the success of cooperatives.<sup>79</sup> Mayende (2011) points out that the current challenge in South Africa is bureaucratic domination and control of all processes. Observing the lack of organization among communities, Mayende argues that this has provided a good ground for the top-down model, which is not giving cooperatives a strong institutional voice to represent their interests. This argument is in accord with Kanyane, who argues that there is a danger that government-led cooperatives ultimately collapse when state protection and support are withdrawn.<sup>80</sup> Using the case of Limpopo Province, Kanyane notes that the 2003 grant assistance for seed capital to resuscitate some cooperatives and support others faced difficulties, as the grant was not implemented in a coordinated manner.<sup>81</sup> Furthermore, one of the hindrances facing cooperatives in South Africa is that they are highly politicized and apparently in some cases funded by the government as a political exercise with no sustainability plans and back-ups in place.<sup>82</sup>

### Addressing Cooperatives' Challenges

Cooperatives success stories indicate that the environment within which they operate is critical. Such an environment entails cooperative policies and how governments render support. An enabling environment has to be created that promotes successful cooperatives. Drawing from the case of Kenya, Muthuma (2012) concludes that facilitative policies promote cooperative development through consultation and targeted involvement. The same author posits that paternalistic policies tend to stunt the development of cooperatives while laissez-faire ones neglect it. It is, however, not the responsibility of the government alone to create the required environment for cooperatives. A strong cooperative movement has been reported as a critical component of cooperative success in a number of countries such as Brazil, and on this observation Mayende (2011) underlines the fact that the critical element is that communities must become real owners of their development. Cooperatives have an obligation to form a strong movement, which can lobby the government and partners to create a conducive environment for cooperatives to thrive and self manage. Cooperatives have to organize themselves from primary to apex structures and build a strong self-support entity.

Assistance to cooperatives has to be well integrated, addressing issues such as:

- Allowing an organic formation and growth of cooperatives by ensuring that no government official forms a cooperative, for the government's role should be that of facilitation rather than prescription. Municipalities are well placed in supporting cooperatives by providing a fertile environment at the local level in which cooperatives can grow.
- Support cooperatives with technical, management, and leadership skills to manage their ventures.
- The government has to commit to a percentage procurement targeting cooperatives, and this should be accompanied with assistance towards production of quality services and products that will meet the market standards.
- Improve awareness on government funding support.
- Development of innovative programs that will propel cooperatives from being subsistence-based to becoming vibrant economic production and exchange entities.
- Promotion of research and learning from best practices internationally.
- A comprehensive training curriculum for cooperatives within existing tertiary colleges and the establishment of special training institutions to promote cooperatives.
- Training programs that are adapted to the nature of those being trained in terms of pitch and content.

In addition there has to be a consolidation of various programs bent towards economic development. There is need to anchor the cooperative development in the country with adequate resources in terms of skilled facilitators especially in sectors where cooperatives are still few. It is a positive step taken by the South African government to mandate different

sectors to promote cooperatives; however this may remain a strategy on paper unless resources are channeled to the attainment of set goals. To achieve a better contribution to LED, a periodic evaluation and impact analysis of the developmental contribution of cooperatives should be developed.

## Conclusions

The study concludes that cooperatives are an essential business model with a potential to meaningfully contribute to LED in various ways including provision of services, social cohesion, infrastructure development, and employment creation among others. This study has argued that the lack of an active cooperative movement and the state's controlling support of cooperatives hampers their contribution to LED. These two main challenges manifest themselves in terms of sustainability of operations, leadership and management, poor access to markets, and the handout syndrome on the part of cooperative members. In terms of policy government support should be in the form of creating an enabling environment for cooperatives rather than interference, which compromises their autonomy, organic growth, and proper functionality. This article has concluded that cooperatives are a critical instrument for LED. The principles that govern cooperative activities bring a necessary balance between self and community interests. The history of cooperatives across the globe is indicative of the value of these enterprises in socio-economic development, which makes them attractive in the pursuit of LED.

The contribution of cooperatives to LED in South Africa includes stimulation of economic activities in smaller communities where big business cannot profitably operate. Improvement of human capital through training and development of members, infrastructure development, and job creation constitute some of the significant contributions of cooperatives. The article also notes that the participative nature of the cooperative model forms a critical factor towards the empowerment of the population especially the rural poor. This in turn promotes a bottom up development. Furthermore, the cooperative business model helps build social benefits over and above the financial gains. The article acknowledges the government efforts to promote cooperatives in the country through funding and policy, which, among other things, have simplified the registration process. Funding remains a challenge, however, given the fact that a number of cooperatives are formed by previously disadvantaged groups who lack capital assets to make a significant economic contribution.

The article has made a number of recommendations that can enhance the performance and contribution of cooperatives to LED. The need for the government to take a facilitative role that enables cooperatives to function as autonomous entities was underlined. In addition to this the government can help cooperatives thrive by committing a percentage procurement share to cooperatives. Another necessary development is the establishment of training institutions for cooperatives and the development of a cooperative curriculum in existing institutions, which will cater for the needs of cooperatives. The article also recommends the networking of cooperatives and the formation of a strong movement that will lobby for the improvement of legal and other reforms, which are necessary for cooperatives to flourish.

## Notes

- 1 OCDC 2007.
- 2 McAllister 2008.
- 3 International Cooperative Alliance 2012.
- 4 Gibson 2005, p. 4.
- 5 Philip 2003, p. 3.
- 6 OCDC 2007, p. 7.
- 7 Chibanda, Ortmann, and Lyne 2009.
- 8 OCDC 2007.
- 9 Muthuma 2012.
- 10 OCDC 2007, p. 6.
- 11 Philip 2003, p. 7.
- 12 OCDC 2007, p. 8.
- 13 Kanyane 2009, p. 1126.
- 14 Philip 2003, p. 8.
- 15 Nyambe 2010, p. 5.
- 16 Nel and Rogerson 2005, p. 1.
- 17 Swinburn 2007, p. 2.
- 18 Ibid.
- 19 Nel and Rogerson 2005.
- 20 Swinburn 2007.
- 21 Rodriguez-Pose and Tijnstra 2005, p. 3.
- 22 Patterson 2008.
- 23 Rodriguez-Pose and Tijnstra 2005.
- 24 Hindson and Hindson 2005.
- 25 Rodriguez-Pose and Tijnstra 2005.
- 26 Ibid.
- 27 Haque 1999, p. 200.
- 28 Mensah et al. 2013, p. 163.
- 29 Gibson 2005, p. 6.
- 30 Harms 2007, p. 21.
- 31 Fulton and Keltinson 1992.
- 32 OCDC 2007, p. 8.
- 33 Mwesigye 2008, p. 16.
- 34 Philip 2003, p. 13.
- 35 Gibson 2005, p. 6.
- 36 Iuviene, Stitely, and Hoyt 2010, p. 5.
- 37 Mwesigye 2008, p. 5.
- 38 Ibid.
- 39 OCDC 2007, pp. 10-11.
- 40 Ibid., p. 12.
- 41 Mwesigye 2008, p. 5.
- 42 Muthuma 2012, p. 177.
- 43 Merret and Walzer 2004.

- 44 Mcleod 2004.
- 45 Birchall 2004, p. 3.
- 46 Kanyane 2009.
- 47 Rogerson 1990, p. 286.
- 48 Ibid.
- 49 Kanyane 2009, p. 1130.
- 50 Rogerson 1990, p. 287.
- 51 Ibid.
- 52 Ibid.
- 53 DTI 2012, p. 32.
- 54 Ibid.
- 55 Ibid.
- 56 Business Day Live 2012.
- 57 Philip 2003, p. 15.
- 58 \$1.00 equals approximately R10.50.
- 59 Philip., p. 16.
- 60 Ibid., p. 17.
- 61 Satgar, p. 11.
- 62 DTI 2012, pp. 36-37.
- 63 Ibid., p. 41.
- 64 Nyambe 2010, p. 1.
- 65 Dyi 2011, p. 5.
- 66 Van Der Walt 2013, p. 6.
- 67 Nyambe 2010, p. 12.
- 68 Van Der Walt 2013, p. 7.
- 69 Muthuma 2012, p. 179.
- 70 OCDC 2007, p. 7.
- 71 Mayende 2011, p. 12.
- 72 DTI 2012, p. 39.
- 73 [www.dti.gov.za](http://www.dti.gov.za).
- 74 Ibid.
- 75 Dyi 2011, p. 10.
- 76 DTI 2012, p. 36.
- 77 Ibid.
- 78 Nyambe 2010, p. 24.
- 79 Dyi 2011, p. 9.
- 80 Kanyane 2009, p. 1133.
- 81 Ibid.
- 82 Ibid.

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