

WORKERS' COOPERATIVES IN SOUTH AFRICA

AN ASSESSMENT AND ANALYSIS
OF CONDITIONS OF SUCCESS AND FAILURE

DGRV-SA - Working paper No. 6

March 2010



WHO IS THE DGRV?

DGRV - German Cooperative and Raiffeisen Confederation is both the apex and auditing association of the German cooperative organisation. The cooperative link-up group is by far the largest economic organisation in Germany in terms of members, with over 20 million members. Of these, 3,8 million are members of housing cooperatives which are not organised under the umbrella of the DGRV.

Cooperatives are widespread in Germany. Almost every farmer is a member of one or more cooperative. 60% of all craftsmen, 75% of all retail traders, 90% of all bakers and butchers and over 65% of all self-employed tax advisors are members of a cooperative. The cooperative organisation employs 600 000 people throughout Germany and provides extensive training programmes for approximately 35 000 people.

The Confederation's purpose is to promote and represent the mutual interests of its members and their affiliated cooperative institutions. As a legally registered auditing association, the DGRV can carry out all audits of its regional and national centres, special institute and federations.

As a cooperating partner of other institutions at home and abroad, it promotes cooperative development primarily in third-world countries, but also in Central and Eastern Europe.

What is the DGRV doing in South Africa?

In the Republic of South Africa, first contacts date back to 1995. It is our aim to assist in the development of cooperative organisations, on local and regional/national levels.

Modern industrial companies and service providers, countless small- and medium-

sized traders and crafts companies, as well as a strong agricultural sector, mark the South African (first) economy. However, the majority of the population, especially in the second economy, still lacks adequate access to support and services for sustainable livelihoods and enterprise development, as well as sustainable access to financial services (savings, credit, insurance, housing).

This situation calls for a much stronger emphasis on mutual self-help and reliance on own resources of people especially in rural and semi-urban areas and a reduced expectation that government intervenes to assist them. People who form a cooperative of a self-help group have recognised that it is more successful to join hands with others and to start together an initiative from the "bottom" than to wait for help from the "top".

The basic idea of this kind of cooperative is that people such as farmers, craftsmen, traders and other SMMEs decide to join forces for specific economic purposes and to run a business jointly, solving problems fairly and effectively as required by the market situation. Activities previously performed individually by each member unit, are transferred to the cooperative, thus cutting costs and increasing productivity of each member.

Traditionally, it is the medium-sized enterprises which guarantee competitiveness and economic stability. The progress of internationalisation and an increasing market concentration, is putting these under great pressure. Cooperations into alliances or link-up groups are a response to this. In this context, the cooperative form is a model of forward-thinking cooperation.

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by

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DGRV - Deutscher Genossenschafts- und Raiffeisenverband e.V.
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EXECUTIVE SUMMARY

This study was conducted at the request of the German Cooperative and Raiffeisen Confederation (DGRV), South African Office. The study is a result of work that was undertaken in 2008 in Gauteng at Ivory Park, Mamelodi, Heatherly Landfil, and in Mpumalanga at Carolina. The four cooperatives that were surveyed are respectively involved in baking bread and related confectioneries (a cooperative at Carolina), collecting recyclable products and selling them to agents of recycling plants in Pretoria (a cooperative at Heatherly Landfil), one selling handcrafts to a buyer in Johannesburg (a cooperative at Ivory Park) and one selling food products as hawkers (a cooperative at Mamelodi). In view of similar management principles that underlie workers' cooperatives, responses from the surveyed cooperative members were combined. The study was undertaken assuming that small and medium enterprises (SMEs), cooperatives included, form the backbone of many economies worldwide. Owing to the economic imbalances that South Africa suffered before the 1994 transformation, it has been considered that SMEs and cooperatives in particular are essential to uplifting the economic well-being of the once disadvantaged Africans (black South Africans).

It is with this background in mind that this study investigated factors and conditions of success and failure of workers' cooperatives in South Africa using case studies of the four cooperatives mentioned earlier. Issues to do with prerequisite training, good leadership, financial record-keeping, and general management of the business, among others, are dealt with to bring to the fore their past and continued impact on the performance of workers' cooperatives. This study highlights that cooperatives shape policy direction, provide employment and contribute to the gross domestic product of South Africa. Amidst the noble contributions of workers' cooperatives, the challenges that beset their daily operations make them vulnerable. Finally, though this study is limited in its coverage, its findings are nonetheless useful to modern policy debates that seek to improve the operational circumstances of workers' cooperatives in South Africa. In line with this contribution, the study welcomes debates that suggest a hybrid model type of a cooperative. However, emphasis should be placed on finding ways to address policy, institutional and operational constraints that confront workers' cooperatives.

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LIST OF ABBREVIATIONS

COPAC	Cooperative and Policy Alternatives Centre
DGRV	German Cooperative and Raiffeisen Confederation
SMEs	Small and Medium Enterprises

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION AND PROBLEM OF INVESTIGATION

The inherent income inequality in South Africa is increasingly becoming a national concern. Many youths and the majority of poor people in rural areas continue to seek ways to survive. Unemployment is around 24 percent and the economy seems not to be absorbing enough of the unemployed to make any significant impact. In an attempt to reverse the situation, the government and its developmental partners, among others the German Cooperative and Raiffeisen Confederation (DGRV), continue to advocate resorting to the formation of small and medium enterprises (SMEs), as these have become the backbone of many economies worldwide. It appears that many who were previously disadvantaged before the 1994 transformation are responding to the message.

It is in response to the urge to establish SMEs that many formerly disadvantaged people are embracing the cooperative concept. This concept is one of the promising vehicles by which income inequality and poverty can be reversed. Although it is heralded as a good concept, some might be accepting it without fully understanding it. Reality shows that some of the cooperatives¹ have been short-lived and others continually fail in the market of cooperative operators.

Moreover, few researchers have carried out their work on this concept in South Africa, but even those who have done so seem to concentrate their research work on job creation, poverty reduction and understanding the types of cooperatives that exist (Philip, 2003; Theron, 2002). Thus little is known about why workers' cooperatives fail. To flip the coin in stating the problem, one could say that there has not been any significant research work to provide impetus to the debate on how to make workers' cooperatives work in South Africa.

1.2 OBJECTIVES

- a) This study proposed to investigate the challenges that lead to the success and also to the failure of workers' cooperatives in South Africa, and
- b) to suggest policy prescriptions that would assist in supporting workers' cooperatives in South Africa.

¹ Bergmann (1992) defines cooperatives as institutionalised cooperation in which members have equal rights and have binding duties that are in line with the organisational expectation.

1.3 RESEARCH QUESTIONS

The study poses the following research questions:

- a) What is the *modus operandi* of workers' cooperatives being studied?
- b) How have these cooperatives benefited their members²?
- c) What lessons could be derived from the challenges of workers' cooperatives being studied?

1.4 RESEARCH METHODOLOGY

The study was conducted in three phases, namely a literature review followed by a survey and then data analysis. The general ideal way to collect data in situations such as this one is group discussions. However, this method did not prove helpful in soliciting honest views from members of cooperatives, especially considering the fact that peer pressure is an undeniable fact in workers' cooperatives. Therefore, the suitable method in this connection was face-to-face interviews using a semi-structured questionnaire.

To administer the questionnaire, the author had to visit cooperatives in Gauteng (Heatherly Landfill³, Ivory Park and Mamelodi) and Mpumalanga (Carolina) and interview members of cooperatives on a face-to-face basis. Data were collected from these four cooperatives, which were operating at the time of the survey. Doing so is useful in making a balanced analysis as opposed to dealing only with cooperatives that have failed. The fact of the matter is that if one only studies failed cooperatives, the views of members of those failed cooperatives may not reflect the true state of affairs. The concern here is that there might be some disgruntled feelings, which those who once belonged to failed cooperative entities may still harbour. This consequently requires that cooperative entities that are active become the population from which the final sample is drawn. Data have been analysed using conventional descriptive statistics.

² In this study the word members means members of cooperatives.

³ A cooperative whose members were interviewed at Heatherly Landfill should not be confused with Mayibuye Cooperative that operated at the same location. Mayibuye was well supported by Yebo than the one referred to in this study. They were the only two cooperatives dealing with recycling at Heatherly Landfill. Names of cooperatives have been withheld in this study since those cooperatives (although known to DGRV SA Office) did not want names of their enterprises to be revealed.

1.5 RATIONALE

It is expected that this study will stimulate policy debate on the sustainability of workers' cooperatives. The results of the study are intended to serve as evidence that may be used to guide needed interventions in the future of workers' cooperatives in South Africa.

1.6 ORGANISATION

This study is organised in sections as follows: **Section 1** introduces the research in terms of what it is all about, it highlights the problem in a succinct way, and describes how the research was conducted. **Section 2** touches on literature review on cooperatives. **Section 3** provides the results and analysis of those results. **Section 4** discusses, concludes and makes recommendations. A bibliography follows at the end.

2. THEORETICAL UNDERPINNINGS OF A COOPERATIVE CONCEPT

2.1 A general overview of cooperatives

It is necessary to define the word 'cooperative' before beginning to segment it according to types of cooperatives that exist. According to the International Cooperative Alliance (1995) the word cooperative means “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”.

Having touched on the main definition of a cooperative, the remaining task is to provide a distinction between types of cooperatives, namely workers' cooperatives and service cooperatives. A workers' cooperative is a business entity established to provide jobs to its members instead of providing services. A service cooperative is a business entity that provides services, such as marketing, supply of products, credit facilities, hiring of equipment and vehicles, to its members. Examples of service cooperatives include agricultural cooperatives. In this case, an agricultural cooperative has to be owned by its members who buy from it and sell to it.

Workers' cooperatives are sometimes referred to as industrial cooperatives, producer's cooperatives, workshop cooperatives, consumer cooperatives, credit unions and agricultural marketing cooperatives (Harper, 1996; Philip, 2007). However, the term workers' cooperative has taken world-wide dominance over the other terms. In a service cooperative, members continue to retain their independent economic engagements, whereas in a workers' cooperative, members are also the employees⁴. Some self-help organisations may not necessarily be cooperatives, but cooperatives are also self-help organisations. However, the terms cooperative and self-help organisation are not directly synonymous, but they could be used as relative terms⁵.

Cooperatives, like other business entities, require good leadership. Skilled and dedicated leaders are required to carry organisational goals further. It is expected that cooperatives, when they can afford it, should employ competent leaders to represent their members (Parnell, 2001). However, this view seems to be suggesting the direction of a service cooperative rather than a workers' cooperative whose members are also the employees. Bergmann (1992) states that members of a cooperative are subject to joint efforts, have equal rights and that their contributions should be clearly known and determined and should be equal. It is through competent leadership that economic benefits can accrue from the activities of a cooperative. Parnell (2001) warns that

⁴See Harper (1996)

⁵See Parnell (2001).

unless members of a cooperative are satisfied with the economic performance of their venture, they may fail to commit and sacrifice what is expected for the advancement of the course of the entity.

In the same context of the economic growth expectations of those intending to form a cooperative, Parnell (2001) suggests the following trajectory they should undertake: firstly, if members are peasants, they should agree to reach a stage of producing a surplus for the market. If those intending to become members are not farmers but ordinary business people away from agricultural business, they should ensure that they are ready to begin supplying the market of an urban setting. Secondly, on the subjective side, those intending to be members should, among others, have some economic independence from landlords, money-lenders and middlemen. Thirdly, those intending to be members should be at a stage where they are capable of making decisions that are business-related, they should be able to finance the cooperative and should have social and cultural abilities and they should also not be politically bound against forming a cooperative.

Parnell (2001) advises that leadership is crucial and an absence of good leaders should not be a permanent excuse in that leaders could be developed through training those who are available to the business entity. With good leadership cooperatives can contribute in the following ways: firstly, they develop the capacity for advocacy through the creation of a united voice. In this way cooperatives could be seen as representing community interests and may also shape policy direction. Secondly, cooperatives provide employment and thus provide a livelihood for people involved in them and in close proximity to them. Thirdly, cooperatives could assist in times when relief aid is needed. This role has been played by cooperatives in other parts of the world at critical times. This experience was documented in Ghana where at a time of need, grain banks supplied seed to the needy. Fourthly, through accumulation of wealth, cooperatives could reduce the vulnerability of communities by employing the resources of communities to procure the necessary supplies to help those in need. Fifthly, in some cases, cooperatives have been involved in rehabilitating, reintegrating and rebuilding communities to begin to live normal lives after crises. This may occur through provision of employment opportunities. Parnell (2001) concurs with Bergmann (1992) in summing up that cooperatives have both a social and an economic objective.

With regard to workers' cooperatives, these business entities have served as auxiliary institutions in some economies in which SME's operations have made a greater contribution to the economy. The impact of their involvement differs in some respects from one country to another, given each country's economic design. The issue of the developmental stage of a particular society may be linked to how far a workers' cooperative may go in terms of its contributions. Developing countries still appear to be providing enough room for operational manoeuvring of workers' cooperatives compared to countries that are developed (Parnell, 2001).

2.2 Cooperatives and poverty

Poverty is a complex and multifaceted problem. Even defining poverty has not always been easy and the same is true of measuring it. In this study, the definition of poverty is one which the United Nations has adopted, which says poverty relates to whether or not individuals or households are blessed enough with resources they need at present to meet their needs (World Bank, 2002).

As has been outlined, cooperatives provide employment opportunities, as revealed in the work of a priest, José Maria Arizmendi-Arrieta, which deserves some recognition. After the Spanish civil war, which resulted in a ruined economy, José Maria Arizmendi-Arrieta engineered the formation of a cooperative movement in the Basque region of Spain where he lived. His cooperative movement was formed in 1940 in Mondragón with the intention to create jobs for his parishioners. His work advanced further to the extent that not only employment opportunities were created, but a training institute for cooperative training was established as well. Those who benefited from cooperative training that was offered at the institute also helped to advance the lives of their communities (MacPherson, 2006).

In providing employment opportunities, cooperatives address the common scourge of poverty that many people in developing countries continue to face. It is said that to be unemployed for a long time could affect one psychologically. As the number of the unemployed continue to increase, so does poverty and this puts enormous pressure on the national budget of the particular country that registers soaring unemployment figures. When those that are fit to work fail to find jobs, they tend to rely on some relief from the national treasury. Just as in developing countries, in the European Union unemployment has enslaved the national budgets of some member countries through unemployment benefit utilities. So, despite an abundance of labour on the market, labour could become expensive, given that only a few have to work and be taxed to cater for the unemployed (Münkner, 1998). The free rider notion manifests itself in such circumstances.

2.3 Cooperatives in South Africa

In response to high unemployment and the economic design of South Africa, many unemployed have responded to the call *Vukuzenzele*, which implies a self-help type of initiative⁶. The call for self-help initiatives was given stimulus by the gazetting of Act No. 14 of 2005, which is entitled 'Cooperative Act, 2005'. According to the government of the Republic of South Africa (2005) this Cooperative Act seeks to:

- promote the development of sustainable cooperatives that meet the cooperative principle with the aim to increase the number and variety of economic enterprises beyond the 35 that are active in the formal economy;
- encourage people and groups who believe in self-help initiatives and who prefer to work in business entities that are democratically governed to register in line with this Act;
- assist by means of enabling such cooperatives to register as legal persons separately from their members;
- promote equity and greater participation of Africans (black South Africans), especially those that reside in rural areas and the most vulnerable groups, in the establishment and management of these business entities;
- establish a legislative framework that provides for preserving a cooperative as a distinct legalised business;
- facilitate and encourage supportive programmes that would target emerging cooperatives, especially those with African content and the most vulnerable groups in society and ensure equity promotion and participation of members;
- ensure that cooperative design and implementation of the cooperative development support programmes are supported and provided for by various developmentally designed state-owned enterprises and national departments of the government; and
- facilitate effective coordination and reporting mechanisms in all spheres of the government through its departments.

⁶See Barnard, G .2009. Realising South Africa's employment potential.

As a result of this call of *vukuzenzele*, many previously disadvantaged people, especially black South Africans, have become pro-active in setting up SMEs. Established SMEs comprise among others motor mechanical operations, agricultural smallholdings, tuck shops, cooperatives, hawkling and phone booths. The impact of these small ventures on the economy is undeniably a positive one⁷. This character of activism in establishing cooperatives has been well documented (Philip, 2007 citing NCASA, 2002).

The findings of Philip (2007) which refer to the Cooperative and Policy Alternatives Centre (COPAC) (COPAC, 2005), show that 77.1 percent of workers' cooperatives in Gauteng that were surveyed did not pay wages to their members. The record also shows that 71.1 percent of workers' cooperatives did not make any surplus. Some of the findings of COPAC (2005) and Philip (2007) are modest and are confirmed in this study. This confirmation is in relation to dire needs and a call for help on finding ways to sustain workers' cooperatives in South Africa. Owing to many challenges that workers' cooperatives continue to face in South Africa, combined with the role of owner and producer at the same time, the sustainability of workers' cooperatives may become difficult (Philip, 2003).

Trade unions and workers' cooperatives are seen as a mechanism that brings sanity to a capitalist labour market. The two are a result of existing market failures. Therefore, market failures dictate the need to find alternative ways of catering for a vulnerable society. These views are supported by the findings of Theron (2002) in case studies around Dimbaza near King Williams Town and at the University of Fort Hare in the Eastern Cape Province of South Africa. In all these case studies, Theron (2002) found that the effort to set up workers' cooperatives came as a result of desperation. Workers lost their formal jobs and were left with no source of income, so they had to find a way to survive. Unfortunately, the resultant cooperatives were not supported and remained vulnerable to economic shocks that every business face. The next section presents the findings of the current study.

⁷ See also Nyambe, J and Nkungwana, L (2000), Informal trade in Alice.

3. RESULTS AND ANALYSIS

3.1 Introduction

This chapter provides results and analysis of data that were gathered using a survey instrument. All respondents from a sample size of 31 are grouped together to counter the element of micro-numerosity. The results are informed by the following variables: the bio-factors of respondents, the democratic nature of the cooperative, record-keeping, performance rating, awareness of the existence of essential documents (among others the constitution, a minute book and financial records), entrepreneurial concerns and benefits, success factor inclinations and stumbling blocks, membership, joining fee commitments and management positions⁸ and training. These variables were identified as essential in influencing the success and failure of workers' cooperatives. Therefore, the variables and other barriers covered in subsequent sections of this study together form two major components of the study, which are subsequently dealt with.

3.2 Key variables

3.2.1 Gender orientation of members

Of the 31 members who were interviewed, 61 percent were women, compared to 39 percent men who were involved in workers' cooperatives. It is not known exactly why so few men are involved compared to women. However, one could surmise some other possibilities, e.g. men being engaged in other economic activities, such as working on farms and in mines. The nature of cooperative activities could also be a determinant of who gets involved (whether male or female). An example is that of handwork at a cooperative located at Ivory Park, which is part of the sample. It is rare to find men undertaking handwork as a means of livelihood compared to women. Thus the nature of a cooperative's activity and the cost of the type of labour available at cooperatives may influence men's participation in the particular cooperatives that were surveyed.

⁸ Management positions in this study refers to the positions of chairperson/project manager and deputy/vice-chairperson/project manager, treasurer and deputy/vice-treasurer, and secretary and deputy/vice-secretary. These are some of the common positions of responsibility which usually workers' cooperative are consist off.

3.2.2 Age of respondents

Age is an important variable in determining the extent of involvement of an individual in business undertakings that demand manpower. Manpower in this context takes the traditional form of physical labour in which a member may engage . Intuitively, one assumes that older people are less likely to be involved.

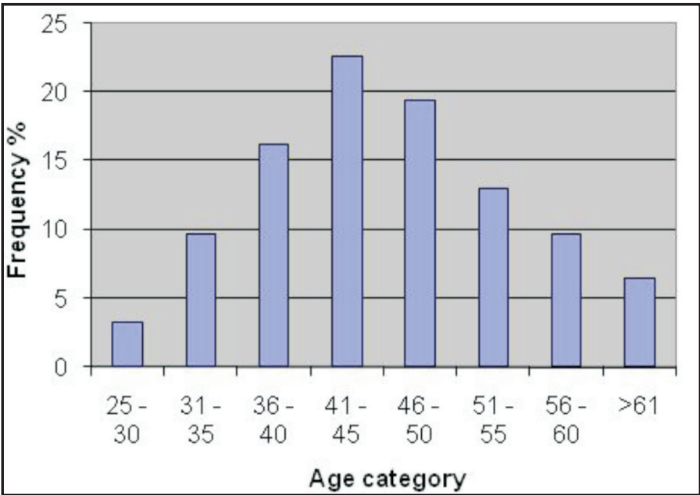


Figure 1: Age distribution of members of cooperatives

In Figure 1, 23 percent of members are between the ages of 41 and 45 years. The age category nearest to that of 41 to 45 years is that of people between 46 and 50 years, who constitute about 19 percent. The lowest age category among members is for those between 25 and 30 years. This implies that young people may be more attracted to other job opportunities in the labour market than to cooperatives. This could also mean that young people in that category are not involved in cooperatives for several reasons, including lack of knowledge about cooperatives, finding this area of entrepreneurship very laborious and possibly finding relying on cooperatives for survival less attractive (also for unknown reasons).

3.2.3 Marital status

Married people or people with families are more likely to fend for their households. Therefore, married members would have a pressing responsibility to provide resources to meet the expectations of the household and also to sustain it.

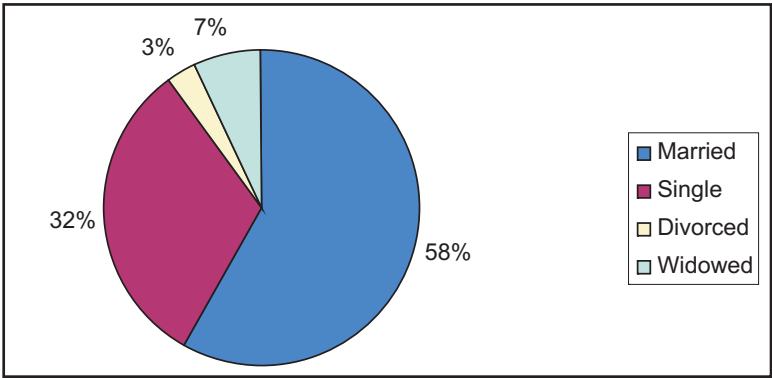


Figure 2: Marital status of members of cooperatives

Figure 2 indicates that a large number (58 percent) of members are married. Those who are not married constitute about 32 percent. Just like some unmarried members, married ones were found to have dependants. Family demands in the form of food, school uniforms for school-going children and, transport fees for school-going children, among others, may compel a member to belong to a cooperative in order to provide for the household. The need to provide for the household cuts across all categories of members regardless of whether they are married or single, because almost everyone in the survey has someone to look after.

3.2.4 Educational level

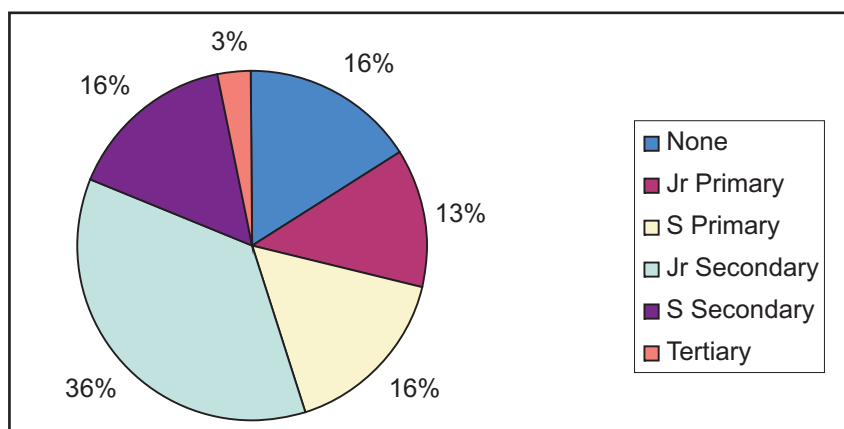


Figure 3: Educational levels of members of cooperatives

Figure 3 shows that a very small fraction which is 3 percent of members of the surveyed cooperatives have tertiary education. Acquiring higher education is important in that it enables one to learn additional things and it provides a platform for one to understand business activities. However, this on its own is not sufficient, unless such an educational achievement is of a specialised nature and gives a member of a cooperative business, financial or other business-related skills. Nevertheless, education remains one of the key variables that could propel members to better levels of understanding training materials and enable those members to comprehend provisions that are associated with modern business operations. About 36 percent of members have only managed to reach Junior Secondary level. This level is not high enough to equip them with adequate communication skills and also for them to acquire basic business skills to empower them in their business undertakings. The tendency to operate businesses (cooperatives included) in a trial-and-error mode as a result of a lower educational level is futile to any business undertaking. Business skills, including financial management skills, are necessary for making informed business decisions in the modern competitive business environment.

3.2.5 Number of children

The size of a household is important in influencing the size of the food budget. Eliciting views on the issue of household size also gives an understanding of why some members would go as far as belonging to various business ventures. Knowing how many children were born to a member reflects the size of a member's household. To state it broadly, the more children a member has, keeping all other things constant, the higher the need to meet the basic needs of the household. Members were asked about the number of children they have. The results are presented in Figure 4 below.

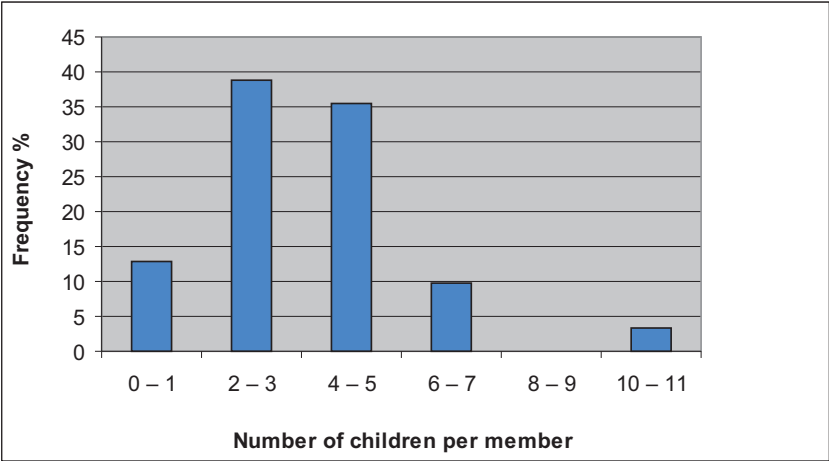


Figure 4: Members and number of children

From Figure 4 it is clear that 39 percent of members have between two and three children. Closest to that is 35 percent, which is the percentage of those with between four and five children. Even though these are not bigger households in terms of numbers, they provide a picture of average household sizes in which the expenditure on food should presumably be high, considering food prices that are still high in South Africa, in addition to the general high standard of living that urban dwelling demands.

3.2.6 Involvement in other business ventures

Involvement in other forms of formal or informal businesses or revolving arrangements on holding funds reveals how desperate members are in their search for alternative sources of income. Therefore, the need for more resources to meet their un-satiated needs compels members to hunt for alternative sources. The results of the survey on this issue of multiple engagements are reflected in Table 1 below.

Table 1: Involvement in other entrepreneurial ventures

Cooperative only	Type of business	Belonging to a cooperative and other entrepreneurial ventures
15	Stokvel	10
	Catering	2
	Electrical	1
	Taxi	1
	Hair salon	1
	Hawking	1
15		16

N = 31

Table 1 indicates that 52 percent of members were found to belong to other forms of businesses where they also eke out a living, parallel to belonging to a cooperative. Of those engaged in other businesses outside the usual cooperative business, 63 percent are engaged in a stokvel as a form of informal business in which some revolving funds are held and distributed to members according to their agreement. Though an insignificant percentage has been recorded for catering, electrical engagements, taxis, hair salons and hawking, these remain useful forms of business undertakings in which some members are involved, as they attempt to diversify their sources of income. Only 48 percent of members are solely involved in cooperatives with no other parallel business undertakings.

As pointed out earlier, the choice to operate a parallel business could be attributed to the budgetary needs of the household. This pressure provides the impetus to secure other alternative sources of livelihood in order to earn much needed income. For older members, engaging in alternative business activities could stem from a survival strategy in response to the need to feed their grandchildren, while younger members would engage in these ventures in an attempt to feed their own children.

3.2.7 Income

In modern society, income is seen as an important variable affecting the survival of a household. Income is needed to cater for the daily demands of life, among others medical needs, food and transport. Income plays a vital role in ensuring that needs that exist and services that are required are met. Earning sufficient income could also serve as insurance against unforeseen demands and eventualities.

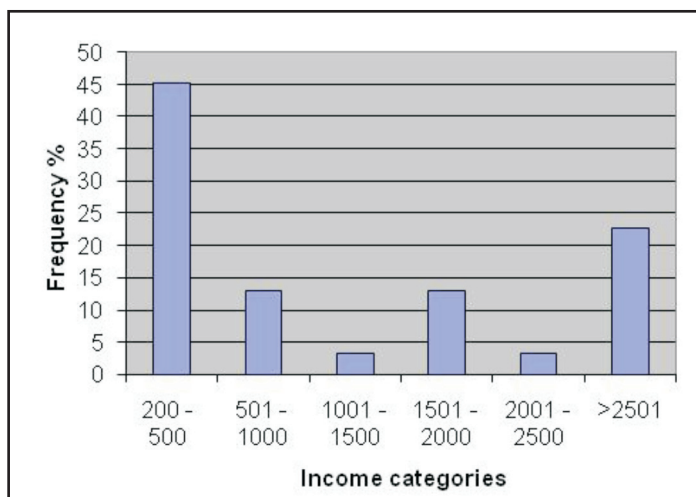


Figure 5: Monthly income of members

The higher one's income, the better (if spent well) the earner will be placed in terms of his/her household's food security status. In Figure 5, the results of this study show that 45 percent of members earn a monthly income between R200 and R500. Second to this category is a category of members (38 percent) whose monthly income is at least R2 501. The income gap between those that earn R200 to R500 and those that earn R2 501 and more depends on the type of cooperative in which they are involved. It was found that members involved in gathering recyclable materials in the eastern part of Pretoria earn more than those involved in baking, hawking and selling handcrafts. Members of a cooperative at Heatherly Landfill collect cardboard boxes, plastic materials and plastic containers, which they sell to agents of recycling companies. The income of these members could be even higher if they avoided middlemen by supplying recycling plants directly and also if they owned a scale on which to weigh the recovered materials for sale. The scale they use to weigh what they have collected from the dumping site belongs to middlemen who determine that when the scale is used, the collection should be sold to the same middlemen. This condition carries an income-reduction implication, since in normal circumstances middlemen prefer to buy for less and sell for more.

3.2.8 Positions held and training received

The role of training is important in fulfilling leadership responsibilities. Without good leadership skills, members lose focus and begin to dwell on internal conflicts. In this study the results of training for positions held by members appear in Table 2 below.

Table 2: Positions and associated training received

Position	Frequency Percent	Trained	Total
Chairperson	16	2	5
Treasurer	10	2	3
Secretary	6	0	2
Other	68	3	21
Total	100	7	31

Table 2 reflects that 32 percent of the respondents occupy management positions. Of these, 50 percent are either chairpersons or vice-chairpersons. Of the 50 percent of who are either chairpersons or vice-chairpersons, only 40 percent have received training in leadership to ensure that they do their work properly. The training that members received was in the form of short courses. With regard to the position of treasurer, 66 percent received training, but 33 percent did not receive any training, which in practice implies that out of three treasurers, only two had attended short courses on financial management.

3.2.9 Transparency on filling management positions

Regarding the process of electing members to management positions, the study found that 71 percent of respondents agree that the process is transparent while 29 percent state otherwise. Usually, management positions in a cooperative are filled by consensus at an Annual General Meeting (AGM). At an AGM a one-member-one vote principle applies. This remains the rule that governs cooperative operations. The same is found in the Cooperative Act of 2005. However, the process can in itself be subject to behind-the-door canvassing. When this happens, those with strong influence could have those they prefer appointed in management positions. Thus, without proper checks and balances, the process could easily be manipulated. In addition there are no extra specific requirements with which one has to comply with before assuming a management position. The current way of doing things consequently relies heavily on the usual process of an AGM. This weak approach does not augur well for the need to advance the course of workers' cooperatives, given that these entities generally struggle to earn a better reputation in relation to business records.

3.2.10 Joining fees and membership contributions

Joining fees are prescribed in most cooperatives as member contributions and these contributions are more or less related to an owner's equity in formal big-business undertakings. It was found that this expectation is not applicable to other cooperatives. Where joining fees are required, it was found that these fees are a reflection of one's commitment to the course of the cooperative business. In some cases, instead of joining fees being levied as a once-off exercise, a membership fee may be contributed monthly or annually. Joining fees and membership contributions tended to become a contentious issue in the workers' cooperatives that were visited. At one point a member contributed the highest amount, which was beyond the set amount of R25 per month. However, there are no formal mechanisms in place to enforce membership contributions. The results on joining fees and membership contributions appear in Figure 6.

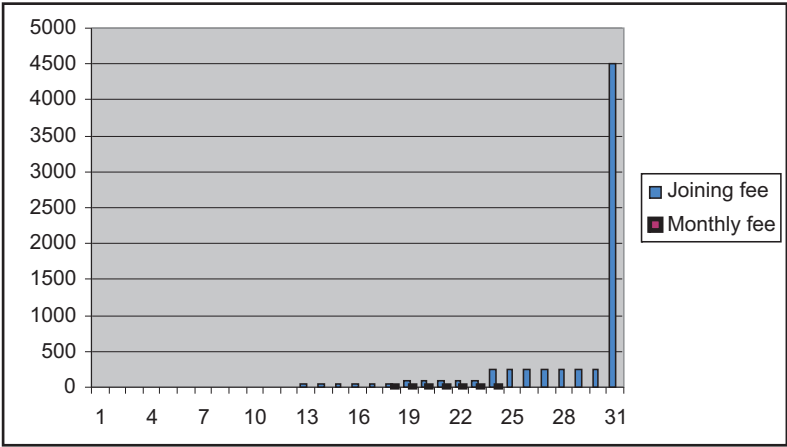


Figure 6: Once-off joining fee and other periodic membership contributions

Figure 6 shows that about 39 percent of respondents did not pay their once-off joining fee, 19 percent paid R50, 16 percent paid R100 and 3 percent paid R4 500. With regard to a monthly membership contribution, only 23 percent consistently paid R25 as their contribution. The implication of non-payment of a once-off joining fee is that an already financially vulnerable cooperative in its infancy stage may begin to face serious financial challenges. There is also an element of demoralisation, which resonates among members to the extent that any future mobilisation of members to contribute to a particular activity could invite historical tendencies of non-payment of the joining fee. The element of believing that non-payers are not committed may affect further requests for higher contributions.

Besides a once-off joining fee or a continuous levy, any other contribution, such as transportation for management representatives to attend a meeting elsewhere, would be difficult. This was found to be the case with members at the dumping site in the eastern part of Pretoria. Because of a trend of non-payment among some members and also lack of information on the account of their cooperative, requests to send representatives to attend a meeting in the City of Tshwane failed. The trip could only be funded by a few who sympathised with their representatives. Therefore, once an element of lack of commitment begins to filter in, it sends negative signals that erode the general enthusiasm of members of the cooperative. Unfortunately the nature of worker cooperatives is such that members play a dual role of being owners and workers. Therefore, anything that could demoralise workers would easily frustrate the future of the cooperative.

A member of a cooperative who contributes much more than others could turn out to have a strong bargaining arm compared to non-paying members or those making very little financial contribution. Although this is a strong argument however, it is a possibility. Furthermore, this skewed way of contributing is an indirect way of buying a high degree of indirect ownership of the cooperative, which could also translate into having more power in decision-making, with a possibility of being easily “wheel-chaired” into the management section of a cooperative business. This view is based on the psychological notion of expectation, in terms of which one who is better placed in financial terms may have stronger bargaining power compared to a weaker one.

3.2.11 Possession of documents and records

It is imperative and expected that every member of a cooperative should be familiar with legally binding documents that governs the cooperative (i.e. constitutions, bylaws, Act). Other documents that are relevant include bank statements. In this context members are expected to be familiar with the constitution that governs their cooperative business. In this study, with regard to the existence and familiarity with a constitution of a cooperative, it was found that 74 percent of respondents were aware of the existence of a constitution and its purpose. Those who were not sure or were not aware of these matters constituted 26 percent. Even if people are aware, it does not imply that they all understand constitutional guidelines in detail. It simply means that they know that the cooperative has a constitution in place but they may or may not understand how their cooperative should operate.

With regard to membership records, 97 percent of respondents agree that there is a record of membership. About financial records, 74 percent of respondents agree that such records are kept on the operations of their cooperative. Regarding minute-taking, 68 percent say a minute-book is kept, but whether or not the record is updated is another matter. In connection with the stock they buy or produce for the market, 39 percent agree about the existence of a stock book.

3.2.12 Performance rating of the cooperative

The word performance could at times be misinterpreted. Even in this study, members had to be reminded time and again of the meaning of performance. In this study the word 'performance' is interpreted in a simplistic way in that it is about judging by making enquiries about whether or not there are improvements in the way a workers' cooperative operates and its sustainability in future, given its current operations. This judgment is based on a member's institutional memory of the performance history of the entity. The results are presented in Figure 7 below.

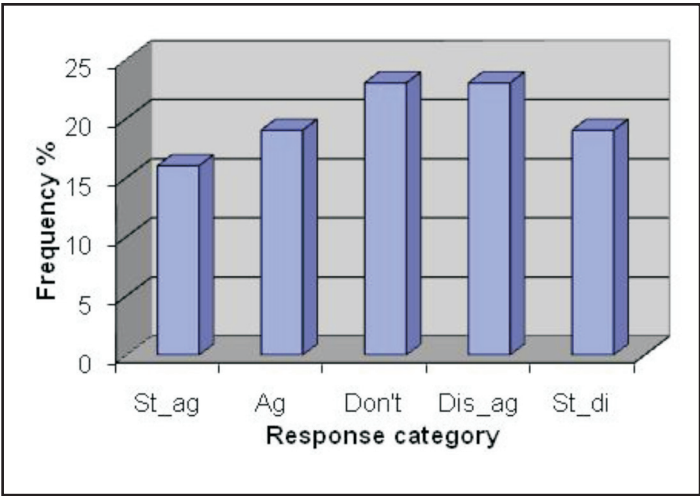


Figure 7: Performance rating of a cooperative

Figure 7 reflects that 16 percent of respondents *strongly agree* that the cooperative is performing well, 19 percent, *agree* 23 percent *don't know*, 23 percent *disagree* and 19 percent *strongly disagree* . It indicates that a higher percentage of members are very sceptical about the future of their cooperatives. Obviously there are problems, as indicated in previous sections of this study. Once financial benefits are not forthcoming and use of the business's financial resources is not

clear or when members are not given frequent updates on what is happening in the account, they tend to be discouraged. Elected management could easily incite serious dissatisfaction and have a negative impact on members' commitment. Lack of proper leadership may also affect the morale of members. Furthermore, at Carolina, a baking cooperative faced a tough time settling the loan they received for the baking equipment. Income from the sale of bread and confectionery was inadequate to meet the outstanding costs. The reasons for the failure to settle the outstanding loan could be attributed to diseconomies of scale and the low quality of the bread, which consumers seemed to shun. In addition, consumption of the products of the entity, in this case bakers who on a daily basis received two loaves of bread, reduced the chances of improving the financial position of the entity.

3.3 Other barriers to success

These barriers relate to the operations, management and expansionary aspirations of workers' cooperatives that were surveyed. The views and in fact the troubles are common and thus require similar interventions in all four workers' cooperatives. Therefore, in view of the similarities of concerns, the manner in which this study deals with them is by combining all concerns in one integrated table, appearing below.

Table 3: Operational concerns of members

		Ivory Park	Heatherly Landfill	Mamelodi	Carolina
RAISED CONCERNS					
Lack of organised markets		XXXXX	XXXXXXX		
Lack of access to financial institutions for borrowed capital				XXXXX	
Lack of leadership skills at management level					XX
Theft of business assets such as computers		X			
Lack of transport to the factory/market					X
Lack of scale to weigh products for sale			XX		
Lack of safety measures to avoid accidents			X		
Lack of electricity			X		
Lack of baling machine and scale					
Misunderstandings among members and in-fights			X		
Restrictions by the municipality on operating at profitable centres				XXXXX	
Lack of training on cooperatives and in baking				XXXXX	X
Lack of commitment of some members					XX
Low quality bread					X
Inadequate stock for sale			X		
Lack of government support				XXXX	

In Table 3 the sign 'X' denotes that concern was registered and the use of more of the same sign shows the weight of a particular concern. In other words, a concern that has been raised by many people would register more weight, i.e. more Xs. In Table 3 the concern about which members expressed the strongest views is their struggle to gain market access for finished products. These products include handcrafts and also products for recycling, which they collect at the dumping site, as well as hawker products. In the case of hawker products, the constraint on market access is the result of municipal restrictions that prevent members from operating at certain sites, which hawkers perceive as 'hot sites' for customers. There is also lack of access to financial resources, particularly working capital, owing to the exclusion of members from formal financial institutions. This exclusion is based on collateral criteria that financial institutions require. Members of cooperative entities are regarded as risk clients and thus they are left out.

Lack of training on cooperatives is also rated high in Table 3. This means members lack training that would give them appropriate skills to manage their businesses. The local government structures are also regarded as not supportive enough, especially to hawker members operating at Mamelodi. Issues that are rated low include theft of assets, a shortage of electricity at the dumping site, lack of transport to reach the consumers or clients, which could also be a result of high transport costs associated with diseconomies of scale affecting supplies to the market. Lack of baling machines at the dumping site and the low quality of bread at Carolina both receive low ratings. Concerns that are rated low may or may not be really insignificant in view of being related to particular entities only.

3.4 Summary of success factors

In this section, success factors have been identified as those that when attended to, would result in cooperative operators finding their entities running better. One could also point out that these factors come from those variables that were focused on during the survey, but which are related more strongly to the activities of the cooperative entity. These success factors appear in Table 4.

Table 4: Identified success factors in surveyed workers' cooperatives

Factors	Acquired through or imparted through	Expectation of success
Leadership competency	Experience acquired elsewhere/training (including training for board members)	Possess leadership qualities
Cooperative skills	Training	Highly expected
Membership commitments	Once- off joining fees and continuous . membership-contributions	Full commitment through paying fees
Entrepreneurial knowledge	Training	Possess skills, activity-based skills and general understanding of cooperatives
Financial management	Training	Training that is necessary to gain required skills
Record-keeping	General secretarial skills	Regular record-keeping
Economics of scale	Increase capacity to produce	Adequate economies of scale
Quality standards of products	Training	Maintenance of high-quality products
Access to financial resources	Group lending and government-targeted support programmes	Readily available working capital

4 DISCUSSION, CONCLUSIONS AND POLICY SUGGESTIONS

4.1 Discussion and conclusion

This study answered three research questions that were posed earlier in Section 1. These research questions were answered as follows: the first research question aimed to investigate the *modus operandi* of workers' cooperatives in the study areas. In answering this question, it came to light that the gender inclination of the participants shows females to be dominant; old women for that matter. This may result in misunderstanding of the cooperative concept to the extent that it might be perceived as an undertaking that is reserved for a particular gender and also as one that suits old women. Although workers' cooperatives are exciting ventures, they are faced with the challenge of lack of collective bargaining mechanisms to carry them to higher levels of the business hierarchy. Indications that the rewards from workers' cooperatives are minimal imply that this choice is unpalatable for young people whose appetite is for careers that offer better rewards.

There is no way in which one could establish a cooperative without training its leadership in management and leadership principles. More often than not, conflicts in such circumstances are inevitable and it appears that not even conflict resolution practices have been taught to cooperative members in the study areas. This lays the foundation for failure. Since most of the workers' cooperatives in the study areas are struggling to remain afloat, as reflected in the responses to questions on performance, the possibility of failure could be high. The fact of the matter is that the cooperative concept as a tool for addressing the poverty concerns of the majority of South Africans does not seem to be understood well.

The second research question asked how these cooperatives have benefited their members. Benefits have come in several ways. Though the focus has been on income benefits, other benefits have also been recorded, such as the two loaves of bread every member receives on a daily basis and skills that have been acquired through training attended by members. Employment opportunities that have been created have rescued members from belonging to the big battalion of the unemployed.

The last research question tried to establish the lessons that could be derived from the challenges of workers' cooperatives being studied. It was revealed that though workers' cooperatives seem to attempt to deal with the economic concerns of those who set them up, they are nevertheless vulnerable to external economic shocks, like all other business entities. These cooperatives are constantly inundated with various challenges, some of which could have been prevented had attention been devoted to issues of concern, such as good leadership and training in critical areas,

e.g. financial management, cooperative skills and proper planning. Furthermore, when membership commitments are ignored, the resultant effect could be that members become discouraged and their lack of commitment becomes a weakness that spreads further to other members, which could cause failure of the entity.

Workers' cooperatives are useful in terms of their economic provision and they are in no way unsuitable for promotion, unless proper supportive and enabling instruments are not in place. Suitable type of cooperatives for this purpose would be service cooperatives in that management would be outsourced. The challenge facing a service cooperative considered for the poor sections of society is that it would require more financial resources, which the poor lack. Nonetheless, a workers' cooperative could also be suitable as long as there is appropriate support for it and a proper vision to be followed and those in leadership positions and in the production function have the required skills for the entity to operate.

4.2 Policy suggestions

The current high level of government intervention in cooperative businesses is not without problems. The issue still has to be observed before the type of cooperative that would suit the South African environment can be decided on. From the study it can be deduced that workers' cooperatives are not presenting a rosy picture and if not supported, they may discourage many people who have not had a taste of being involved in a cooperative. The consequence could be that in future those who have experienced failure may stay away from cooperative undertakings and they may at all cost avoid attempting to engage in similar businesses. Although the government budget for the past few years for the cooperative sub-sector has been reasonable, little has actually reached cooperatives on the ground. Efforts should also be made to ensure that financial institutions become partisans to SMEs' growth aspirations. To eliminate the current hurdles that workers' cooperatives face with regard to accessing finance, some guarantees should be secured from the government in order to cushion members' collateral deficiencies for a specified period of time. Cushioning could be done on the basis of infant industry protection, but this would have to be checked with the World Trade Organisation's rules and the European Union and South African Trade, Development and Cooperation Agreement to ensure compliancy. Regarding other interventions, the government and interested partners should intensify their commitment by sponsoring activities that shed light on cooperatives.

It is also worth mentioning the weakness of the South African research environment that seems to be skewed towards big businesses. Instead of concentrating only on bigger businesses, academic institutions in South Africa should begin to confront the research challenges of cooperatives in general. The relevance of research institutions should also be felt through research outputs that assist SMEs and cooperatives in particular so that they may play a larger role in the economy. Having identified training as crucial for management and leadership purposes, relevant training packages should be tailor-made to suit the business needs of workers' cooperatives. However, the magnitude of challenges that have been identified as precursors to the failure of workers' cooperatives leaves one wondering whether or not workers' cooperatives are suitable for ordinary poor South Africans. For further research, this study recommends investigation into the possibility of creating a hybrid type of cooperative to suit the South African situation. The hybrid type of cooperative, if established, should borrow some tenets of workers' and service cooperatives. However, the rational way would be to seek ways of addressing existing constraints that have been pointed out so that meaningful progress may be achieved.

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DGRV CO-OPERATIVE AND BAKERY TRAINING CENTRE

Objects of the Centre

The objects of the centre are to:

- Provide facilities and engage in research and training for the promotion and development of cooperatives entrepreneurship, philosophy, principles and values;
- Act as a centre for the consolidation and development of the cooperative movement through education and training and for the exchange of information in the field of co-operatives; and
- Promote and develop capacity building through entrepreneurship and business leadership;
- Equip new and existing bakers with cutting edge skills in baking.

TRAINING COURSES

Understanding Cooperatives

Communication in cooperatives

Organisational Development

Bakery Training

How to form a Cooperative

Train the Trainer Training (TOT)

Cooperative Governance

Financial Services Cooperative Management

Cooperative Audit and Control



South Africa

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