

# Strengthening Cooperatives Development in South Africa: A Case Study of the Limpopo and Gauteng Provinces

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**Abstract**—One of the great challenges facing the South African economy is to increase the number and variety of viable and sustainable economic enterprises, it is central to government's economic policy that it promotes the development of emerging economic enterprises and diversifies the ownership, size and geographic location of those enterprises. Cooperative development is one of the interventions that the South African government can use, it can also uplift indigenous people who were neglected or excluded by the apartheid system to play a role in the economic development of the nation. Cooperatives have been receiving the support from government, but there is very little success. The study used qualitative research methods, data was gathered from 200 cooperative that were situated in Limpopo and Gauteng province, through focused group interview, one on one interviews and observations. Secondary data was gathered through an extensive literature review. The research recommends that responsible authorities need to engage in Continuous trainings, workshops and seminars for communities, cooperative members and government officials and also employ cooperative managers in order for them to strengthen cooperatives and also develop them successfully.

**Index Terms**— Cooperatives, development, South Africa, case study

## I. INTRODUCTION

A co-operative is an independent association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise [13]. One of the great challenges facing the South African economy is to increase the number and variety of viable and sustainable economic

enterprises. It is therefore central to government's economic policy that it promotes the development of emerging economic enterprises and diversifies the ownership, size and geographic location of those enterprises. Cooperatives are one intervention that government can use to uplift indigenous South African people who were neglected or excluded by the apartheid system to play a role in the economic development of the nation.

The government adopted an economic policy that promotes the development of emerging economic enterprises and diversifies the ownership, size and geographic location of those enterprises. The policy statement deals with the promotion and support of developing/emerging cooperatives enterprises. These include small, medium, micro and survivalist co-operative enterprises. The support measures to grow this sector are clearly outlined in the cooperatives development strategy as an implementation framework [13].

The policy and strategies were formed by the government to ensure that the cooperatives favor the current situation of South African people. According to reference [4] "The Strategy is aimed at promoting cooperatives, in order to unleash their potential to create and develop income-generating activities and decent, sustainable employment, reduce poverty, develop human resource capacities and knowledge; strengthen competitiveness and sustainability; increase savings and investment; improve social and economic well-being; and contribute to sustainable human development" as a potential intervention to unlock opportunities for South African people.

All these aspects mentioned by the DTI on cooperatives strategy are very important to the development of cooperatives only if they were all implemented within existing cooperatives. Since 2004 which is 11 years now, the first cooperative strategy by DTI was formulated. Since then cooperatives have been receiving the support from government, but there is limited success. As many cooperative fails at their emerging stage. From all the aspects that the DTI strategy is aiming at, none has been achieved by cooperatives that were formed after 1994. Members of the cooperatives seem not to be empowered in a way that they can sustain themselves. Empowerment is defined by reference [2] as the ability of individuals and groups to act on their own to achieve

Manuscript received March 05, 2015; revised April, 05, 2015.  
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their self-defined goals. Research has shown that, most members of cooperatives are not able to act on their own, that is, they are not empowered. Bacon further states that the process approach to empowerment interrogates not only the outcomes but also the nature of the action. The process approach of three dimensions of empowerment includes:

*A. Personal: the ability to meet basic material and nonmaterial needs,*

*B. Relational: the ability to shape and influence relationships and avoid exploitation, and*

*C. Collective: the ability to participate in collective action and reflection.*

The above three points of empowerment are supported by Davies [3], stating that the main purpose of cooperatives is to unite and involve its members in an economic and social community to provide countervailing market power and access to economic and social resources that as individuals, they would not be able to accumulate. Cooperative enterprises in South Africa are one way of ensuring that previously disadvantaged communities are able to play a role in the economic development as well as alleviating poverty and reduction of unemployment. Davies [3] further states that with the current situation, things are very different, what is seen today are government and private company resources being wasted due the high failure rate of the cooperative enterprises in South Africa. Most of the cooperative enterprises remain vulnerable and weak. The paper will mainly concentrate on the South African cooperatives that have been funded by government or private companies as startups.

## II. RESEARCH METHODS

The study used qualitative research methods to gather data in 200 cooperatives that are situated in Limpopo and Gauteng province, through focused group interview, one on one interviews and observations. The above methods were used to collect primary data. Secondary data was gathered through an extensive literature review.

Out of a database of 1000 cooperatives from the department of Economic development and cooperative agencies, such as National development agency (NDA), National Youth Development agency (NYDA) , the plan was to visit at least 500 cooperatives, the research team was able to see only 200 cooperatives, as most were no longer operational and hence could not respond.

## III. GENERAL FINDINGS

They were cooperatives that were registered that seem not to understand that a cooperative is a form of business. There are many cooperatives in South Africa, that are registered but act more like a nonprofit organization, most of such cooperatives are in the service industries. According to DTI [4] on its cooperative strategy one of its short term objectives is to promote co-operatives as a vehicle to assist in creating decent

employment and reducing poverty through income-generating activities. Cooperatives are a type of business entity, of which its main goal should be to generate income and meet the needs of its members. It is stated [7] that Cooperatives should encompass the full range of economic activities such as repair shops, bakeries and computer programming. Vargas-Cetina [9] States that cooperative just like any capitalist businesses are profit-oriented business, ownership is shared and decisions have to be made while paying close attention to markets. It is also emphasised [8] that, essentially cooperatives are member-owned and democratically controlled, voting is not based on the number of shares owned, but instead on the universal principle of one member, one vote. Even for those people who left their jobs to start-up cooperatives having a common goal of sharing profit among themselves and working together.

It was also discovered that some people just started cooperatives just to get free grants from government. After receiving free grants members tend not to know what to do with the money. Davie [3] defines cooperatives as a voluntary, democratic, autonomous association of persons whose purpose is to encourage members to grow in community and act collectively both for the intrinsic value of being part of a living community and to overcome their problems of economic dependency and need by providing access to, and ownership of the means of subsistence and welfare. People forming cooperative need to have this definition in mind as; it is not only about them, but also the stake holders who would also like to see the success of the cooperatives. Members of the cooperative need to know that the success of their cooperatives will mean the aims and objective of the government will be met and increasing employment and playing a role in the reduction of poverty will meet their mean reason of existence

Most cooperatives in South Africa are formed by unemployed people. These people do not have much common in. These just form cooperatives hoping government will give them a start to run their cooperatives. It is very rare were one can find a cooperative in South Africa that is operating, where the startup resources and finance are mainly from the members. This now is a perception that cooperatives are formed by the old unemployed people, with little or no education, mostly from the rural areas and townships.

It was also noted [7] that from the beginning of cooperatives, most that joined cooperatives had jobs in the organizations, remuneration was too low, thus skilled and innovative employees formed cooperatives. These happen to be the people who worked for the same organization, all with the skills and the expertise to produce products or provide a service that attracts the market. The people have a common goal that makes it easier to achieve the overall goal of the cooperative which is to meet the interest of its members. There is a huge gap in the South African case, as the people forming cooperatives tend to be the people who seek employment and see cooperatives as a kind of job opportunity

given by government. Most people with skills and expertise serve government, and private business up to retiring age. Slinder [7] states that much skilled labor and managerial talent was being wasted in the private companies, and cooperatives provided an outlet for ambitious entrepreneurs who could contribute much more to the economy through cooperatives. The same people can be creating jobs and producing proudly South African products. The country still relies on export on things that South African can manufacture and also import.

Most cooperatives visited during the study tended appeared to be failing. Even when receiving free grants from government, it was evident they were abusing government resources, that is not using government resources towards cooperative development.

Most cooperatives in the rural areas are not independent, the members feel their cooperative belongs to the community, in a way that they are unable to make decisions without consulting the traditional leaders of the community. The DTI regards traditional leaders as a stakeholder of cooperatives in the community a cooperative is operating. This does not give the Traditional leaders a right to interfere in the conflicts within cooperative members. Though it is important to remember that cooperatives are autonomous organizations controlled by members, if the same people do not know or understand this principle. It becomes a problem when the members cannot even solve their own problem, when they have conflicts run to the community leadership for a better solution to the problem.

Most cooperative in South Africa are either producing or selling products. During a visit to some cooperatives in the villages, one can go to different cooperative manufacturing or planning to manufacture same products. The most dominated kind of cooperative enterprises include brick making, poultry, and agriculture. Cooperatives providing services include car wash, cleaning, gardening and catering. J.D.A [5] States that Cooperatives run hundreds of stores, restaurants, bakeries, filling stations, and service establishments, cooperatives operate oil wells, re- fineries, pipe lines, fee and flour mills, fertilizer factories, lumber yards, saw mills, and coal mines. governments should promote the growth and viability of cooperatives by facilitating access to investment finance and credit, as well as to training, and should enter into partnerships with cooperatives where appropriate, DTI [4]. The study has found the several challenges that are faced the manufacturing and services cooperative, thus there is a dire need to diversify into new territories such as Tourism and engineering. Cooperative that are in the service industries tended to be struggling the most with market and the generation of income

#### *Specific Findings*

These mainly focus on the areas of policy, legislation, coordination, promotion and implementation as follows:

(a) *Co-operative Legislative Framework, Policy and Strategy*: being the focal point for reviewing policies and strategies, and addressing barriers to co-operative development in partnership

with stakeholders; ensuring that matters related to co-operative development are treated on the basis of wide consultations with the Government's partners. These have generally promoted the growth and formation of cooperatives since 2004, making it easier for cooperatives to be formed with as little as 5 members. Thus South Africa has witnessed record highs of numbers of registered cooperatives

(b) *Coordination*: coordination of the various Government institutions dealing with cooperative enterprises; coordination of donor initiatives in the area of co-operative development. There was little evidence suggesting cooperation. This has not been largely positive, most organisations work solo and do not share their resources with others. This has also contributed to the failure of cooperatives as a whole.

(c) *Education and Training*: designing uniform training materials for the co-operative sector involving relevant government programmes. Most cooperatives indicated that they had attended workshop, but they indicated that they did not benefit much and most of them were just repetition, unstructured and not specific for their type of industry.

(d) *Promotion*: this includes the provision and management of non-financial and financial co-operative support services; the management of privileges and incentives for co-operatives; the collection, analysis and dissemination of statistics related to co-operative development; facilitation of access to markets; facilitation of access to credit; promotion of the concept and practice of co-operatives. Mostly this has only been witnessed in the form of government incentives for start-ups only. Hence one noticed that people were only forming cooperatives so as to access this government grant, as soon as they receive it the cooperatives fail and fall out of existence.

(e) *Registration and de-registration of co-operative enterprises through the Companies and Intellectual Property Registration Office (CIPRO)*: People have only been mostly interested in registration, after failure a few have deregistered

(f) *Regulatory function* most; cooperatives indicated that they had not received any form of continuous training both from the government or interested private sector

#### IV. RECOMMENDATIONS

##### *Co-operatives training*

The support program offered by the South African Government highly incentivizes the creation of cooperatives, so some members of new cooperatives may not fully understand some cooperative fundamentals and principles. Hence training is crucial and it needs to be continuous. The training that has been offered so far has not been specifically for cooperatives it has been mostly generalized from the ones from small to medium enterprises. The government has also recognized this and it is planning to establish a Training Academy that ensures continuous learning.

##### *Independent Control and Auditing*

There is a lack of much needed and pivotal independent control and Auditing. Auditing can help to control finances and all process within a cooperative

### Regulations

During the National Party rule in South Africa, cooperatives were highly regulated and did not have much freedom, the current government has eased many of these regulations. This has also negative consequences as after initial start-up funding, cooperatives are left to their own devices with little long term help in the market. Under these circumstances access to funding and credit is vital.

### Cooperative managers

South African has many unemployed graduates who can be trained to become cooperative managers, and oversee operations within cooperative enterprises. There is a need for a certificates or a short training as a qualification for entrance that will allow a person to advice, manage train or facilitate development in a cooperative. Cooperative needs to have managers who will manage the cooperatives with a strategic and operational plan. South African people who form cooperative majority are people with no or little education., Zeuli and Cropp [12], states that cooperatives benefits may include better prices for goods and services, and dependable sources of inputs and markets for outputs, this is highly possible if there is a person who help oversee the operation of the business.

## V.CONCLUSION

Cooperatives have proved to be very important to South African communities and government. They are one of the ways of developing rural communities and uplifting the disadvantage groups by alleviating poverty and increasing the employment rate. These community needs to be aware of what a cooperative is, they need to understand the importance of cooperative enterprises in their villages and the reason they need to support and promote them.

Cooperative members need to continuously learn and be able to live and practice the universal values and principles of cooperative enterprises. This can be done in a form of training, where members go to nearest community halls for short lessons and training once a week. The agencies that support cooperative should also ensure they employ facilitator or project managers.

Most cooperatives in South Africa are not yet in a state where they are able to sell, to one another, to ensure they enjoy the services of one another as cooperatives. Voorhis [10] rural America enjoyed a fairly stable growth and expansion both marketing and purchasing cooperatives. The main aim of cooperative was to uplift the rural areas by developing them , especially in agriculture and the farming sectors, most of the developed countries for years have had now are enjoying purchasing, marketing , finance credit and selling of value chain. According to Voorhis [10] third to a half of American farmers were cooperative members and many of them belonging to two or three such organizations serving different

rural needs? Voorhis [10] further states that marketing cooperatives, co-ops producing, purchasing, and distributing supplies required for farm operation or household needs, electric cooperatives all have been highly successful among farmers. The cooperative were able to utilize a significant influence on the economic development of rural America and the lives of farm families

The South African government also need to implement and promote other alternative ways of addressing social and economic differences between cultural and racial groups.

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