

Chapter 7

Cooperatives in Vogue: A Case Study of Cooperatives in South Africa

Meron A. Okbandrias and Andrew Emmanuel Okem

Abstract The 2005 Cooperative Act and the subsequent amendments and other related policies and support have invigorated the cooperative sector in South Africa. In fact, if one looks at the number of cooperatives registered in South Africa, it is quite impressive. The legislative environment and the financial support that the country provides have resulted in increased number of newly registered cooperatives. There were about 4000 cooperatives in 2005 compared to the 50,000 currently registered cooperatives in South Africa. Compared to population growth and the rate of urbanisation in South Africa, this number is very high. Despite the impressive growth in the number of newly registered cooperatives, the sustainability of many of the registered cooperatives is doubtful. This chapter provides an overview of the history of the country's cooperative sector with the goal of identifying factors that contribute to the high failure rates of cooperatives. Based on the available literature and statistics, the chapter shows that financial incentives and the creation of government support institutions are not enough to foster sustainable and successful cooperatives.

Keywords Apartheid • Cooperative • Economic transformation • Sustainability • Cooperative incentive scheme

M.A. Okbandrias (✉)
Department of Public Administration, School of Government,
University of the Western Cape, Cape Town, South Africa
e-mail: okbandrias@uwc.ac.za

A.E. Okem
School of Built Environment and Development Studies,
University of KwaZulu-Natal, Durban, South Africa
e-mail: okem@ukzn.ac.za

© The Author(s) 2016
A.E. Okem (ed.), *Theoretical and Empirical Studies on Cooperatives*,
SpringerBriefs in Geography, DOI 10.1007/978-3-319-34216-0_7

7.1 Introduction and Chapter Overview

Cooperatives are characterised by mutual help, workers solidarity, and social responsibility. Even though governments and countries support cooperatives in different forms, it is indeed the community that is the organic source of such an organisation. The question that this chapter touches is whether the South African socio-economic and political context is conducive for the organic emergence and growth of the cooperative sector. The chapter argues that the current climate seems to have failed to glean lessons about past experiments with the cooperative movement. This chapter is divided into three sections. In Sect. 7.2, we explore the South African cooperative in pre-democratic South Africa. The review focuses on how the sector emerges as well as its relationship to the state. In Sect. 7.3, we examine the cooperative sector since the transition from the Apartheid system. In the review, we focus on the contradiction between the recent upsurge of cooperatives in terms of registration and the high failure rates. In this part of the chapter, we review factors that contribute to the failure of cooperatives and end the chapter with recommendations on how to address the identified challenges.

7.2 A Historical Account of Cooperatives in Pre-democratic South Africa

Cooperatives have a long history in South Africa and this history has always been intertwined with the state. According to the Department of Trade and Industry (DTI) (2012: 36), the cooperative sector is an economic vehicle in South Africa that can be traced back to the early 19th century. Co-operatives began with the introduction of white agricultural cooperatives which aimed at developing and building the white farming community. Satgar (2007) notes that South Africa's first cooperative, a consumer cooperative, was established in Pietermaritzburg in 1892. However, it was not until 1908 that the country's first cooperative legislation (the Co-operative Societies Act) was passed in the Transvaal (Arando et al. 2010).

Under the colonial and Apartheid regimes, cooperatives were used mainly to advance the economic interests of white South Africans most of whom operated in the agricultural sector. The state's desire to promote white-owned cooperatives is evident in the passage of various legislations and the establishment of cooperative support institutions (such as the Co-operative Societies Act enacted in 1908 in the Transvaal, the Land and Agricultural Bank [the Land Bank], the Co-operatives Societies Act [Act 28 of 1922], the Co-operative Societies Amendment Act [Act 38 of 1925], the Marketing Act of 1937 [later amended as Act 59 of 1968] and the Co-operatives Act [Act 91 of 1981]). As noted above, most cooperatives in colonial and Apartheid South Africa were agricultural cooperatives and by implication, favourable agricultural policies were important for their advancement.

Reflecting on the impacts of the above policies on white farmers, Satgar (2007: 2) argues that “Afrikaner empowerment in the 20th century did not just happen through the logic of capital accumulation but had to also coexist with a logic that met human needs through cooperative forms of organising production and consumption; albeit underpinned by perverse and racialised relations of productions”. Effectively, cooperatives were used as a tool for transferring state resources as well as creating white monopoly in the agricultural sector. Such an approach contributed to the growth of agricultural cooperatives in pre-democratic South Africa. The subsidisation of agriculture resulted in the transfer of state finance to white farmers (most were involved in forming and operating cooperatives). The establishment of the marketing board granted white farmers monopoly over the agricultural sector. The monopoly created by the hegemony of white-owned agricultural cooperatives skewed prices of agricultural produce and farm inputs in their favour (Nilsson 1999).

As noted earlier, the primary focus of pre-democratic state was the advancement of white-owned cooperatives (Westoby 2014). Where the state took steps to encourage black cooperatives, this was only to advance the Apartheid government policies for the former homelands. Where black-owned cooperatives were not stooges of the then government, the government took conscious steps towards stifling their growth (Nilsson et al. 2009; Department of Trade and Industry 2004b). Although the Apartheid government proactively attempted to stifle the growth of cooperatives among the black population, there were strong informal financial cooperatives such as the Savings and Credit Cooperatives (SACCOs) also known as *stokvels*. With about 10 million members, *stokvels* constitute an important feature of the South African economy despite operating largely in the informal economy (Department of Trade and Industry 2012). Despite this success, the majority of black-owned cooperatives remained weak and underdeveloped due to government’s restrictions with majority eventually collapsing.

During the 1980s, cooperatives began to receive recognition from civil society as an instrument for alleviating economic and social deprivation among the very poor of South Africa. For instance:

Trade unions started developing co-operatives as a vehicle to address retrenched and redundant workers’ economic needs. The Union of Metal Workers of South Africa (NUMSA) established the Sarmcol Workers Co-operative (SAWCO), which later collapsed due to lack of knowledge on co-operative governance and management. Emulating NUMSA, the National Union of Mineworkers (NUM) also tried to establish cooperatives in the late 1980s to address the unemployment of mine workers but unfortunately this ended in failure. Churches and community organizations also provided funding independently, for worker co-operatives in response to retrenchments and unemployment during the same period (DTI 2012).

From the foregoing, it can be concluded that the cooperative sector before 1994 developed along two distinct paths. The first path led to the establishment of strong white-owned cooperatives operating in the formal economy. The second path was characterised by the stifling of black-owned cooperatives, resulting in black-owned cooperatives operating largely in the informal sector. In addition, cooperatives in

pre-democratic South Africa were deeply linked to the state and their successes were largely dependent on extended state support. Against this backdrop, the cooperative sector was not operating in line with the internationally recognised principles and values of the cooperative movement.

The adoption of the neo-liberal policy in the 1980s led to the deregulation of the agricultural sector where cooperatives mainly operated in pre-democratic South Africa. The deregulation ended state subsidies and attempted to reduce the dependence of cooperatives on government. In the absence of state support and monopoly of marketing boards, many agricultural cooperatives converted into investor-owned firms in the late 1980s and early 1990 (Van Wyk 2014).

7.3 A Historical Account of Cooperatives in Post-apartheid South Africa

South Africa witnessed a paradigm shift in its political system when the African National Congress (ANC) took over the reins of power in 1994. One of the immediate preoccupation of the ANC led government was to address the injustices of the past through radical transformation of the country's unjust economic system created by the Apartheid regime. The government identified cooperatives as one of the mechanisms for poverty alleviation, income generation and bridging the country's economic gap between the rich and the poor (Department of Trade and Industry 2004b). Besides being a tool for rectifying injustices of the past, cooperatives were also conceived as a tool for achieving local economic development (Kanyane 2009). To achieve the goal of economic transformation through the cooperative model, government institutions at the national, provincial, and local government levels were tasked with various roles in promoting the cooperative sector.

Against the backdrop of the racially skewed outlook and outcomes of previous policies, the democratic government focused on the growth of black-owned cooperatives (Department of Trade and Industry 2004a). The government's desire to establish black-owned cooperatives is reflected in the 2004 Co-operative Development Strategy for South Africa, the 2004 Co-operative Development Policy for South Africa, the Co-operative Act (Act 14 of 2005), the Co-operative Banks Act (Act 40 of 2007) and Co-operatives Amendment Act (No. 6 of 2013). In addition to the policies and Acts, the government also institutionalised support and funding for cooperatives including the Cooperative Incentive Scheme (CIS).

The Department of Trade and Industry (2013: 36) defines the cooperative incentive scheme (CIS) "as a 100 % grant for registered primary co-operatives (primary co-operative consists of five or more members)". The objectives of the CIS, as outlined by DTI (2013: 36), are to "improve the viability and competitiveness of co-operative enterprises by lowering their cost of doing business through an incentive that supports Broad-Based Black Economic Empowerment".

Only registered cooperatives, as contemplated in the 2005 Cooperative and as amended by the 2013 Co-operatives Amendment Act, are eligible to be funded under the CIS (Republic of South Africa 2013). In line with the policy thrust of the democratic government, the support offered to cooperatives is biased towards previously disadvantaged groups and women.

Besides direct financial support, the DTI also support cooperatives in terms of training, compliance, administration and drawing up of business plans. There are government departments, agencies, and organisations besides the DTI that support cooperatives by providing financial and non-financial help. An immediate positive effect of the new policy environment, as well as financial and non-financial support of cooperatives, was an upsurge of newly established cooperatives as shown in Fig. 7.1. The Companies and Intellectual Property Commission (2014: 105) acknowledges the correlation between increased government support and increase in the registration of new cooperatives noting that the increase is attributed “to government departments promoting the registration of cooperatives as a vehicle for poverty alleviation and assisting rural communities to grow economically”.

Despite the increase in the number of newly registered cooperatives, the strength of the cooperative sector has remained largely unchanged (Okem 2016). This is evident in the high failure of newly registered cooperatives. The Department of Trade and Industry (2010: 9) notes that the country’s cooperative sector is characterised by an 88 % failure rate. In 2009 alone, 5415 out of 6089 registered cooperatives in food and agriculture sector failed. That is a failure rate of 89 %. The national picture in terms of the number of dead and surviving cooperatives is presented in Fig. 7.2. In addition to high failure, the country’s cooperative sector is also characterised by weak cooperatives that have achieved very little in terms of employment creation and income generation for members (Department of Trade and Industry 2009).

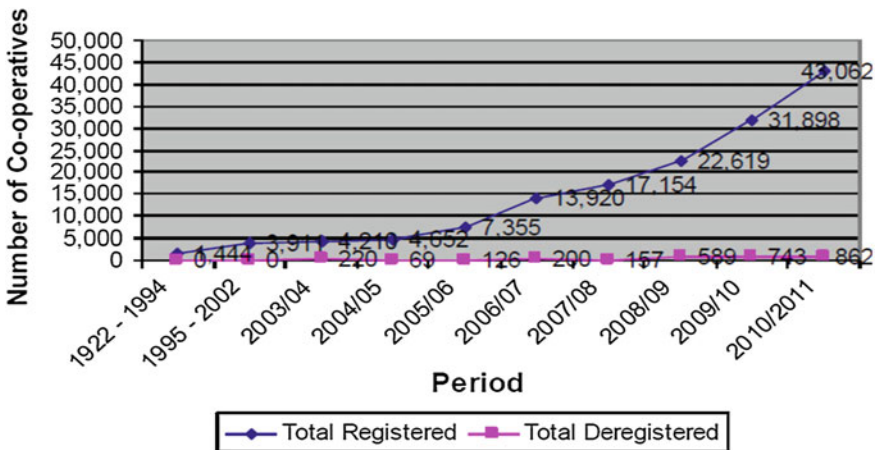


Fig. 7.1 Trends in co-operative registrations and de-registration. Source Department of Trade and Industry (2012: 29)

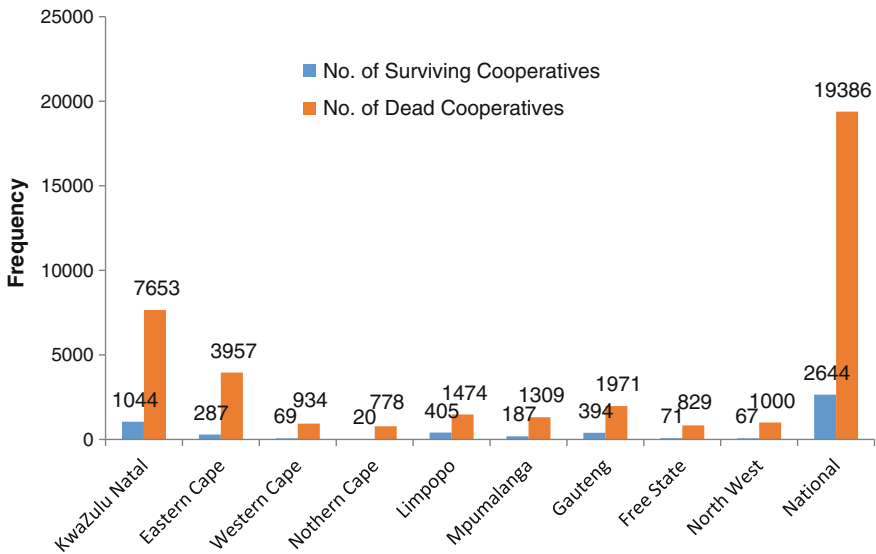


Fig. 7.2 Provincial breakdown and status of cooperatives. *Source* Adapted from Department of Trade and Industry (2010: 9)

Furthermore, the country's cooperative sector is characterised mainly by primary agricultural cooperatives. The cooperative sector also has an insignificant presence in the financial sector. The non-participation of cooperatives in financial services has placed restrictions in terms of access to finance for cooperatives as most small emerging cooperatives are not able to access funds from commercial financial institutions.

7.4 Why Do Cooperatives Fail in South Africa?

South Africa is one of those countries that has a very fertile ground for cooperatives in terms of legislative framework and support, especially since 2004. However, the cooperative sector has remained largely weak and continues to underperform. The Department of Trade and Industry (2012: 10) has pointed out some of the reasons for the failure of cooperatives in South Africa. According to the DTI, the low survival of cooperatives is due to several factors which include the lack of a dedicated agency designed primarily to support co-ops on a focused basis. This results in uncoordinated support that is characterised by poor mentorship, minimal investment dedicated to cooperatives and a sense of neglect among all spheres of government and their respective enterprise development agencies. Other challenges that have been linked to the failure of cooperatives include limitation of current support from existing enterprise development agencies for cooperatives, and lack of

recognition of cooperatives as a unique business form (Department of Trade and Industry 2012: 36). There is also avoidance of formalisation by informal self-help groups, accessibility of cooperative registration to local communities, limited promotion and awareness, limited access to critical business infrastructure and limited access to technology. In the remaining part of this chapter, we focus on three crucial aspects of the problems that confront cooperatives in South Africa.

7.4.1 Registration Criteria and Assessment

Some cooperatives on their own have not been fashioned on a genuine basis as they tend to be established for the purpose of accessing cooperative incentives rather than on building a successful cooperative business. This means that people register co-operatives not out of a genuine interest to develop economically and improve their well-being but to access government funding. If one looks at the trend of the sudden increase of cooperatives according to the DTI statistics, it is positively correlated with the establishment of an enabling environment with funding available for emerging cooperatives. That is not to say that there are no cooperatives with a real potential and genuine intention. However, financial incentives (provided to cooperatives in form of grants) incentivise the formation without passionate and dedicated cooperators that can promote the growth of such cooperatives. Such cooperatives are therefore prone to financial mismanagement, lack of member commitment and are likely to collapse once the cooperative no longer access government funds.

It is obvious that the registration criteria and process are not rigorous enough to sift out genuine cooperatives with a potential to succeed. In fact, most of the failures of emerging cooperatives occur during the first year of their registration. According to the DTI report (2009: 38), some of the cooperatives were not active at all which begs the question about what the funding was used for.

7.4.2 Training for Emerging Cooperatives

In their study, Machethe (1990) found that weak management, as a result of lack of training, is one reason for the failure of cooperatives. In addition, the baseline study of cooperatives in South Africa found that

When asked about training, over 60 % of co-operatives reported that they had not received training in the past two years and if they had received training it was based on general business practices and not sector specific training. A significant number of cooperatives highlighted both general business training as well as sector specific training when asked about their training requirements (DTI 2009).

The study by Pollet (2009) in 11 African countries indicates that cooperative-specific training was significant for the success of cooperatives in countries such as Kenya, Tanzania and Uganda. The study found that training was provided either through government programs or by donor agencies. In South Africa, training after registration is largely left to the Small Enterprise Development Agency (SEDA). All other agencies mentioned in the baseline study as providing training to cooperatives do not offer continued cooperative training programmes. Unlike some African countries where donor agencies actively train cooperatives, in South Africa, this is almost nonexistent. The implication of this is that members of most cooperatives are deficient in terms of their understanding of the principles, values, and governance of cooperatives.

7.4.3 Independent Financial Control and External Auditing

A fundamental problem for cooperatives, despite all the support, is a lack of financial discipline and good governance. This is why there is a need for a follow-up of newly established cooperatives. Even though there is financial compliance and report to funding agencies that, in itself, is not enough. One of the requirements for getting financial assistance should be a sound business plan. Firstly, a sector specific analysis of the business plan and support for the development of a business plan is necessary. Secondly, a follow-up check of the cooperative and its projects has to be a condition for awarding grant. To address challenges associated with mismanagement of cooperative finance and other maladministration, the DTI seeks to establish a Co-operative Development Agency and a Tribunal. The development agency and possible satellite sector-specific agencies will have to closely monitor the development of cooperatives and the Tribunal in terms of the enforcement of legislation and dealing with internal matters such as dispute resolution and adjudication. There is also a need for auditing on a regular basis.

7.5 Conclusions and Recommendations

Despite the high failure rate, the cooperative sector in South Africa has gained momentum in recent years. The fact remains, though, that the sector requires a lot of non-financial support. An interesting fact in the baseline study shows that housing cooperatives fared better compared to other forms. The reason for this is that they do not rely, to a large extent, on the government or the market for their existence and development as other cooperatives do. The foregoing underscores the value of the independence of the cooperative sector. In the South African context, there is extensive support of the cooperative which has largely created a dependency syndrome. There should be a clear understanding that the ultimate goal will be for co-operatives to become self-sufficient and operate on business principles.

For cooperatives in South Africa to be successful, it is critical to focus on addressing the three key challenges identified by this review.

The development and growth of cooperatives requires patience. To hasten the process through external funding is counterproductive as these cooperatives will collapse as soon as the external funding dries up. Throwing a lot of money will not bring significant change in the long term. What is needed is a holistic approach that will give cooperatives access to the market and other much needed support. In addition, an organic growth based on communities' realisation of the benefits of cooperation is vital. Such an approach should also emphasise the value of confederation of cooperatives to advocate and champion the cause of cooperatives in South Africa.

A compulsory sector specific training should be given to emerging cooperatives and it should be a condition of any financial support. In addition, there has to be ongoing training that inculcates the principles and values of cooperatives among cooperators. Such training should be geared towards the entrenchment of an understanding of what owing and running cooperatives entail.

References

- Arando, S., Freundlich, F., Gago, M., Jones, D. C., and Kato, T. (2010). *Assessing Mondragon: Stability and managed change in the face of globalization*. William Davidson Institute, Working Paper (1003).
- Department of Trade and Industry. (2004a). *A co-operative development policy for South Africa*. Pretoria: Department of Trade and Industry.
- Department of Trade and Industry. (2004b). *Co-operative development strategy for South Africa*. Pretoria: Department of Trade and Industry.
- Department of Trade and Industry. (2009). *The DTI baseline study of co-operatives in South Africa*. Johannesburg.
- Department of Trade and Industry. (2010). *Briefing on the Development and Support Programmes for Cooperatives: Empowerment and Enterprise Development Division (EEDD)*. Pretoria: Department of trade and Industry Retrieved 15 November 2012, from http://www.dti.gov.za/parliament/082510_dti_State_of_Co-ops.pdf.
- Department of Trade and Industry. (2012). *The DTI integrated strategy on the development and promotion of co-operatives: Promoting an integrated co-operative sector in South Africa 2012–2022*. Pretoria: Department of Trade and Industry, Retrieved 15 November 2012, from http://www.dti.gov.za/economic_empowerment/docs/coops/legis_policy/coop-strategy.pdf.
- Department of trade and industry. (2013). *Co-operatives development financial assistance (Incentives)*. Department of trade and industry: South Africa. Viewed 24 March 2014, https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=11&subthemeid=3.
- Kanyane, M. H. (2009). Co-operatives as part of social security mainstream for poverty alleviation in selected municipalities. *Journal of Public Administration*, 44(4), 1123–1137.
- Machethe, C. L. (1990). Factors contributing to poor performance of agricultural co-operatives in less developed areas. *Agrekon*, 29(4), 305–309.
- Nilsson, J. (1999). Co-operative organisational models as reflections of the business environments. *LTA*, 4(99), 449–470.
- Nilsson, J., Kihlén, A., & Norell, L. (2009). Are traditional cooperatives an endangered species? About shrinking satisfaction, involvement and trust. *International Food and Agribusiness Management Review* 12(4).

- Okem, A. E. (2016). *The Implementation of Cooperative Policy: Perceptions from Cooperatives in the Umgungundlovu District Municipality (KwaZulu-Natal, South Africa)*. Unpublished Doctoral Thesis, Policy and Development Studies, University of KwaZulu-Natal.
- Pollet, I. (2009). *Cooperatives in Africa: the age of reconstruction: synthesis of a survey in nine African countries*. ILO.
- Republic of South Africa. (2013). Act No. 6 of 2013: Co-operative Amendment Act, 2013. Pretoria: The Presidency. Retrieved 30 January 2014, from http://www.cipc.co.za/Coops_files/Act6of2013CooperativesAmendAct.pdf.
- Satgar, V. (2007). *The State of the South African Cooperative Sector*. Retrieved 15 January 2011, from <http://www.copac.org.za/files/State%20of%20Coop%20Sector.pdf>.
- The Companies and Intellectual Property Commission. (2014). *Annual Report 2012/13*. Retrieved 13 January 2015, from http://www.cipc.co.za/files/9513/9989/7347/CIPC_ANNUAL_REPORT_2013.pdf
- Van Wyk, C. (2014). East Africa terror hazards tied to poverty: Africa-wide-featured analysis. *Africa Conflict Monthly Monitor* 12–17.
- Westoby, P. (2014). Exploring the interface between community development and cooperative development within South Africa—a challenge of theory, practice and policy. *Development in Practice*, 24(7), 827–839.