

**A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING  
THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT  
MUNICIPALITY**

**by**

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## **DECLARATION**

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## ABSTRACT

The inclusion of cooperatives in the country's major development frameworks is a declaration of the government's confidence in their ability to enhance socio-economic development. Given the conviction, this study was conducted primarily to establish the extent to which cooperatives have enhanced the socio-economic development of poor communities; also to analyse the role of legislation in developing cooperatives; to identify factors that facilitate or impede the development of cooperatives, and lastly; to formulate a framework that can improve the functionality and sustainability of cooperatives. The Chris Hani District Municipality (CHDM) was used as the research site from which a diverse sample of 254 purposively selected state officials, cooperative members, and community members was assembled. Data from the sample was collected by focus groups and in-depth individual interviews. Effectively, the study has used data triangulation in the collection of data and interpretivist thematic content analysis to analyse it.

The findings of the study established that cooperatives indeed contribute to socio-economic development. Poor communities use cooperatives for job creation, income generation, poverty alleviation, food security, crime reduction, and community empowerment. Apart from this positive finding, the study has also revealed that the legislation specifically promulgated to support cooperative development is poorly implemented. State institutions meant to implement these laws are reluctant to do so. Moreover, the study has identified a myriad of factors that impede the performance of cooperatives in socio-economic development. Together with poor implementation of the legislation, these factors debilitate the performance of cooperatives and result to their underdevelopment.

Overall, this study has established that poor state support is the major factor that hinders the performance of cooperatives in socio-economic development. Based on this finding, the research recommends a comprehensive and integrated support programme as the conceptual framework by which state support should be provided to cooperatives to improve their performance in socio-economic development.

**Keywords:** cooperatives, socio-economic development, triangulation, interpretivism, purposive sampling, interviews, focus groups, thematic content analysis, semantic themes.

## OPSOMMING

Die insluiting van koöperatiewe maatskappye in die land se oorhoofse ontwikkelingsraamwerke is 'n verklaring van die regering se vertroue in hul vermoë om sosio-ekonomiese ontwikkeling aan te moedig. Gegewe hierdie vertroue, was hierdie studie hoofsaaklik uitgevoer om te bepaal tot watter mate koöperatiewe maatskappye die sosio-ekonomiese ontwikkeling van arm gemeenskappe bevorder, om die rol van wetgewing in die ontwikkeling van koöperatiewe maatskappye te ontleed, en, laastens, om ander faktore te identifiseer wat die ontwikkeling van koöperatiewe maatskappye bevorder of verhinder. Die Chris Hani-distriksmunisipaliteit was gebruik as die navorsingsligging, vanwaar 'n diverse steekproef van 254 doelbewus-geselekteerde staatsamptenare, lede van koöperatiewe maatskappye, en gemeenskapslede getrek is. Die steekproef se data is versamel deur middel van fokusgroepe en omvattende onafhanklike onderhoude. Die studie het gebruik gemaak van data-triangulering om data en tematiese inhoud te versamel en te ontleed.

Die studie het bevind dat koöperatiewe maatskappye inderdaad bydra tot sosio-ekonomiese ontwikkeling. Arm gemeenskappe gebruik koöperatiewe gemeenskappe vir werkskepping, die skepping van inkomste, voedselsekuriteit, die vermindering van misdaad, en die bemagtiging van die gemeenskap. Buiten hierdie positiewe bevindinge, het die studie bevind dat die wetgewing wat spesifiek ingestel is om die ontwikkeling van koöperatiewe maatskappye te ondersteun, swak geïmplementeer word deur staatsinstellings. Die studie het ook menige faktore geïdentifiseer wat die werkverrigting van koöperatiewe maatskappye in sosio-ekonomiese ontwikkeling verhinder. Tesame met die swak implementering van die wetgewing, verswak hierdie faktore die werkverrigting van koöperatiewe maatskappye en lei tot hul gebrekkige ontwikkeling.

In die algemeen het hierdie studie bevestig dat swak ondersteuning deur die staat die hooffaktor is wat die werkverrigting van koöperatiewe maatskappye in sosio-ekonomiese ontwikkeling belemmer. Gebaseer op hierdie bevinding, stel die navorsing 'n omvattende en geïntegreerde ondersteuningsprogram voor as die konseptuele raamwerk waarvolgens staatsondersteuning verskaf moet word om die werkverrigting van koöperatiewe maatskappye in sosio-ekonomiese ontwikkeling te verbeter.

**Sleutelwoorde:** koöperatiewe maatskappye, sosio-ekonomiese ontwikkeling, triangulering, interpretivisme, doelbewuste steekproefneming, onderhoude, fokusgroepe, tematiese inhoudsanalise, semantiese temas.

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## **DEDICATION**

This dissertation is dedicated to the late Doctor Wela Wellman Manona, my first supervisor for the degree, who not only persuaded me to pursue doctoral studies, but also ensured that I registered for the degree with the university. If it was not for his persistent persuasion, perhaps I would not have registered for the degree. His unwavering and constructive supervision during the first years of my doctoral studies laid a solid foundation, which aided me in navigating the challenges I encountered during the course of the study. For his special contribution to my personal development, I will forever remain indebted to him.

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## LIST OF ABBREVIATIONS

B-BBEE	Broad-Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
CDA	Cooperative Development Agency
CHCDC	Chris Hani Cooperative Development Centre
CHDM	Chris Hani District Municipality
DEDEA	Department of Economic Development and Environmental Affairs
DHET	Department of Higher Education and Training
dti	Department of Trade and Industry
ECDC	Eastern Cape Development Corporation
ECRDA	Eastern Cape Rural Development Agency
FET	Further Education and Training
GDP	Gross domestic product
ICA	International Cooperative Alliance
ICT	Information and communications technology
IDP	Integrated Development Plan
LRED	Local and Regional Economic Development
NDP	National Development Plan
NGC	New Generation Cooperative
NGO	Non-governmental organisation
NSDS	National Skills Development Strategy
PDD	Provincial Development Plan
PIDS	Provincial Industrial Development Strategy
PJS	Provincial Jobs Strategy
RDP	Reconstruction and Development Programme
RDS	Rural Development Strategy
RSA	Republic of South Africa
SAP	Structural Adjustment Programme

SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMME	Small, micro, and medium enterprise
SPSS	Statistical Package for the Social Sciences
TVET	Technical and Vocational Education and Training
UKZN	University of KwaZulu-Natal
UN	United Nations
USA	United States of America

## CHAPTER 1: INTRODUCTION AND GENERAL OVERVIEW OF THE STUDY

### 1.1 BACKGROUND

This study explores the role of cooperatives in enhancing the socio-economic development of communities in the Chris Hani District Municipality (CHDM). This district municipality is in the Eastern Cape Province in South Africa. It is made of six local municipalities of Emalahleni, Engcobo, Enoch Mgijima, Intsika Yethu, Inxuba Yethemba, and Sakhisizwe. Queenstown (Komani) is the chief town and main administrative centre of the district.



**Figure 1.1: Map of the CHDM**

Source: Municipalities.co.za (s.a.)

The CHDM is predominantly rural and more than 50% of the population are classified as poor (CHDM, 2017:21). Apart from government services, the main economic activity in the district is agriculture (CHDM, 2017:21). As a result, the majority of communities in the area rely on cooperatives for job creation and poverty alleviation. It was this reliance on cooperatives that generated the interest for the pursuance of this research, which is aimed at identifying strategies that can enhance their role in developing local communities.

This study views cooperatives as autonomous, collectively owned, and democratically controlled business enterprises voluntarily formed by community members who want to meet their common economic, social, and cultural needs (Battilani & Schröter, 2012:3). Cooperatives should be open and independent business organisations that are owned by community members as consumers, producers, and/or workers. Since they are community based, they are supposed to be funded by the members' contributions and retained earnings, while they equitably distribute benefits to members on the basis of usage or participation (Majee & Hoyt, 2011:51). Throughout the world, cooperatives are used as tools to reduce poverty and unemployment in poor communities (Philip, 2003:6). Both in developed and developing countries, cooperatives play an important role in socio-economic development by improving the living conditions of poor communities (Huang, Wu, Xu & Liang, 2016:100; Wanyama, Develtere & Pollet, 2009:362). As such, they are found all over the world in different sectors of the economy, creating not only job opportunities but also generating income and improving people's lives (Akbari, Kordvany, Mahdari & Moshiri, 2011:216). They are able to play this role because of their community orientation and their potential to mobilise local resources (Zeuli & Radel, 2005:43). Given this, cooperatives are perceived as the best strategy to enable poor communities to engage in productive activities to satisfy their socio-economic needs (Wanyama, 2013:127).

It is because of this potential that the democratic South African government has as early as 1996 adopted cooperatives as a means to improve socio-economic conditions in poor communities. Since then, the government has promoted their use and all major government development planning policies emphasise their role in socio-economic development. From the Reconstruction and Development Programme (RDP) of 1996 to the present National Development Plan (NDP), cooperatives are consistently recognised as relevant tools that can assist in reducing the levels of poverty, unemployment, and inequality in poor communities (Kanyane, 2009:1135). Apart from that, they are used as the means to increase the number of active black enterprises in the mainstream economy (Ndebele, 2005:18).

Given their faith in cooperatives, the government has put in place extensive legislative frameworks to promote their development. With this support and the spirit of cooperation prevalent in rural communities, it is believed that cooperatives would facilitate the improvement of socio-economic conditions in these areas (Zeuli, 2002:1).

The government expects cooperatives to contribute to bridging the gap between the poor and rich (Ndebele, 2005:18). They are convinced that cooperatives would promote the economic growth and social and political development of rural communities (Akbari *et al.*, 2011:214). In other words, cooperatives are considered as the relevant tools to give the poor, women, youths, and the marginalised some form of financial independence and the opportunity to contribute to the local economy (Kanyane, 2009:1132). Essentially, cooperatives have the ability to improve the socio-economic conditions in disadvantaged communities by empowering the local people, scaling down the levels of poverty, and creating employment opportunities. In this way, cooperatives act as the solution to the socio-economic development challenges that face poor communities (Beesley & Ballard, 2013:252).

## **1.2 PROBLEM STATEMENT**

Despite the fact that the government has adopted cooperatives as instruments to alleviate poverty, inequality, and unemployment, and has put in place supportive legislative frameworks, their potential in socio-economic development has not yet been fully realised. Even though the government consistently provides them with support, their impact on socio-economic development is not visible enough and proportional to the amount of resources invested in them. This phenomenon is attributed to a number of factors that incapacitate their functionality. Some scholars have associated their dysfunctionality with poor dissemination of information, which has led to cooperatives in rural areas being unable to access the support programmes offered by the government (Chiloane-Tsoka & Mello, 2011:1449; Mashigo, 2014:486). As such, cooperatives in remote communities remain disadvantaged compared to those in urban or suburban areas.

In instances where support strategies have managed to reach cooperatives, the allocated resources are mismanaged due to lack of managerial expertise and poor leadership skills in cooperatives (Lyne & Collins, 2008:183; Thabethe, 2012:753). Monitoring is seldom provided to ensure that the allocated resources are appropriately utilised. In fact, cooperatives in rural areas are often left on their own without proper monitoring or mentoring to nurture them to reach financial sustainability and independence (Beesley & Ballard, 2013:254). Consequently, many of them remain trapped in perpetual dependence on state support.

Lack of education and training among the members seems to be another significant impediment to their functionality and profitability as members are often ill-equipped to manage them effectively. Given these challenges, only a minority of cooperatives demonstrate resilience and have become sustainable business enterprises. Generally, this has a debilitating effect on poor communities that rely on cooperatives for job creation and poverty alleviation, and is a waste of the limited resources the government invests in these enterprises.

### **1.3 OBJECTIVES OF THE STUDY**

This study was directed by the following objectives:

#### **1.3.1. Primary objective:**

To establish the role cooperatives play in the socio-economic development of poor communities in the CHDM.

#### **1.3.2. Secondary objectives:**

- i. To analyse the role of existing legislative frameworks in the development of cooperatives in the district.
- ii. To identify factors that lead to the success or failure of cooperatives in the district.
- iii. To formulate corresponding recommendations that can improve the functionality and sustainability of cooperatives in the district.

### **1.4 RESEARCH QUESTIONS**

To achieve the objectives, this study aimed to answer the following research questions:

#### **1.4.1 Primary research question**

To what extent do cooperatives in the CHDM enhance socio-economic development?

#### **1.4.2 Secondary research questions**

- i. What legislative frameworks are in place to support the development of cooperatives in the CHDM?
- ii. Which factors lead to the success or failure of cooperatives in the district?
- iii. What needs to be done to improve the role of cooperatives in the socio-economic development of communities in the district?

#### **1.5 SIGNIFICANCE OF THE STUDY**

This research topic was selected because of increasing levels of poverty and unemployment in the CHDM and the low impact of cooperatives as one of the strategies instituted by the government to improve the standard of living of poor communities in the district. The high levels of poverty and unemployment in the district continue to be a cause for concern, which require an analysis of various strategies aimed at addressing them. The government continues to invest substantial amounts of resources in cooperatives in an effort to stimulate socio-economic development in the district. Despite these investments, the contribution of cooperatives to the socio-economic development of poor communities remains marginal. Strategies to improve their performance are essential.

While scholars like Van der Walt (2005), Ortmann and King (2007a; 2007b), Khumalo (2014), Steele (2014), and Kanyane and Ilorah (2015) have conducted studies on cooperatives in other parts of South Africa, no such research has been conducted in the Chris Hani district. Even though this study concurred with some of the findings of the previous studies, the framework espoused in this research is not part of these studies. It is believed that, if it can be implemented, it can improve the functionality of cooperatives. By the framework, this study advances the existing body of knowledge on cooperative development and management. Therefore, the findings of the study will presumably be of particular interest to the Chris Hani Cooperative Development Centre (CHCDC), the CHDM, the six local municipalities in the district, and all national and provincial sector departments and state agencies that provide cooperative support. Besides these institutions, the findings of the study may be of relevance to other municipalities in the Eastern Cape and in the rest of the country.



Overall, the government, state agencies, non-governmental organisations (NGOs), the private sector, and cooperatives stand to benefit from the findings of this study.

## **1.6 DELIMITATIONS OF THE STUDY**

Every academic research project has delimitations (Hofstee, 2006:6). Likewise, this study was delimited to the confines of the CHDM. Although there were different types of cooperatives in the district, only agricultural and manufacturing enterprises were considered given their popularity and prevalence. Also, interesting issues that emerged during the empirical investigation but fell outside the scope of the study were ignored because of limited financial resources and time constraints. The study remained focused on its objectives and avoided the exploration of information beyond its ambit, but noted it for further research possibilities.

## **1.7 THEORETICAL FRAMEWORK**

In academic research, a theory is used as the basis for the chain of reasoning that leads to an understanding or explanation of a phenomenon (Hanekom & Thornhill, 1994:48). This study used the systems theory as the framework to investigate and explain the role of cooperatives in the socio-economic development of communities in the CHDM in order to develop new knowledge and influence practice (Asmah-Andoh, 2012:12).

### **1.7.1 Systems theory**

It is appropriate that the discussion of systems theory is preceded by the definition of a “system”. The term refers to an entity formed by different components that collectively work together for the benefit of the whole (Henry, 1989:147). Structurally, a system is divisible but functionally it is indivisible (Laszlo & Krippner, 1997:10). Although it is composed of different parts, it functions as an integrated entity. Therefore, a system is a set of interrelated components joined together to function as a whole (Smith & Cronjé, 2004:61). Every system consists of three components: the identifiable components, the relationships between the components, and the limiting boundaries (Bayat & Meyer, 1994:86).

In other words, a system is a complex set of dynamically interconnected elements that are continuously interacting with the environment in which they are located. In exploring a phenomenon, the systems theory is holistic and integrative in approach as it views the phenomenon as an irreducibly integrated system (Laszlo & Krippner, 1997:36). It analyses the phenomenon as a complex whole of interrelationships between its constituent parts (Henry, 1989:147). Therefore, in terms of systems theory, a phenomenon is best analysed and understood when the factors affecting it are also considered because there is a strong interconnectedness between the components of the organisation and the environment in which it is located (Swanepoel, Erasmus, Van Wyk & Schenk, 2003:173).

The theory views the organisation as a group of interrelated parts meant to maintain an equilibrium among themselves (Smith & Cronjé, 2004:46). The theory examines the enterprise as a whole and as part of the environment in which it is located (Cronjé, Hugo, Neuland & Van Reenen, 1995:30). In this study, cooperatives are viewed as a system and are examined according to the systems theory. They are not viewed and studied in isolation as discrete entities, but as a part of the environment in which they are located. Their contribution to society is better understood when they are studied and analysed in conjunction with their environment because all organisations are dependent on their environments, which incidentally constrain their operations (Mazzarol, Limnios & Reboud, 2013:28). Since organisations are inextricably linked to their environments, cooperatives in the CHDM cannot be dissociated from the communities in which they operate and continuously interact with. Like other business organisations, they derive their inputs from the community and in return they produce products for the community (Du Toit & Van der Walt, 2008:43). This exchange often results in a recurring, mutual, and interdependent relationship between cooperatives and the community. The process is mutually cyclical and the quality of the inputs provided by the community has a reciprocal effect on the products or services offered. A change in a cooperative's inputs conversely affects the quality and quantity of the outputs. Similarly, fluctuations in the community affect and influence the actions of the cooperatives (Cronjé *et al.*, 1995:29).

Effectively, cooperatives' functioning is influenced by prevailing environmental conditions. The success of cooperatives hinges on their ability to adapt to the dynamics of the environment. For their survival, cooperatives must be consciously aware of the changes in their immediate environment and respond accordingly. Their adaptability to environmental factors is proportionate to their sustainability. Any disturbance or change in the environment has a reciprocal effect on the functioning of the entire cooperative, such that when cooperatives experience deficiencies in capital, labour, technical input, politics, or any other input, their functioning is accordingly affected and the quality of the products equally reflects the deficit.

Cooperatives are therefore inextricable from their environment since they depend on its economic, political, and social conditions (Du Toit & Van der Walt, 2008:43). As systems, cooperatives would hardly operate effectively and efficiently when any of their components malfunction. For them to function perfectly, all their interdependent components have to collectively work together in unison because the inaction of one part influences the other parts and can cause an imbalance (Smith & Cronjé, 2004:46). The interplay between cooperatives and their environment promotes a cumulative, self-sustaining, mutual adjustment and inter-systemic equilibrium between them (Bayat & Meyer, 1994:86). This suggests that the failure or inefficiency of cooperatives is not inherently within them as organisations, but due to the disequilibrium and the lack of mutual adjustment between the cooperatives and the environment.

Neither the cooperatives nor their environment are self-supporting, but are dependent on one another for their continued existence (Smith & Cronjé, 2002:63). There is constant mutual interaction and relationships between cooperatives and the environment. To maintain the equilibrium, there must be a constant alignment between the cooperatives and their environment. It is only under these conditions that cooperatives will be able to fully utilise the opportunities offered by the environment and to deal with possible threats. When the different components of the environment place contrasting demands on the cooperative, it could be impossible for it to optimally achieve its objectives (Nilsson, 1997:62). Given this narrative, it is safe to argue that nothing is innately amiss with cooperatives as a business model, but rather with their relationship with the environment.

Cooperative enterprises in the CHDM cannot fully achieve their objectives in an uncondusive environment characterised by uncoordinated government support, inadequate monitoring and evaluation, poor information dissemination regarding government support programmes, lack of education and training, lack of managerial skills and poor management practices, insufficient capital and technical skills, lack of markets, and infrastructural problems. For them to flourish and become sustainable business enterprises, a supportive and conducive environment that allows their autonomy to prevail is needed. The analysis of the role of cooperatives in the socio-economic development of the communities in the CHDM should therefore be holistic and must not only focus on their internal factors but on external factors as well. All the various factors that impact on their functionality and sustainability must be considered when their role is analysed.

## **1.8 CONCEPTUAL FRAMEWORK**

Two key concepts, namely the cooperatives and socio-economic development, underpin this study. These are the main variables this study attempted to establish a relationship between.

### **1.8.1 Cooperatives**

The concept of cooperation is as old as humankind (Groves, 1985:4). It can be traced back to early human societies when people learned to cooperate and work together to meet their individual and group needs (Zeuli & Cropp, 2005:1). Since then, people have worked together in pursuit of common goals, relying on one another to meet their needs, to the extent that without cooperation, human life would have been difficult and social and economic development would have never occurred (Ghebremichael, 2013:51). Throughout their history, people have survived and progressed by means of cooperation. Despite that, it was only in the 19<sup>th</sup> century during the Industrial Revolution that cooperatives were formally recognised as business enterprises (Majee & Hoyt, 2011:49).

The establishment of the Rochdale Cooperative in England in 1844 remains the most notable in the history of cooperative development (Zeuli & Cropp, 2005:1). It became the epitome of the cooperative business model as its principles and business practices were adopted worldwide as the tenets by which cooperatives were governed. Given this influence, cooperatives are now regarded as economic tools to be used by people who have the same economic objectives that can be achieved through collective capital (Van Dooren, 1982:9). Cooperatives are now perceived as business enterprises voluntarily organised, owned, funded, and controlled by their members, who then share the risks and benefits in proportion to their contribution (Roy, 1981:6).

In effect, cooperatives bring together different people to attain a common need through the operation of a democratically controlled business enterprise (Majee & Hoyt, 2011:50). The International Cooperative Alliance (ICA, 2013:2) therefore defines cooperatives as “autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises”. A cooperative is therefore a group of people who experience a common economic, social, or cultural need they believe could be resolved by forming and operating a joint, democratically owned business enterprise capitalised by their direct investment and retained earnings, which distributes benefits to members in proportion to their contributions.

Given the diversity of people’s needs, cooperatives exist in various forms. There are consumer, worker, producer, and service cooperatives. Essentially, these categories are based on the type of service or the product the enterprise offers. A consumer cooperative is formed by individuals who want to supply their needs directly by the practice of mutual aid (Warbase, 1946:5). Its purpose is to mutually produce goods and services for the benefit of the members rather than for sale. Selling occurs as the means to meet the needs of the members. Apart from producing goods, consumer cooperatives may also procure and distribute goods or commodities to its members.

On the other hand, worker cooperatives are industrial business enterprises owned and controlled by the workers to provide employment to its members through the production of goods or services for sale to consumers (Bottomley, 1987:37). These enterprises are owned and operated democratically by the employees through the principle of “one member one vote” (Majee & Hoyt, 2010:419).

In these enterprises, the labour chooses the management and the administrative structure through a democratic political process (Burdin & Dean, 2009:518). The distinguishing feature of these cooperatives is that the workers in the enterprise are the owners. They blend worker ownership with democratic control of production. The costs and benefits of the enterprise are also incurred and enjoyed by the same group of people (Majee & Hoyt, 2010:419).

Essentially, worker cooperatives are established in an attempt to find more empowering alternatives to conventional employment and ownership relations in society (Phillip, 2003:3). Although worker cooperatives are commonly started by members of the community, investor-owned business enterprises can sometimes be converted into this form of enterprise. This conversion is often performed to “preserve jobs; improve working conditions, wages and productivity; spread ownership of capital more broadly; and establish more democratic work environments” (Zeuli & Cropp, 2005:37).

Producer cooperatives are business enterprises that are collectively owned by a group of people who sell a factor of production to the firm (Hansmann, 1999:388). Producer cooperatives are primarily agricultural cooperatives that produce, process, or market agricultural products and supply agricultural inputs and services to its members (Bottomley, 1987:37). Service cooperatives are those enterprises that are engaged in the provision of financial or social services to its members, and these include housing, healthcare, childcare, transportation, communication, and care for the elderly, children, and the sick (Hansmann, 1999:388). Burial societies that provide funeral benefits, including funeral insurance and other services to its members and their dependants, as well as financial services cooperatives (*stokvel*) that provide financial services to its members, are the most common examples of service cooperatives in South Africa.

Depending on their composition and purpose, cooperatives can also be classified as primary, secondary, or tertiary cooperatives. A primary cooperative is formed and operated by a minimum of five natural persons to facilitate community development by providing employment or services to its members and the community; while a secondary cooperative is formed by the grouping together of two or more primary cooperatives to provide sectoral services to its members; and a tertiary cooperative,

which is commonly known as an apex cooperative, is composed of associations of secondary cooperatives and is aimed at lobbying government, the private sector, and other stakeholders in the interest of the members (Warbase, 1946:5).

Irrespective of the categorisation, cooperatives are supposed to be organised and governed by the following seven fundamental principles established by the ICA:

1. voluntary and open membership;
2. democratic member control;
3. member economic participation;
4. autonomy and independence;
5. provision of education, training, and information;
6. cooperation among cooperatives; and
7. concern for the community (ICA, 2013:2).

These principles essentially differentiate cooperatives from conventional business enterprises. Besides these principles, cooperatives must also be based on values of self-help, self-responsibility, democracy, solidarity, honesty, openness, social responsibility, and care for others (ICA, 2013:3). Also, as democratic institutions, cooperatives must promote voluntariness, equity, and equality. Voluntariness means ensuring that members are free to join and secede without any coercion. Members must have the freedom to decide on the form and the intensity of their participation in the cooperative. Equity embodies justice and proportionality with regard to a cooperative's economic relations.

The benefits generated by the enterprise are equitably distributed to the members based on patronage or contributions made (Zeuli & Radel, 2005:44). The profit and the dividends are paid to the members in proportion to their usage or patronage, not in proportion to members' investment or share ownership (Ortmann & King, 2007a:20; Roy, 1981:6). Equality is purely a democratic principle based on the fact that each member has one vote only, irrespective of age, the amount of capital invested, and the clan or family to which the member belongs. In this way, cooperatives engender equality because all members have the same, equal voting rights. Similarly, the members as the owners of the enterprises are directly involved in the policymaking process.

Despite the different types and forms, all cooperatives are meant to improve the socio-economic conditions of their members. They are not primarily focused on the maximisation of profit but on promoting the economic wellbeing of their members and maintaining a good standard of living (Puusa, Mönkkönen & Varis, 2013:6). Unlike conventional business enterprises, cooperatives are not only concerned with making profit, but also to satisfy the needs of their members. They are not for the purpose of obtaining the difference between the cost and the selling price (Warbase, 1946:34). Instead, they are intended to serve the interests of the members by improving their economic, social, and psychological conditions and the community as a whole (Puusa *et al.*, 2013:6; Roy, 1981:6; Van Niekerk, 1988:123). While they enhance the economic status of their members, they equally emphasise their humanistic aspects as well (Battilani & Schröter, 2012:3).

Cooperatives empower people to improve their quality of life, while they also enhance their economic opportunities through self-help (Ortmann & King, 2007a:23). They represent a unique combination of a social group of members and a business enterprise (Van Dooren, 1982:11). In other words, they are dualistic in nature and are therefore two things in one (Puusa *et al.*, 2013:7). As a social union of people, they should be flexibly organised; and as business unit, they should generate profit from their operations (Van Dooren, 1982:11). Because they are able to blend financial and social capital with human capital, they are the ideal instruments to promote the socio-economic development of poor communities (Majee & Hoyt, 2011:52; Zeuli & Deller, 2007:14). In so doing, they enhance both the social and economic empowerment of the community by mobilising the local resources into a critical mass and then promote the preservation of the profit generated in the community (Zeuli, Freshwater, Markley & Barkley, 2004:18).

Effectively, cooperatives are responsive to the members' needs and reflective of the values of their communities (Dobrohoczki, 2006:142). The practice of democracy and open membership aligned them with the aspirations and interests of the community. They are open community organisations with everyone in the community eligible to join, provided they meet the requirements. No one in the community should be denied membership or excluded from joining, unless members are of the opinion that such membership would not add value to the cooperative. Cooperatives should also remain neutral in matters of politics, religion, race, and nationality (Roy, 1981:6).



Membership should not be influenced by someone's affiliation (Wilkinson & Quarter, 1996:44). Instead, cooperatives should be platforms on which all people of different affiliations can unite and work together without any form of discrimination.

### **1.8.2 Socio-economic development**

Socio-economic development is a process to promote economic growth and the creation of a better life for all in response to the gross inequalities and absolute poverty created by the world economy (Ferrinho, 1980:21; Kotze, 1997:1). Stated differently, it is a process that sustainably increases the real per capita income of the country, while reducing poverty and inequality (Martinussen, 1997:37). It is a broad societal change that encompasses mutually related economic, social, and political improvements (Jeppe, 1985:35). In other words, socio-economic development can be described as a multi-dimensional restructuring of the economic and social aspects of a community (Ijeoma & Nwaodu, 2013:27). It is a process that is meant to bring about national progress through economic growth and improvement in the provision of basic human needs (Potter, Binns, Elliott & Smith, 2008:5). Essentially,

it increases the availability and the distribution of basic life-sustaining goods such as food, shelter, health and protection; raises the levels of living, including higher incomes, the provision of more jobs, better education, and greater attention to cultural and humanistic values to enhance material well-being and to generate greater individual self-esteem; and expand the range of economic and social choices available to individuals (Todaro & Smith, 2011:22).

Basically, development is positive social, economic, and political change in a community (Kotze, 1997:1). This is an all-embracing and inclusive process that cuts across economic, political, social, cultural, and geographic dimensions. It is a process by which a society evolves from a condition of life widely perceived as unsatisfactory towards a condition of life regarded as materially and spiritually better (Todaro & Smith, 2011:16). During this transition, people are able to realise their potential, build self-confidence, and lead lives of dignity and fulfilment, which entail increased living standards, improved health, and wellbeing for all (Ijeoma, Nzewi & Sibanda, 2013:17).

Fundamentally, this change in quality of life encompasses reduced levels of poverty, better education, higher standards of health and nutrition, better life expectancy, a cleaner environment, greater individual freedom, and a richer cultural life for the rest of the community (Szirmai, 2015:xxi). In effect, socio-economic development is a positive change in the material conditions in a community, which results in a life that the citizens perceive as good (Kotze, 1997:1). Therefore, socio-economic development is a comprehensive process that responds to the social, cultural, political, and economic needs of the citizens by reducing unemployment, poverty, and other social ills, to bring about sustained elevation of the entire community towards a better quality of life. Throughout this dissertation, the role of cooperatives in society is analysed and viewed in relation to their contribution to reducing unemployment and poverty in poor communities.

## **1.9 STRUCTURE OF THE DISSERTATION**

This dissertation is structured as follows:

### **Chapter 1: Introduction and General Overview of the Study**

This chapter provides a general overview of the entire study. It introduces the study, and outlines the research problem and objectives of the study. It also mentions the significance and the delimitations of the study. At the end, the chapter provides both the theoretical and conceptual frameworks that underpin the study.

### **Chapter 2: Literature Review**

This chapter reviews related literature on cooperatives, particularly studies that were conducted in South Africa. It starts by tracing the historical development of cooperatives in the country. This history is important in order to provide a historical context by which cooperatives have evolved in the country. The remainder of the chapter provides an analysis of scholarly work on the role of cooperatives in socio-economic development and their associated challenges.

### **Chapter 3: International Perspective on Cooperative Development**

This chapter is essentially part of the literature review but specifically focuses on cooperatives in countries beyond South Africa. It explores and reflects on the experiences and practices of cooperatives in other countries. This exploration was

necessary to provide clues that assisted in the formulation of the framework espoused in this research.

#### **Chapter 4: Policy and Legislative Frameworks**

This chapter analyses the legislation and policies that the South African government has promulgated in the effort to promote cooperative development in the country. The purpose of this analysis is to establish how these laws and policies could assist cooperative development.

#### **Chapter 5: Research Design and Methodology**

This chapter outlines the research design and methodology used in undertaking the empirical investigation. It explains the research methods used and provides motivation for their selection. The sampling methods used in selecting the subjects and the data-collection techniques used to gather information are explained and their selection is justified. The method by which the empirical data was analysed is also described. The chapter also outlines the ethical considerations the research observed.

#### **Chapter 6: Analysis and Discussion of the Empirical Findings**

This chapter analyses the empirical data. The qualitative data from the interviews and focus groups are subjected to thematic content analysis. The chapter also provides a comprehensive synthesis and comparative alignment of the empirical findings with both the literature review and the theoretical framework.

#### **Chapter 7: Summary, Conclusions, and Recommendations**

This chapter provides an executive summary of the entire study. It outlines the deductions and conclusions drawn from the study. It outlines the conceptual framework proposed based on the findings. It also indicates the limitations encountered during the empirical investigation and identifies issues recommended for further research.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This chapter presents the literature review, which is an activity that is vital to any form of empirical investigation (Majam & Theron, 2006:603). The exercise entails searching for, reading, and evaluating almost every item of accessible literature that is directly and indirectly related to the topic of a study (Du Plooy-Cilliers, Davis & Bezuidenhout, 2014:101). In the process, the researcher examined published and unpublished documents that contained information, perceptions, opinions, data, and evidence relevant to the role of cooperatives in socio-economic development. The examination was aimed at integrating and synthesising what has been thought and researched on the topic to acquaint the researcher with the latest information. The activity helped to link the research topic with the existing knowledge and to situate the study within the larger knowledge pool. The literature review assisted the researcher to establish what other scholars have written on the topic and to identify relevant issues to put the study into perspective.

In presenting the literature review, the chapter starts by providing a brief history of cooperatives in South Africa. Thereafter, the role of cooperatives in society is explained. This section is followed by a discussion of the advantages and disadvantages of cooperatives. Factors that incapacitate the functionality and sustainability of cooperatives are also mentioned. After this section, the role of the government in cooperative development is explained. At the end, the future of cooperatives in the development agenda is highlighted. As a point of departure, the history of cooperatives in South Africa is explored.

### **2.2 THE HISTORY OF COOPERATIVES IN SOUTH AFRICA**

History is important as it enables the understanding of the past, which then helps to understand the present. Cooperatives as business enterprises started in South Africa towards the end of the 19<sup>th</sup> century when the country was still divided into the Cape, Natal, Orange Free State, and Transvaal (Van Niekerk, 1988:17). Throughout their development, cooperatives have remained part of the country's economic and political

system. They have been intricately embedded in the country's politics to the extent that their development has occurred along racial lines (Satgar, 2007a:3).

### **2.2.1 White cooperatives**

Cooperatives in South Africa started as agricultural societies formed by the colonists (Van Niekerk, 1988:15). The first agricultural society was established in the Cape in 1831 and subsequently another one was formed in Natal in 1848 (Van Niekerk, 1988:18). Thereafter, there was a gradual increase in the popularity of cooperatives in the country. The discovery of gold deposits in the Witwatersrand in 1886 fuelled their proliferation. As mining increased, it heightened urbanisation, which created a huge market for agricultural products (Jara & Satgar, 2008:5). The increased demand for farm produce created a conducive environment for cooperatives to flourish. For almost 61 years, cooperatives in the country were operated and registered as agricultural societies. It was only in 1892 that the first true cooperative, the Pietermaritzburg Consumer Cooperative, was established (Satgar, 2007b:1).

The second Anglo-Boer War of 1899-1902 also made a substantial contribution to the proliferation of cooperatives in the country (Barratt, 1989:8). Ravaged by war, white farmers were forced to organise themselves into agricultural cooperatives in order to rebuild their devastated farms (Kanyane, 2009:1130). This activity led to a substantial increase in the number of white cooperatives. As a result, by April 1907, fifty three cooperatives were already doing business in the Cape, while more than 80 were in the process of being established (Derr, 2013:5).

While cooperatives proliferated in the country, there was no specific legislation that governed their operations. All cooperatives were registered and administered under the Company Acts of the respective colonies (Van Niekerk, 1988:23-24). As their growth gained momentum, various colonial administrations started to formulate cooperative legislation. Transvaal was the first colony to enact its own legislation, namely the Transvaal Cooperatives Act of 1908 (Barratt, 1989:8). The proclamation of this Act invigorated the growth of cooperatives in Transvaal such that by January 1909 there were more than 30 cooperatives in the colony (Van Niekerk, 1988:22). Also, the establishment of the Land and Agricultural Bank of South Africa in 1912 after the unification of South Africa was a turning point for the white cooperatives as it

consolidated their support and spurred their proliferation. Immediately after the bank was formed, there was a noticeable surge in the number of cooperatives between 1912 and 1922 (Strickland, 1937:461). The growth led to the promulgation of the Cooperative Societies Act (No. 28 of 1922), which was the first legislation to control cooperatives in the unified South Africa.

Besides repealing all previous disparate colonial cooperative legislations, the Cooperative Societies Act conferred national recognition to cooperatives, which gave them further impetus (Derr, 2013:5-6). From this Act, the legislation was repeatedly repealed and extensively amended to ensure that white cooperatives continued to be provided with the necessary state support and protection to sustain their growth and prosperity, to the disadvantage of black cooperatives. The phenomenal success of the white commercial farmers visible today is the result of the persistent state support that went with land dispossession and the exploitation of black labour (Jara & Satgar, 2008:5). Throughout their existence, white cooperatives have always been consistent recipients of previous governments' largesse while black cooperatives were systematically excluded.

### **2.2.2 Black cooperatives**

The initiation of cooperatives in black communities, particularly in the former homelands, is attributed to missionary initiatives. Assisted by educated black elites, missionaries infused cooperative practices in black communities (Rich, 1993:298). It started with the introduction of agricultural improvement schemes among African communities and the subsequent establishment of cooperative credit unions (Rich, 1993:298). These initiatives led to the improvement of socio-economic conditions in black communities. This form of cooperation was, however, soon resented by white traders who saw it as counterproductive to the profits they derived from the usurious loans they granted to poor Africans. The new credit and savings cooperatives made black Africans financially independent and therefore decimated the white traders' profitable money-lending businesses (Rich, 1993:300). This realisation led to the sabotage of cooperative endeavours in black communities by white traders. Their devious act subsequently discouraged and inhibited the development of cooperatives in black communities. Equally, the repressive policies of the then colonialist regime suppressed the growth of the cooperative sector in black communities.

They legislatively and economically excluded black people from the programmes the state provided to white cooperatives (Kanyane, 2009:1130). All state programmes consistently promoted racial segregation and benefited white people at the expense of black communities. White cooperatives were given preference while black cooperatives were excluded (Vink, 2012:555). Subsequent to this discrimination, white cooperatives evolved as successful commercial farming enterprises, while the majority of black people were relegated into homelands, where they were forced to develop their own cooperatives without any form of government support (Derr, 2013:7). The regime essentially had no interest in black cooperatives, but used them to perpetuate its racist policies. Cooperatives were used as tools to restrict and confine black people to the homelands, curbing their relocation to urban areas.

Their restriction to homelands systematically prevented black cooperatives from accessing different forms of markets, denied them extension services, and blocked their access to public sector investment programmes (Piesse, Doyer, Thirtle & Vink, 2005:200). Effectively, this exclusion constrained and impeded their development to the extent that cooperatives in black communities were largely limited to credit unions (Barratt, 1989:9). Ultimately, black cooperatives suffered widespread underdevelopment, while white cooperatives prospered (Ortmann & King, 2007b:220). The 1980s and 1990s were a turning point for black cooperatives. The era witnessed coordinated initiatives to promote cooperative development in black communities through the establishment of worker cooperatives (Philip, 2003:13). During this time, more political prisoners were being released from Robben Island and worker cooperatives were viewed as the best strategy to reintegrate them into society and create them employment opportunities (Rogerson, 1990:287). Coincidentally, at this time, the mining industry was experiencing a serious recession, and worker cooperatives were equally seen as the appropriate means to provide alternative employment to the retrenched employees (Rogerson, 1990:287). Overall, these efforts gave impetus to the growth of cooperatives in black communities.

For this contribution, mines, trade unions, churches, and NGOs are credited for having played an important role in the development of cooperatives in black communities. Despite the assistance from these institutions, the lack of state support was conspicuous. However, this did not deter resilience in these enterprises. Even with no support from the government, black cooperatives persisted, to the extent that by the



end of apartheid there were 214 operational cooperatives in the homelands (Derr, 2013:7). Although this number seems negligible, the contribution they made to improve the socio-economic conditions in black communities was admirable. Despite their marginal quantity and the repressive political system, cooperatives have persistently played a meaningful and significant role in the socio-economic development of black communities (Daniel, Naidoo, Pillay & Southall, 2011:218). The end of apartheid and the advent of democracy in the country in 1993 changed the way black cooperatives were treated by the government.

### **2.3 PERSPECTIVES ON COOPERATIVES**

Even though cooperatives are viewed as business enterprises, they are not purely economic enterprises (Gupta, 2014:99). They are not strictly and specifically designed to generate profit but to also serve the needs of their members (Simmons & Birchall, 2008:2132). Cooperatives are fundamentally dualistic in nature. They are primarily formed to respond to both the economic and social needs of their members. While they are formed to improve the economic situation of their members through sufficient profit, they equally infuse humanistic aspects into their operations (Puusa *et al.*, 2013:6). Since they are not mainly concerned with making profit but also with the needs of their members, they must be orientated towards community needs rather than being controlled by the markets (Dobrohoczki, 2006:138). In other words, cooperatives strive to strike a balance between the need for profit and the welfare of their members. They enable people through their combined efforts to achieve both economic and social benefits (Chikwendu, 1997:355). Given their duality, they are a unique form of business that is ideal to promote the socio-economic development of poor communities (Dogarawa, 2005:7).

Cooperatives are therefore an internationally recognised movement, practically found everywhere in all sectors of the economy (Majee & Hoyt, 2011:50; Suchoń, 2012:737). Governments both in developed and developing countries have adopted cooperatives as development tools (Khumalo, 2014:9). Communities throughout the world have formed cooperatives because of their ability to create jobs, alleviate poverty, and generate income for their members (Kanyane, 2009:1120; Steele, 2014:42). The worldwide popularity of cooperatives has apparently influenced the South African government to promote their use in enhancing socio-economic development in poor



communities (Chibanda, Ortmann & Lyne, 2009:294). In other words, cooperatives have been adopted as instruments to promote socio-economic development through poverty alleviation and job creation (Beesley & Ballard, 2013:253; Kanyane, 2009:1132; Khumalo, 2014:6). The government is convinced that cooperatives are sustainable leverages that can meaningfully contribute towards the achievement of the NDP's goals (Kanyane, 2009:1120; Ndebele, 2005:18). Given the spiralling poverty and cyclic unemployment in the country, cooperatives are perceived as an ideal business model that poor communities easily identify with and stand a better chance of integrating their materialistic and social development (Khumalo, 2014:64; Van der Walt, 2005:3). As a result, many communities have already explored them as significant tools to empower themselves, increase their income, build human resource capacity, create job opportunities, promote financial self-reliance, and contribute to community welfare (Nganwa, Lyne & Ferrer, 2010:40; Thamaga-Chitja, Dlamini & Makanda, 2011:2).

Communities use cooperatives to unlock entrepreneurship in rural areas (Ndebele, 2005:18; Sparks, Ortmann & Lyne, 2011:51). In this way, cooperatives are used as agents of community development as they promote the direct involvement of communities in the fight against poverty (Khumalo, 2014:66). Unlike other development initiatives that serve the interests of a small sector of the community, cooperatives are the creators of enterprises that are broadly inclusive and serve the interests of the broader community (Zeuli & Radel, 2005:47). In so doing, they provide the marginalised segments of the community, such as women and the disabled who are often left out of other development projects, the opportunity to participate in the development of their community (Gibson, 2005:6; Philip, 2003:9).

Effectively, they promote inclusivity, wealth creation, and the improvement of living conditions for different sections of the community (Kanyane, 2009:1128). They exploit the principles of collective action and the community spirit of Ubuntu prevalent in rural communities (Thamaga-Chitja *et al.*, 2011:1). In black communities, cooperation is underpinned by the spirit of Ubuntu, solidarity, mutuality, and reciprocity (Mbanza & Thamaga-Chitja, 2014:252). These ideals have propelled cooperatives towards sustainability and for a number of generations, cooperation in African communities has thrived and persist to be characterised by the same principles (McAllister, 2005:217).

Cooperatives are therefore organisations that blend the community spirit of Ubuntu with business structure (Dobrohoczki, 2006:136). Given this socialist-fundamentalist orientation, cooperatives are an effective service delivery tool to empower rural communities to improve their quality of life and maximise their economic opportunities through self-help initiatives (Nganwa *et al.*, 2010:40). In these communities, they serve as community development centres for creating employment opportunities and empowering local communities to improve their socio-economic situation. They therefore act as conduits through which local communities democratically take control of their socio-economic destiny, based on common geography, experiences, and a unified effort to achieve community objectives (Kanyane & Ilorah, 2015:4). Cooperatives are effectively an alternate business model for solving community problems by mobilising of human, social, and financial resources (Majee & Hoyt, 2011:51; Zeuli & Radel, 2005:52).

## **2.4 ADVANTAGES OF COOPERATIVES**

Society derives the following benefits from cooperatives:

### **2.4.1 Income generation**

Throughout the world, both in developed and developing countries, communities use cooperatives as tools to promote income generation. People worldwide use cooperatives as the means to gain economic advantages they cannot achieve individually (Tripathi & Agarwal, 2013:3261). In these communities, cooperatives assist in creating new business ventures that generate job opportunities for the local people and income for the members (Bhuyan & Leistriz, 2001:47; Zeuli *et al.*, 2004:21).

Farmers also use cooperatives to increase their profit margins by accessing inputs at lower prices, selling their output quicker, and improving their production efficiency (Deng, Huang, Xu & Rozelle, 2010:496). In this way, cooperatives increase their bargaining power and foster economies of scope and scale. Although cooperatives are not purely profit-making organisations, they do generate an income that is distributed to their members at the end of the year (Birchall, 2004:6). This promotes savings and increases the income of the members (Dogarawa, 2005:7).

Apart from generating income, cooperatives provide their members with the opportunity to decide how profits are shared and invested (Altman, 2015:21). Unlike in conventional enterprises where the income of the workers is determined by the owners or shareholders, cooperative members are able to determine the amount of income they earn and set aside for investment purposes.

#### **2.4.2 Job creation**

Cooperatives are the economic engines for creating jobs in rural communities (Van der Walt, 2005:3). In the most remote rural communities where no investors are willing to venture, cooperatives are used as engines to create employment opportunities (Beesley & Ballard, 2013:254). Ideally, cooperatives can create more jobs cheaply than the capitalist firms because of their potential to mobilise workers' effort and wage flexibility, which conventional firms are unable to do as workers have no control over the firm (Staber, 1993:130). In this way, cooperatives can create a number of remunerative jobs for the community, although the majority of these would be in self-employment (Kanyane, 2009:1134). Essentially, this gives cooperatives a comparative edge in job creation over other types of businesses (Philip, 2003:15). As a result, cooperatives are currently providing jobs to millions of poor people worldwide (ICA, 2013:2).

#### **2.4.3 Poverty alleviation**

Given their community orientation and developmental nature, cooperatives are necessary in poverty-stricken rural areas (Kanyane & Ilorah, 2015:3). Compared with other forms of business enterprises, cooperatives have greater potential to reduce poverty – provided that their values and principles are respected (Birchall, 2003:5). In rural communities, they can effectively promote poverty-alleviation initiatives by facilitating the marketing of products, enhancing access to credit, and establishing new markets for under-marketed products (Ferguson & Kepe, 2011:425; Matchaya, 2010:398; Ortmann & King, 2007b:223; Steele, 2014:47). In so doing, they raise poor people out of poverty and maintain them in that status by continuing to be the means by which these people accumulate economic advantages (Birchall, 2003:7).

#### **2.4.4 Provision of services and goods**

Like other business enterprises, cooperatives provide goods and services to rural communities. They provide these communities with products and services that are difficult to access and/or make these products and services available at affordable prices (Bhuyan & Leistriz, 2001:47). In remote rural areas, cooperatives are indispensable means of delivering necessary goods and services, particularly information and communications technology (ICT) (Birchall, 2004:16). In providing locally needed services and goods, they assist in circulating money locally by preventing the residents from travelling out of the community to spend their disposable income elsewhere (Gibson, 2005:6). This helps to keep the profit generated in the community (Zeuli *et al.*, 2004:22).

#### **2.4.5 Promotion of marketing opportunities**

The greatest advantage of a cooperative is to market members' products. They are used as a marketing platform to provide their members with enhanced market linkages by forming relationships and establishing contracts with local, regional, national, and even international traders or large-scale buyers (Ferguson & Kepe, 2011:424). Normally, this improves the marketing of the members' products, generates more income for them, and leads to the improvement of their living standards (Mbanza & Thamaga-Chitja, 2014:260).

#### **2.4.6 Community empowerment**

Cooperatives also promote community empowerment (Ferguson & Kepe, 2011:428). In fact, the key goal of any cooperative endeavour is the empowerment of its members to improve both their quality of life and economic opportunities (Philip, 2003:6). Cooperatives are therefore important development tools to promote both the economic development and social empowerment of the local people (Zeuli, 2002:1). Through cooperatives, rural communities are empowered to develop local-based development initiatives that can address their socio-economic needs (Gibson, 2005:6). The formal and informal capacity-building programmes provided to cooperatives develop and accumulate human capital in rural communities (Mojo, Fischer & Degefa, 2015:388; Zeuli *et al.*, 2004:21).

The training programmes provided empower community members in a variety of skills that can be put to good use even outside the cooperative. In this way, community members are empowered to develop their individual and collective potential as contributing members of society, by building their capacity for local leadership roles. The leadership, management, and finance skills the cooperatives impart to their members can equally be transferred beyond the cooperative to other community leadership responsibilities (Mbanza & Thamaga-Chitja, 2014:258). Even if the cooperative ceases to exist, community members would still be able to use their cooperative-acquired skills in other personal endeavours. Cooperatives are therefore effective adult education delivery instruments, with community empowerment being the most substantial development impact they have on the community (Zeuli *et al.*, 2004:21).

#### **2.4.7 Promotion of social capital**

Cooperatives stimulate the social capital in communities. They improve the level of connectedness and solidarity among community members (Dobrohoczki, 2006:141). Stated differently, they enhance the networks and trust between community members, by encouraging them to work together in pursuit of their shared goals (Forgacs, 2008:66; Putnam, 1995:664). They promote connectivity and interaction between community members (Dobrohoczki, 2006:142). Through working together, sharing, and supporting one another, community members develop trust among themselves (Hartley, 2014:725). Regular interactions between cooperative members lead to the development of trust, which subsequently culminates in improved community relations and easy resolution of communal problems (Majee & Hoyt, 2009:451; Majee & Hoyt, 2010:419). The more functional the cooperative is, the higher its ability to establish and maintain trust, confidence, and commitment among its members (Ruben & Heras, 2012:466).

The ability to establish trust often spills over to the community, and in communities with high levels of social capital, networks, and trust, cooperation is easily fostered (D'Haese, Verbeke, Van Huylenbroeck, Kirsten & D'Haese, 2005:1448). Cooperatives therefore promote the development of trust and social networks among members of the community (Jordaan & Grove, 2013:508).

Essentially, cooperation thrives on social capital and networks existing in the community (Khumalo, 2014:68). Trust and reciprocity are fundamental in any cooperative activity (Ruben & Heras, 2012:467). The higher the trust in the community, the greater the collective activity. Cohesion in the community provides better prospects for cooperation (Ruben & Heras, 2012:479). Vice versa, cooperation in the community can lead to improved social relations, and strong social bonds promote the elimination of social conflicts and tensions (Dobrohoczki, 2006:141). This usually leads to less social conflicts such as crime and substance abuse (D'Haese *et al.*, 2005:1448). Cooperatives can therefore lead to a reduction in crime in the community. Inherently, cooperatives are organisations that combine the financial, human, and social capital in a community, thus providing communities with both intangible and tangible benefits (Khumalo, 2014:67). In other words, their value in society cannot be quantified in financial terms only, but non-financial benefits can be attained as well.

#### **2.4.8 Enhancement of democracy**

Cooperatives are governed by a one-member-one-vote decision-making process, and the application of this principle ensures that capital is subordinate to people (Simmons & Birchall, 2008:2132). Equal voting rights are maintained to everyone irrespective of the capital contributed, which prevents the domination of the cooperative by wealthy members. As such, cooperatives epitomise democratic organisations through which local people are provided with the vital opportunity to interact and engage (Zeuli *et al.*, 2004:21). In other words, cooperatives embed a democratic culture by encouraging people participation in addressing community needs through healthy and open debates among community members (Zeuli & Radel, 2005:46).

In this way, they serve as the means of initiating public relations discourse, and teach communities how to participate, negotiate, influence, control, and hold accountable the institutions that affect their lives (Dobrohoczki, 2006:142; Majee & Hoyt, 2011:52). Effectively, they inculcate a sense of responsibility in communities to take charge of their development. In doing so, they place the development of the community under democratic control (Beesley & Ballard, 2013:253). By making decisions that are society and people centred, cooperatives reflect the objectives and interests of the community (Majee & Hoyt, 2009:456).

### **2.4.9 Confidence building**

Cooperatives innately have the potential to promote individual participation and build personal self-confidence among community members (ICA, 2013:2). In other words, they promote self-trust and reveal people's own limitations and strengths (Majee & Hoyt, 2010:422). Participation in any collective activity builds the confidence of the participants as it teaches them to believe in themselves. Being part of a team and meaningfully contributing to its objectives boost individuals' confidence. With increased confidence, members would be determined in their action and improve their effectiveness as members of the community. Increased self-confidence often leads to more efficient communication and better decision making (Pesämaa, Pieper, Vinhas da Silva, Black & Hair, 2013:89). A sense of belonging and a sense of owning the cooperative often inspire confidence in community members, which encourages them to be more participative in community affairs.

### **2.4.10 Enhancement of commitment**

Unlike conventional enterprises, cooperatives have the advantage of eliminating conflicts of interest between the worker and the capital owner (Staber, 1993:131). The conflicts usually generated by the asymmetry of power between the owner and the worker are almost eliminated in cooperatives as the workers are also the owners. Happy workers who have positive feelings towards the business are attained in an environment where they are in control (Gupta, 2014:101). As member-owned and -controlled business enterprises, cooperatives instil a sense of allegiance and solidarity among members. Compared to conventional enterprises, cooperatives can have a higher degree of worker commitment. In return, a committed workforce displays higher levels of productivity, which reciprocally result in the overall success of the cooperative. Enhanced commitment by members therefore leads to productive and profitable enterprises.

As worker-owned enterprises, cooperatives often evoke a stronger sense of commitment by the members, which in turn motivates them to work harder, increasing the enterprise's productivity. In comparison to other forms of business where workers only work to retain their jobs, cooperatives are better instruments to motivate workers to work harder (Gupta, 2014:101).



The virtue of being the owners of the enterprise could motivate them to work harder as they are conscious that the success of their enterprises depends on them. Unlike conventional enterprises, cooperatives are normally characterised by less labour disputes since the workers are also the owners and are directly involved in the appointment of managers, who are then accountable to them.

#### **2.4.11 Emancipation of women**

Cooperatives also contribute to the emancipation of women. Through their involvement in cooperatives, women gain recognition in the community and attain economic independence in their families (Ghebremichael, 2013:53). Cooperatives provide women with the opportunity to overcome oppressive patriarchal stereotypes, improve their position in society, and increase their power to control resources that were previously entitled to men (Chikwendu, 1997:355). With greater economic power, women's social status improves and they enjoy greater respect both at home and in the community. Their participation in cooperatives increases their recognition as contributing members to the development of their communities and in supporting their families. This not only imbues them with confidence and enhances their social status but also changes men's attitude towards women's roles (Vicari, 2014:694). In other words, cooperatives change patriarchal stereotypes and women's role in society is no longer viewed as confined to domestic chores only. Cooperatives give women greater independence and transform their family life. They imbue women with leadership and business skills that improve their business acumen and productivity, while endowing them with coping strategies to deal with poverty and livelihood-related challenges (Birchall, 2004:21; Ferguson & Kepe, 2011:425).

#### **2.4.12 Source of information**

Cooperatives also act as a source of information for the community. Given their inherent participatory and inclusive nature, cooperatives facilitate the sharing of information in the community. They promote a more informative environment and eliminate information disparities in the community (Borda-Rodriguez & Vicari, 2015:318). They create informed community members, who are better equipped to influence community debates and facilitate consensus on issues that affect the community (Ruben & Heras, 2012:465).



Since cooperative members have access to more information than other members of the community, they tend to be more articulate on various issues that affect the community. In this way, cooperatives assist in the distribution of information and knowledge in communities.

## **2.5 DISADVANTAGES OF COOPERATIVES**

Like any other model, the cooperative form of business has its own inherent limitations that impede its functionality.

### **2.5.1 Horizon problem**

This is a problem associated with the time period that a member must wait before gaining the interest from the investments made in the cooperative (Merrett & Walzer, 2004:74). Given the delay in economic gains, people are often reluctant to invest in a cooperative. They may also be unwilling to invest in a cooperative because the income they receive is far less than the income generated by the enterprise (Ortmann & King, 2007a:36). Members can also be hesitant to make long-term investments because they have no shares that they can sell at market value should they decide to leave the cooperative (Gupta, 2014:102). Instead, members would seek to maximise the gains while they are still members of the enterprise. Generally, this creates reluctance for further investments as members' investment is unlikely to be a large part of their total wealth (Gupta, 2014:102).

Moreover, cooperatives can limit diversity in investment. Because of lack of property rights and that assets are not tradable, members are often reluctant to take risky investment decisions that could prove effective in the long term (Gupta, 2014:102). Overall, investments in a cooperative are uncertain and risk-bearing costs are high (Chaddad, Cook & Heckeley, 2005:387). This effectively hinders the growth and the expansion of cooperatives.

### **2.5.2 Free-rider problem**

Free-rider problems emerge in cooperatives because the members' income is not proportional to the contribution made. In worker cooperatives, members can receive almost the same income despite the reduced contribution of other members.

Compensation is usually not based on individual effort, but on what the rest of the group produces. There is equal payment of “dividends”, irrespective of whether the member was committed or not. This undifferentiated and blanket payment of dividends tends to demoralise diligent and more committed members as there is no incentive for their extra effort. Lazy members take advantage by shirking their own work (Gupta, 2014:102). In this way, cooperatives reward laziness as lazy workers can be rewarded as equally as diligent workers. The free-rider problem essentially emerges as the income derived is not based on the investment made by the members. Cooperatives also do not differentiate between new and old members in the distribution of residual rights because new members receive the same patronage and residual rights as existing members (Ortmann & King, 2007a:35).

### **2.5.3 Portfolio problem**

This problem occurs in cooperatives because members invest in a cooperative in proportion to their participation. The cooperative form of business does not offer equity shares that can be freely purchased or sold. Members cannot diversify their individual investment portfolios according to their personal wealth and preferences (Royer, 1999:55). Sometimes, cooperatives cannot diversify their operations even when it is ideal to do so simply because of the selfish interests of other members (Merrett & Walzer, 2004:74). This usually leads to suboptimal investment portfolios and cooperative members are compelled to accept more risk than they would have preferred (Cook, 1995:1157). As a result, the management could be forced to reorganise the cooperative’s investment portfolio to reduce risk, even if it means lowering the expected returns (Ortmann & King, 2007a:36). In traditional cooperatives, these risks are often borne by the members alone because outside investors, who could diversify the risks, are usually not allowed to invest in the cooperative (Royer, 1999:95).

### **2.5.4 Control problem**

It is sometimes difficult for cooperatives to attract and retain good managerial personnel. The lack of competent management often leads to poor control measures implemented in cooperatives. Equally, control problems can emerge if cooperative members are actively involved in the hiring of managers as management may

eventually feel indebted towards the members because they know that the members hired them (Gupta, 2014:102). This compromises the independence and decisiveness of the management in decision making, which could lead to indiscipline, disobedience, and insubordination (Varman & Chakrabarti, 2004:187).

### **2.5.5 Influence cost problem**

These are costs associated with the decisions that members make regarding the distribution of wealth and other benefits in the cooperative (Royer, 1999:56). Despite cooperatives being governed by the democratic principle of “one person one vote”, certain members may sometimes be more influential than others (Merrett & Walzer, 2004:75). This could lead to them influencing the cooperative to take certain investment decisions that may later become costly for the organisation. These are essentially the influence costs and the costs of poor decision making (Ortmann & King, 2007a:37).

This problem is often prevalent in cooperatives that are involved in a wide range of activities, where the objectives of the members differ, which results in costly influence problems (Cook, 1995:1158). Given their nature, cooperatives are more likely to experience greater influence costs than shareholder-controlled enterprises because the interests of the members tend to be more diverse than the interests of corporate shareholders, which is often the maximisation of profit (Royer, 1999:56). This diversity in goals likely results in excessive conflicts and poor decision making, which can be detrimental to organisational competitiveness (Gupta, 2014:102).

### **2.5.6 Constitutional degeneracy**

In most instances, when the cooperative grows in size and in capital, there is a likelihood that it may lose touch with its members. As it grows, chances for members to interact with one another and learn together become fewer, which results in fewer opportunities for social processes (Birchall, 2004:14; Hartley, 2014:725). This not only decimates the principle of democracy in the cooperative but also promotes the degeneration of the cooperative structure. There is also a possibility that when the cooperative grows in size and becomes more successful, it may eventually develop into a corporate structure, and the founding members would want to become dominant

and take control of the cooperative by relegating other members to wage workers (Varman & Chakrabarti, 2004:194). This problem is particularly common in very large cooperatives where there is less interaction between the management and general membership. Moreover, there is a possibility that, as the cooperative grows and becomes successful, the second generation of workers may lose interest in the cooperative ideology that has sustained the enterprise and would want to change it into a capitalist business model (Varman & Chakrabarti, 2004:195). Both these processes usually lead to the degeneration of the cooperative business model and the evolution of a completely different form of business.

## **2.6 FACTORS THAT AFFECT THE FUNCTIONALITY OF COOPERATIVES**

Apart from the abovementioned structural shortcomings, other factors also encumber the functionality and sustainability of cooperatives. These factors generally emanate from the immediate environment of the cooperatives and they constantly influence their operations. Depending on the intensity of the factors, the effect(s) may lead to subdued or impaired performance and in extreme cases, to the absolute demise of the cooperative.

### **2.6.1 Lack of education**

Since cooperatives are commonly owned by the elderly, lack of education is a factor that commonly affects their performance. It often leads to a dearth of the business acumen and managerial skills needed to sustain these enterprises (Muthuma, 2012:178). Lack of education effectively hampers cooperatives' creativity, curtails their marketing prowess, and erodes their propensity for growth (Ijeoma & Chiloane-Tsoka, 2011:742; Matchaya, 2010:400). The inability of the members to read or write limits their opportunities to negotiate business deals and to market their products outside their region or abroad (Chiloane-Tsoka & Mello, 2011:1450; Ortmann & King, 2007b:222; Thamaga-Chitja *et al.*, 2011:11).

It also inhibits access to crucial services necessary for the growth of the cooperative because most of the information on government support programmes is often disseminated in printed form. At times, cooperatives miss important information because of misunderstanding the language used, misinterpreting messages, or

phrasing questions incorrectly (Ijeoma & Chiloane-Tsoka, 2011:742). More importantly, illiteracy negatively affects the skills transfer initiatives needed to grow cooperatives (Mbanza & Thamaga-Chitja, 2014:265). There is a relationship between the level of education and the participation of cooperatives members in training programmes (Matchaya, 2010:400). Educated members often take advantage of capacity-building programmes offered because of their ability to read, speak, and write English, while the illiterate members are excluded.

### **2.6.2 Lack of training**

Lack of training is devastating to any form of organisation and cooperatives are the worst affected since they are often formed by people with low levels of education. Training is therefore the most obvious need to augment the technical, managerial, marketing, and bookkeeping skills lacking in cooperatives. In most instances, cooperatives fail because of lack of training, which prevent them from maximising their production, hampering their profitability and sustainability (Mbanza & Thamaga-Chitja, 2014:258; Westoby, 2014:836). The low skills base and competencies in rural areas decimate competitiveness in cooperatives in these communities (Muthuma, 2012:186). Unmitigated, these factors restrict their functionality and confine them to perpetual predicament (Van der Walt, 2008:14). Training is therefore needed to provide members with fundamental knowledge to effectively operate their organisations (Borda-Rodriguez & Vicari, 2014:45). It equips them with the basic business skills needed for strategic decision making and managerial oversight.

Therefore, training programmes offered should not only focus on the management committee but should be extended to the general members to decrease the knowledge gap between the two (Muthuma, 2012:178). Closing the knowledge gap and providing the members with knowledge on issues that affect the enterprise will ensure that the general members have the opportunity to exert control and oversight on the management. Membership empowerment is vital for the sustainable functionality of the cooperative and for ensuring that internal problems are resolved with constructive input from members (Jara & Satgar, 2008:28).

Moreover, training provided to cooperatives should be tailor-made for their needs as, in some instances, training offered is not specifically geared towards cooperatives, but broadly focused on all small, micro, and medium enterprises (SMMEs) (Derr, 2013:9). This often disadvantages cooperatives as some of the issues discussed in these training programmes are irrelevant and of no benefit to them. Even though cooperatives are part of SMMEs, they are not exactly profit-making enterprises. They therefore need to be offered training programmes that specifically deal with their peculiarities.

More importantly, the government should focus on providing ongoing training and properly organised mentoring programmes to existing cooperatives rather than promoting the formation of new cooperatives (Eastern Cape Development Corporation [ECDC], 2011:16; Westoby, 2014:837). When offered, such programmes must be sustained until cooperatives attain independence and maturity. Equally, the lack of academic programmes on cooperatives in tertiary institutions is debilitating to cooperatives. Existing Technical and Vocational Education and Training (TVET) colleges should provide a curriculum on cooperatives that will educate and guide communities on the initiation and management of cooperatives (Khumalo, 2014:74).

### **2.6.3 Lack of knowledge**

Lack of education normally culminates in lack of knowledge. Given that cooperatives are generally formed by the elderly with low levels of education, lack of knowledge on the purpose, basic principles, values, and legislation that underpin the cooperative business model is prevalent. With members lacking basic knowledge on the prescripts that govern their enterprises, it is unlikely that they can meaningfully contribute to their operations. Most probably, the functionality and sustainability of their enterprises will be compromised.

Importantly, the lack of knowledge has created misconceptions about the real benefits of belonging to cooperatives (Kanyane & Ilorah, 2015:9). Such misconstructions have resulted in a sense of entitlement and delusions in communities by misconceiving cooperatives as an easy route to access government grants (Nganwa *et al.*, 2010:51). Communities often think that cooperatives are the quickest way of accessing economic benefits without having to work for them (Thamaga-Chitja *et al.*, 2011:8).

This thinking is prevalent in communities where the government has initiated cooperatives without first educating the citizens about the model (Nyambe, 2010:24). Educating communities on the basic principles, values, and legislation that govern cooperatives will constitute a significant contribution to their development (Kanyane & Ilorah, 2015:9). Given the severity of the problem, a massive education campaign is needed to educate communities about cooperatives and their benefits (Machethe, 1990:308).

Proper understanding of cooperative principles and values would not only assist in improving their performance but will also eliminate existing misconceptions. Prior to forming or joining a cooperative, community members should know exactly what a cooperative entails and how it operates. Equally, the management of the cooperative has the responsibility of ensuring that the members obtain the necessary knowledge and understand the core idea behind the cooperative business model. Increased knowledge of the cooperative form of business will possibly have a positive effect on the attitudes of the members (Puusa *et al.*, 2013:13). Informed members are more likely to support the cooperative as they will understand it better and will be more committed to it (Borda-Rodriguez & Vicari, 2014:44; Machethe, 1990:307).

#### **2.6.4 Lack of commitment**

The attitudes and perceptions of members towards their organisation play a significant role in its performance (Bhuyan, 2007:275). Commitment is therefore the anchor of any successful cooperative endeavour (Pesämaa *et al.*, 2013:82). It is an important component in the success and sustainability of cooperative relationships (Morgan & Hunt, 1994:22). Commitment is not only important to enhance the spirit of self-help among the members but also to incite the leadership and management to be innovative in carrying out their duties (Borda-Rodriguez & Vicari, 2015:334). The success of any cooperative is relative to the commitment displayed by the members; the greater the commitment, the higher the chances for success.

With government-initiated cooperatives, however, it is unlikely that they can induce any real solidarity among the members since they are not based on the aspirations of the members but on the interest to access state largesse (Ruben & Heras, 2012:465). Members often never have any passion for the cooperative in the first place, but are



only interested in making quick money, and when money is not forthcoming, they are disillusioned and demotivated to continue with the cooperative (Kanyane & Koma, 2014:124). Given this attitude, cooperatives are most likely to be plagued by production-inhibitive conflicts (Thabethe, 2012:753).

This likelihood obliterates the cooperative spirit and investment attitude as members are reluctant to invest in cooperatives plagued by conflicts (Nganwa *et al.*, 2010:51). Given the significance of commitment in cooperatives, participative decision making is encouraged to instil feelings of ownership and to heighten members' trust in the enterprise. Trust is a binding factor in any relationship, and building it is central in a cooperative to strengthen commitment and enhance productivity (Pesämaa *et al.*, 2013:89). Trust inculcates a sense of ownership in members and improves their commitment to the cooperative (Van der Walt, 2005:12). The support that the cooperative receives from its members determines its destiny and propels the enterprise towards prosperity (Machethe, 1990:307; Thamaga-Chitja *et al.*, 2011:5). However, for members to be committed, the cooperative must equally address their needs and demands because the failure to satisfy their needs could reciprocally result in disloyalty and apathy (Borda-Rodriguez & Vicari, 2014:44).

### **2.6.5 Lack of networks**

Social networks are part of the tools to propel cooperatives towards success (Lan, Zhu, Ness, Xing & Schneider, 2014:395). Nowadays, networks are used to facilitate effective communication, quick distribution of information, and knowledge between organisations (Chiloane-Tsoka & Mello, 2011:1445). The failure of cooperatives to belong to formal business networks is therefore not only naïve but can deprive them of the benefits of marketing opportunities, free business information and advice, mobilisation of resources, sharing of experience and knowledge, and any other advantage associated with networking (Münkner, 2012:54; Oelofse & Van der Walt, 2015:305; Simmons & Birchall, 2008:2136; Thamaga-Chitja *et al.*, 2011:6). Individually, cooperatives are economically vulnerable because cooperation entails solidarity among people who have ventured into a collective self-help endeavour (Birchall, 2003:5). Isolation could confine them to economic destitution, while embeddedness in a network of supportive organisations could lead to viability and success (Simmons & Birchall, 2008:2134; Staber, 1993:141).



Networks enable cooperatives to exploit economies of scale, manage risks and uncertainty, and participate in and utilise available opportunities while enjoying the support of mentorship (Hartley, 2014:725; Johnson & Shaw, 2014:671). In this way, they cushion emerging cooperatives and enable them to thrive under conditions of increased competition (Oelofse & Van der Walt, 2015:295). Networking can also be an effective tool to lobby the government to influence policymaking (Chiloane-Tsoka & Mello, 2011:1445). It is therefore essential for cooperatives to form strong movements among themselves as the lack of networks among them may open up a gap for the government to impose policies and to deny them a strong institutional voice to represent their interests (Khumalo, 2014:74; Mayende, 2011:12). Cooperatives can gain more by linking up with one another than working in isolation. It is crucial for them to find ways of connecting together to create a supportive structure that would increase their productivity and success rate. Their inability to exploit the opportunities offered by networking disadvantages them. The advancements in ICT have made networking easy and quick. Social media has become the most crucial aspect of modern business and a critical entrepreneurial tool that cooperatives can meaningfully embrace.

#### **2.6.6 Lack of entrepreneurial culture**

Lack of entrepreneurial culture is one of the factors that affects the performance of cooperatives (Ijeoma & Matarirano, 2011:864). The phenomenon is prevalent in black communities where the education system has failed to promote an entrepreneurial culture. The concept of cooperation should preferably be entrenched and inculcated in the basic education curriculum (Ijeoma & Matarirano, 2011:864). This will not only enhance business literacy in society but will inculcate an entrepreneurship culture, and will increase the number of people who are willing to make risky investments rather than waiting to be employed. The exclusion of cooperatives from the country's education system, both in basic education and in Further Education and Training (FET), perpetuates their underdevelopment and the dearth of knowledge on the cooperative business model. With the government promoting the involvement of youths in cooperatives, the introduction of the concept in formal education will assist in achieving this objective. If the lack of entrepreneurial culture is left unattended, cooperatives have fewer chances of success (Kanyane, 2009:1134).

### 2.6.7 Poor dissemination of information

Inefficient distribution of information regarding government support programmes for cooperatives is also attributed to their poor performance (Ladzani, Nieuwenhuizen & Nhlapo, 2011:1461). The practice is particularly prevalent in remote rural communities as the state institutions that offer support services tend to concentrate on urban areas (Mashigo, 2014:487). This challenge calls for the cooperative management to play an active role in the dissemination of information to the members. Regular supply of information is important to keep members well informed of the day-to-day activities of the cooperative. This is necessary for them to make meaningful decisions needed for the smooth operation of the cooperative. Sharing of information is vital for the success of the enterprise as the level of communication within the cooperative is directly proportional to the level of cooperation. Communication should not be used by management as a source of power, but rather as a tool to share information and empower the members (Forgacs, 2008:68; Khumalo, 2014:68).

In fact, managers must report and account to members because they manage the cooperative on their behalf (Machethe, 1990:308; Thamaga-Chitja *et al.*, 2011:11). Management must treat transparency and accountability as the founding tenets and critical aspects of the cooperative's success (Altman, 2015:21). Members do not only want a financial report in the annual general meeting, but more involvement in the running of the cooperative. Regular meetings must be institutionalised to discuss important business issues and to disseminate new information to members.

Information sharing is not only necessary to build capacity in members' decision making, but also to enhance their level of trust within the cooperative (Dobrohoczki, 2006:146). Without adequate knowledge and information, cooperatives can hardly achieve their objectives. Communication and capacity building therefore remain the key components for a cooperative's success (Zeuli & Radel, 2005:48). Clarity of purpose, competent leadership, and knowledgeable and participative members are critical factors for the prosperity of a cooperative (Jara & Satgar, 2008:27). It is therefore essential that information on government support programmes is effectively disseminated to communities, irrespective of their location, for the sustainable functionality of cooperatives.

### **2.6.8 Poor business management**

Most cooperatives are owned by people with low levels of education and a poor skills base (Beesley & Ballard, 2013:254). This phenomenon has resulted in poor business acumen, insufficient managerial experience, and leadership inadequacy. Essentially, cooperative members are ill-equipped for managerial responsibilities and for driving the vision of the enterprise (Thabethe, 2012:753). In most instances, the cooperatives' operational systems are neither aligned with their strategic plans nor are supported by adequate financial management policies and systems (Muthuma, 2012:186). Operating under these circumstances, it is often difficult for cooperatives to be optimally functional and sustainable. In any case, no business can survive if it is poorly managed and based on an unsustainable business plan (Altman, 2015:22). Most likely, this situation leads to business products being compromised, which makes it hard to compete constructively in the market. Subsequently, the enterprises succumb to unprofitability and unsustainability. Good managerial practices are therefore fundamentally important for cooperatives' operational and financial viability (Fulton & Hueth, 2009:iv).

### **2.6.9 Inadequate conflict management**

Cooperatives are vulnerable to conflict since they are generally formed by people from different backgrounds, who all have an equal claim to ownership. The failure to properly manage these conflicts often leads to instability in the cooperatives' functionality and sustainability. Effective conflict management skills are essential to resolve disagreements that may disrupt productivity. Cooperatives can only operate as a sustainable form of business when disputes are managed properly (Van der Walt, 2005:11). They can possibly attain that position when transparency and effective consultation are constitutionally entrenched as the guiding principles of the enterprise. The upholding of the constitution agreed upon by all members plays a significant role in managing group dynamics (Thamaga-Chitja *et al.*, 2011:11). Most importantly, members must be fully involved in decision making, and take part in policy formulation and in the day-to-day management of the cooperative since their exclusion can easily lead to cynicism and discontent (Machethe, 1990:308). Participatory management and inclusive decision making are essential for both conflict management and cooperative sustainability (Ruben & Heras, 2012:480).

### **2.6.10 Lack of capital**

Cooperatives are generally initiated by people with a low capital and asset base, who seldom have enough funds for both the capitalisation and operational overheads of the enterprise. Their low capital base not only restricts their ability to finance their enterprises, but compromises the cooperative's creditworthiness and curtails the prospects of securing loans from financial institutions (Fulton & Hueth, 2009:vi; Lyne & Collins, 2008:183; Van der Walt, 2008:17; Zeuli & Radel, 2005:52). Banks are usually reluctant to offer financial support to cooperatives given their lack of collateral, poor financial recordkeeping, and the high transaction costs involved in granting small loans (Ortmann & King, 2007b:232). Banks are also unwilling to offer financial credit to cooperatives because of a lack of a proper business track record (Ijeoma & Chiloane-Tsoka, 2011:743). In some instances, banks refuse to finance cooperatives as they do not recognise their legal status (Westoby, 2014:831).

Access to financial capital remains important for the successful and sustainable operation of cooperatives. Without a sufficient financial base, cooperatives are destined for poor functionality and unprofitability. Adequate financial support contributes to the growth of enterprises and building an asset base. The inability of a cooperative to grow may result in its incapacity to supply markets or restrict it to small local markets (Khumalo, 2014:72). Without financial support, cooperatives stand very limited chances for success and only a few of them can survive (Ortmann & King, 2007a:40).

### **2.6.11 Land tenure in rural communities**

Cooperatives are predominantly located in rural communities, which are often under the communal land system. Under this system, the responsibility for land allocation rests with the tribal authority, which is controlled by traditional leaders. No household is the official owner of an allocated piece of land. When cooperatives are linked to land ownership, this form of land tenure is problematic as it excludes landless people from participating (Basu & Chakraborty, 2008:301). In fact, the communal land tenure system is an impediment to cooperative development, particularly for women, as land administrative processes are patriarchal and make it difficult for women to acquire land (Steele, 2014:47; Thamaga-Chitja *et al.*, 2011:8).

In some areas, for women to be given the right to occupy land, they must either be in the company of their husbands or male relatives. This practice not only entrenches gender discrimination and undermines their constitutional rights, but also discourages the participation of women in local economic development initiatives and diminishes the growth potential of their cooperatives (Steele, 2014:47; Thamaga-Chitja *et al.*, 2011:8). As a result, women may be reluctant to join cooperatives in which land is one of the needed inputs (Matchaya, 2010:400). The acquisition of land rights by women in rural areas is important to enhance their economic empowerment and to improve gender equality.

However, even if women can obtain land, the communal land tenure system would remain problematic for cooperative development as it has no title deeds. Because of that, communal land cannot be used as collateral to secure financing from commercial banks (Lyne & Collins, 2008:183; Thamaga-Chitja *et al.*, 2011:11). It does not have a market as there is no real incentive to improve it (Ortmann & King, 2007b:222). Communal land ownership is therefore unhelpful in alleviating the financial challenges that confront cooperatives. Where land is an input, communal land tenure remains an impediment to the sustainability of cooperatives.

#### **2.6.12 Lack of marketing**

Lack of markets or limited access to markets threatens the survival of cooperatives (Nyambe, 2010:5). Despite the enabling legislative framework the government has laid out to promote cooperative development, the lack of market opportunities remains a problem. The inability of cooperatives to reach wider markets impedes their profitability. This is worse for cooperatives located in remote rural areas far from the markets and without ICT (Steele, 2014:47; Westoby, 2014:831). The situation is aggravated by the huge distances to major towns and the poor conditions of most rural roads (Ortmann & King, 2007b:223). The inadequate preferential procurement programmes of the government and hostility from established businesses also worsen the situation (Khumalo, 2014:72). Cooperatives are often not distinguished from established companies; they are treated the same and are forced to compete for government tenders although their chances for success are limited. This puts them under severe pressure, often forcing vulnerable cooperatives to close down while the emerging ones remain underdeveloped.

Despite the fact that state procurement was identified as one of the strategies to support their development, the lack of adequate commitment from the government to procure from cooperatives makes it difficult for these enterprises to survive harsh market conditions (Republic of South Africa [RSA], 2012b:72). A percentage of government procurement should preferably be reserved for cooperatives (Khumalo, 2014:74). Most importantly, cooperatives must resist the tendency of relying on local communities as their major market, and revolutionary marketing strategies to reach markets outside their region must be explored (Ortmann & King, 2007b:222). Local government must play an active role in assisting cooperatives to reach wider markets. Both district and local municipalities must work together to find innovative ways to support cooperatives to market their products (Ortmann & King, 2007b:223).

#### **2.6.13 Lack of extension services**

Extension officers are agricultural officers who visit rural communities to offer technical support services. There is a correlation between cooperative productivity and visits by extension officers (Mbanza & Thamaga-Chitja, 2014:259). Their prominence is relative to the transfer of technical information to cooperatives. The lack of this crucial service in rural areas is therefore inhibitive to cooperative development. It denies the cooperatives the information they need the most, particularly with regard to technical support services and access to other state support programmes (Ortmann & King, 2007b:231).

#### **2.6.14 Poor infrastructure**

The state must lead in providing the necessary infrastructure to enhance cooperative development in poor communities. Dilapidated infrastructure in rural areas poses a significant threat to the sustainability of cooperatives. Poor roads and telecommunication networks and the shortage of dipping tanks and holding pens are some of the challenges besetting agricultural cooperatives in rural areas. The poor infrastructure in rural areas heavily affects cooperatives' overhead costs. High transportation costs are incurred as the poor roads damage vehicles, resulting in increased maintenance and wear-and-tear costs.

Improvements in physical infrastructure, particularly road and telecommunication networks, will surely decrease the overhead costs and improve access to input supplies and markets (Ortmann & King, 2007b:323). Access to communication infrastructure such as e-mail and the Internet will also improve the functionality of cooperatives in remote rural areas by easing communication between traders and producers and decreasing the costs associated with conventional communication systems. Cellular phones are already improving communication in rural areas. Information is now easily available to urban and rural communities alike. Cooperatives in rural areas must seize the opportunity and make use of ICT to identify relevant suppliers and markets, as well as to establish market preferences (Thamaga-Chitja *et al.*, 2011:9). The provision of communication infrastructure in rural areas could be an effective business, communication, procurement, and marketing tool for cooperatives.

#### **2.6.15 State interference**

The government's involvement in the initiation of cooperatives is detrimental because it inhibits their organic growth. It also creates vested interests among government officials, politicians, and civil servants, who subsequently usurp the control of cooperatives for their own selfish interests (Birchall, 2004:16). This often results in the politicisation of cooperatives, which leads to their funding being based on political point-scoring (Kanyane, 2009:1133). When the government initiates cooperatives, it is easy for state support to be abused for political gain and cooperatives framed as job creation, which conflates it with service delivery programmes (Westoby, 2014:836). Most importantly, the initiation of cooperatives by the government leads to their perennial dependence on state support (Kanyane & Ilorah, 2015:8). Cooperatives are meant to be apolitical; they should independently manage their own operations and avoid entanglement with anything that compromises their autonomy (Kanyane, 2009:1136). State interference takes away cooperatives' autonomy and obliterates their ingenuity and innovation. Equally, it erodes their solidarity and effectiveness, and decimates their freedom to act in the best interest of their members (Steele, 2014:47).

Although government support is needed, it must not be prescriptive, but rather consultative and facilitative. As autonomous organisations owned and controlled by their members, cooperatives must be provided with space to decide with whom they want to work in their enthusiasm for mutual advancement. Their autonomy and



voluntariness should always be respected. This would assist in extricating them from the hand-out mentality and the culture of entitlement, and move them towards the values of self-reliance and independence. Cooperatives should be allowed space to prevail as member-driven, member-controlled, and member-responsive organisations (Thamaga-Chitja *et al.*, 2011:3). For sustainable productivity, cooperative operations must be driven by members' needs rather than the dictates of the state (Satgar, 2007b:3). With less state interference and more autonomy, cooperatives can be efficient and profitable enterprises (Forgacs, 2008:69). Their extrication from state control will give them a better chance to meaningfully contribute to the socio-economic development of poor communities (Jara & Satgar, 2008:20). Despite the fact that state interference suffocates cooperative development, the government will always have a crucial role to play.

## **2.7 THE ROLE OF THE GOVERNMENT IN COOPERATIVE DEVELOPMENT**

Particularly in formative stages, cooperatives deserve to be provided with state support to enhance their sustainability, given that they are predominantly formed by the elderly, women, and youths from impoverished communities (Rehber, Galor & Duman, 1999:80). These conditions generally create an unfriendly environment for business growth and venture for profits (Chiloane-Tsoka & Mello, 2011:1449). They create a hostile environment that discourages private investment (Beesley & Ballard, 2013:254). They render the economic environment in which cooperatives operate inhibitive to sustained functionality. This situation is worsened by the discriminatory policies of the previous regimes that favoured whites over blacks, which made the socio-economic position of many rural communities unfavourable (Van der Walt, 2008:5). Given this situation, the government is compelled to play a crucial role in the provision of support to cooperatives.

The government must provide a supportive, nurturing, and stimulating environment that enhance the development of cooperatives into profitable business enterprises. Although the government had already put in place supportive systems, the majority of cooperatives have not yet accessed these services and still need state support to attain sustainability (Harms, 2012:1).



Most of the support systems provided by the government benefit the established cooperatives often located in urban areas, rather than emerging enterprises in remote rural areas, where these services are primarily needed (Ladzani *et al.*, 2011:1460; Mashigo, 2014:486). This situation makes it difficult for rural cooperatives to attain proper functionality and sustainability, and, as a result, it is easier for these enterprises to slip into a state of dysfunctionality or demise (Philip, 2003:7). As much as cooperatives are regarded as autonomous and member-driven enterprises, state support is indispensable for their development into independent and sustainable enterprises, given their policy, institutional, and operational constraints (Nyambe, 2010:6; Ortmann & King, 2007a:23; Van der Walt, 2008:5). Government intervention in the implementation of cooperative legislation, the provision of infrastructure, and investment incentives is still needed (Ijeoma & Matarirano, 2011:863).

The government must also promote the establishment of partnerships between cooperatives and the private sector (Van der Walt, 2008:5). These partnerships will not only assist in establishing market linkages but will also contribute to skills transfer. Capacity building must be central in the support the government and other agencies provide to cooperatives so that they develop into functional business enterprises (Westoby, 2014:831). Equally important is the provision of effective monitoring and evaluation to ensure that cooperatives are adequately capacitated to work on their own. The support provided should be focused, targeted, and attuned to the challenges facing cooperatives and be guided by their level of development (Eastern Cape Provincial Government, 2009:5). The empowerment of cooperative members must therefore be an integral part of government support programmes.

Although the government has ensured that relevant cooperative legislation is in place, enacted laws without implementation are useless as they leave cooperatives still facing the same challenges the laws were meant to eliminate. The need for government support in training and education, mentorship, and financial support is overwhelming for cooperatives in poor communities (Kanyane & Ilorah, 2015:13; Simmons & Birchall, 2008:2139). The success of white commercial farmers is a testimony of the importance of state support in cooperative development (Eastern Cape Provincial Government, 2009:4). Notwithstanding the need for state support, the government should desist from initiating cooperatives for communities (Oelofse & Van der Walt, 2015:295). The state should not attempt to start cooperatives but should play

a facilitative role by capacitating the communities to initiate their own enterprises. State-initiated cooperatives have proved to be ineffective in promoting socio-economic development but instead, remain perennial parasites on the state.

Equally, the government must stop giving direct subsidies to cooperatives as this compromises their revenue-generating potential and undermines their self-help nature (Harms, 2012:4). Instead, the government must consider introducing zero- or low-interest loans, and focus more on building human resources and the creation of a conducive environment for cooperatives to flourish (Birchall, 2003:12; Borda-Rodriguez & Vicari, 2014:45). Besides providing the necessary legal, political, economic, administrative, and institutional environment that can promote private business initiatives, the government must ensure that infrastructure such as communication, transport and logistics, and information and extension services are in place (Münkner, 2012:44; Ortmann & King, 2007b:231). The government must ensure that cooperatives are provided with a conducive environment in which they can develop as member-owned and independent enterprises that operate on proper business practices (Wanyama *et al.*, 2009:387).

Given that cooperatives are locality-based institutions, local government is the most relevant sphere for the provision of support for cooperative development. The establishment of one-stop multi-purpose centres at district municipalities, which provide a basket of services needed by cooperatives such as credit, input supplies, and marketing, must be seriously explored (Rehber *et al.*, 1999:80). Moreover, the government must actively promote the involvement of youths in cooperative activities by making cooperatives attractive, receptive, and accommodating to young people (ICA, 2013:11). The attraction of youths to cooperatives will not only assist in developing their skills and improving their livelihoods, but will also ensure that youths are given the space to participate in growing the economy and in alleviating the high levels of unemployment in poor communities (Hartley, 2014:727).

## 2.8 THE FUTURE OF COOPERATIVES

Even though cooperatives have faced a number of challenges, they remain tenaciously resilient in their developmental role, largely because of their ability to adapt and embrace the international cooperative values and principles (Borda-Rodriguez & Vicari, 2015:318). For a long time, particularly in developing countries, cooperatives have resolutely contributed to poverty reduction and job creation (Birchall, 2003:70). This contribution has not only put them in the spotlight but also raised their reputation and recognition as indispensable instruments in the socio-economic development of less-privileged communities (Vicari, 2014:684). While progress has not been easy, the cooperative movement has effectively experienced growth (Johnson & Shaw, 2014:671). Many cooperatives have regenerated and are playing a significant role in growing the economies of several African and Asian countries (Wanyama, 2013:145). Central to their renaissance is the proclamation of legislation in these countries that promotes cooperative autonomy.

The enactment of transformative laws not only indicates that these states have realised the detriment that state control has on cooperatives, but also serves as the confirmation of their resolve to promote member-owned and -controlled cooperatives. The developing states are gradually releasing their grip on cooperatives. Unlike in the past when the nature and role of cooperatives were ambiguous, the cooperative business model is progressively becoming clearer and better understood by stakeholders (Birchall, 2003:20). The potential of cooperatives to promote economic and social development in poor communities has again occupied a pedestal position in the development agenda (Johnson & Shaw, 2014:669). The advancements registered by cooperatives in a number of African and Asian countries attest that cooperatives are still relevant and potent tools on the socio-economic development agenda (Zeuli *et al.*, 2004:32).

Moreover, the declaration of the period 2011-2020 by the United Nations (UN) as the “cooperative decade of confident growth” is another indication that cooperatives are still relevant in socio-economic development and the preferred business model for the majority of rural communities (ICA, 2013:3). Most importantly, the UN’s declaration suggests that cooperatives still have a future in the market economy (Wanyama *et al.*, 2009:387). Worldwide, cooperatives are still used as relevant tools to revitalise rural

economies by mobilising local communities to engage in collective activities that improve their socio-economic conditions (Mojo *et al.*, 2015:400). With proper government support and greater understanding by local communities, cooperatives can enhance socio-economic development (Muthuma, 2012:188).

Even though cooperatives were criticised in the past as failed institutions, such criticism was fundamentally misplaced because the organisations that were castigated were not really cooperatives (Birchall, 2004:16). The criticism was largely based on their experiences under colonialism or when cooperatives were established by the government and not by the communities (Harms, 2012:1). There is little credible evidence that suggests that cooperatives are less efficient than conventional enterprises (Ortmann & King, 2007a:40). An organisation cannot simply be dismissed as ineffective just because it is a cooperative (Puusa *et al.*, 2013:13). There is nothing inherently amiss with the cooperative business model; however, the problem lies with how they are initiated and operated. Cooperatives should be member-initiated and -controlled enterprises driven by the knowledge and experiences of local people (Harms, 2012:1). Governments should desist from interfering in their control, but should instead put in place systems to nurture them and to promote leadership development among the members (Birchall, 2003:65). Cooperatives need quality leaders that can keep them focused on the aspirations of their members because they are important tools in the creation of employment opportunities, reduction in poverty, social integration, and mobilisation of resources (Wanyama, Develtere & Pollet, 2008).

## **2.9 CONCLUSION**

The role played by both colonialism and apartheid cannot be absolved from the state of cooperative development in the country. Some of the challenges besetting cooperatives today are consequences of the previous regimes' racial discriminatory policies. On their own, cooperatives cannot successfully overcome these challenges without the assistance from the state; hence the role of the government in supporting cooperative development is emphasised. Given their level of development and the destitute conditions in rural areas, government support is indispensable. It is doubtful that without support from the government that cooperatives will successfully emerge as functional enterprises. Even though the government must be involved in their

development, it must desist from initiating and controlling cooperatives. Communities must be given space to start and develop their own cooperatives.

Despite the myriad of challenges diminishing their effectiveness, there is no substantial evidence that suggests that the cooperative form of business is inherently unsuitable. Cooperatives are recognised throughout the world as important and relevant tools for the socio-economic development of rural and poor communities. Governments worldwide have recognised this and are now supporting the development of member-owned cooperatives in an effort to stimulate rural economies and improve conditions in rural areas.

## **CHAPTER 3: INTERNATIONAL PERSPECTIVE ON COOPERATIVE DEVELOPMENT**

### **3.1 INTRODUCTION**

This chapter examines cooperative development in other countries, particularly in Europe, the Americas, Asia, and Africa. A brief historical overview of cooperative development on these continents is provided. It was believed that the exploration would offer insights, ideas, and clues to contribute to the formulation of the framework proposed by this study. As cooperatives are found almost everywhere in the world, it was not easy to select countries for inclusion in the discussion. Convenience sampling was therefore used to select a few countries for the discussion. Given that four continents were selected, the discussion is similarly presented in that fashion.

The first section provides a brief historical account of the evolution of cooperatives in Europe. This background is necessary to contextualise and trace the evolution of the cooperative business model given that it originated in Europe. Thereafter, a short discussion of cooperative development in the Americas is provided. Brazil and the United States of America (USA) are the countries scrutinised from the continent. Their inclusion was influenced by the prominent role that cooperatives have played in the continent's economy and the new form of cooperation that subsequently emerged from the Americas. This section is followed by a discussion of cooperative development in Asia, with China and India as the countries explored. These two countries were particularly chosen for their characteristic similarities with South Africa. Like South Africa, both China and India are predominantly rural, and agriculture forms an integral part of their rural economy. It was presumed that lessons from these countries would be illuminating for this study. The last part of the chapter discusses cooperative development in Africa using Ethiopia, Kenya, and Uganda as cases. These countries were selected because in the last two decades, they have experienced phenomenal cooperative growth. It was then believed that their experiences would provide valuable information for the study.

## **3.2 COOPERATIVE DEVELOPMENT IN EUROPE**

Cooperatives are almost as old as conventional business enterprises (Birchall, 2004:5). Their evolution can be traced back to the early days of civilisation in ancient Europe (Anschel, Brannon & Smith, 1969:14). Essentially, cooperatives started around the Renaissance period between 1500 and 1700 (Roy, 1981:46; Van Dooren, 1982:2). However, it was during the Industrial Revolution that they gained recognition as a form of business (Majee & Hoyt, 2011:49). During this time, they evolved as a response to the labour abuses and inequities that poor workers suffered during the mechanisation of the workplace (Luviene, Stitely & Hoyt, 2010:7). Effectively, cooperatives were consequential reactions to the economic hardships that poor people endured during the Industrial Revolution (Van Dooren, 1982:5). Poor people used cooperatives as a means to extricate themselves from the misery of poverty unleashed by the Industrial Revolution and as a strategy to sustain their economic advantages (Birchall, 2004:9). Since then, cooperatives have been consistently used by the poor as appropriate strategies to attain their own social and economic development while simultaneously assisting others to achieve theirs (Zeuli & Cropp, 2005:2). Generally, cooperatives have helped poor communities to improve their basic economic orientations (Develtere, 1993:181; Merrett & Walzer, 2004:23). For a considerable time, cooperatives have been a popular model of business throughout Europe, particularly in England.

### **3.2.1 England**

Although cooperatives did not originate in England, the country has played a significant role in their prominence and subsequent dispersion to the rest of the world. Their popularity in the country and in the rest of the world was subsequent to the establishment of the Rochdale Society of Equitable Pioneers. Although there were other cooperative enterprises in England before Rochdale, most of these perished because of a lack of effective and efficient management (Battilani & Schröter, 2012:29). Rochdale emerged as the most successful and widely emulated business enterprise in England. Soon after Rochdale was formed, cooperatives started to spread to the rest of England and the country quickly became popular as the most fertile ground for cooperative growth, to the extent that England is popularly

recognised as the cradle of the modern cooperation (Barratt, 1989:4; Battilani & Schröter, 2012:28).

### **3.2.1.1 Rochdale Society of Equitable Pioneers**

The formation of the Rochdale Society of Equitable Pioneers remains the most remarkable development in the history of modern cooperatives. It marked a fresh approach to the management and governance of cooperative enterprises by introducing a more realistic orientation (Roy, 1981:48). The cooperative was formed in 1844 by 28 individual craftsmen or entrepreneurs who came together to jointly purchase goods and supplies. It became the first consumer cooperative enterprise in the world to be governed by cooperative principles, which included:

- “the democratic control by members based on one member-one vote;
- open and equal membership;
- political and religious neutrality;
- duty to educate members;
- provision of equity by members;
- limited individual equity share ownership;
- regular payment of a patronage refund that was proportional to the members’ expenditure in the enterprise; and
- limited dividends on equity capital” (Birchall, 2003:9).

The application of these principles led to the success of the enterprise. Subsequently, cooperatives operated by the same principles proliferated in England. The phenomenal success of the Rochdale cooperative business model was quickly emulated throughout England, and was later adopted as a business model by which cooperatives were established in Europe (Battilani & Schröter, 2012:29). Epitomising an ideal cooperative business model, Rochdale inspired the spread of cooperatives to the rest of the continent. The application of cooperative principles made the Rochdale Society of Equitable Pioneers a successful business model that became a beacon that provided the organisational pattern that spurred the cooperative movement in Europe and North America (Birchall, 2004:9; Zeuli & Cropp, 2005:9).



Within a decade Rochdale was formed, the model soon spread to neighbouring countries and different types of cooperatives emulated on it emerged throughout Europe (Gibson, 2005:4). By 1863, more than 400 cooperatives patterned on Rochdale were already in existence in Europe (Dogarawa, 2005:3). As it gained popularity in Europe, the model eventually dispersed to other continents, and today cooperatives are found almost in the rest of the world. Even to this day, Rochdale is still cherished for having contributed to providing a model by which modern cooperatives are governed (Haynes & Nembhard, 1999:52). The success and prominence of Rochdale resulted in the dominance of consumer cooperatives in England. The Cooperative Wholesale Society, a consortium of individual consumer cooperatives, with interest in food, consumer goods, banking, insurance, and production, currently dominates the English cooperative movement (Battilani & Schröter, 2012:29). The popularity of cooperatives in England led to the formation of the ICA in London in 1895. The establishment of this gigantic cooperative institution has remained part of the history and the contribution England made to cooperative movement.

### **3.2.1.2 *International Cooperative Alliance (ICA)***

The formation of the ICA in London on 19 August 1895 is consequent to the influence of the Rochdale Society of Equitable Pioneers. Formed at the height of Rochdale's prominence, the ICA was mainly formed to provide information, to define and defend cooperative principles, and to facilitate the development of international trade (ICA, 2013:4). The institution has effectively been instrumental in promoting the development of cooperatives and the adoption of cooperative principles worldwide (Merrett & Walzer, 2004:61; Zeuli & Cropp, 2005:1). The ICA has refined some of the original Rochdale principles and advocates their use as the basic tenets by which cooperatives worldwide are developed and managed (Birchall & Simmons, 2013:87). Notwithstanding the refinement, the original Rochdale principles are still relevant as the values that underpin modern cooperatives (Gupta, 2014:100). Given its contribution in refining the principles, the ICA is now accepted worldwide as the authority on defining cooperatives and determining cooperative principles (Merrett & Walzer, 2004:61).

Through its influence, the ICA has invigorated and enhanced the development of cooperatives throughout the world. Since its establishment, the population of cooperatives in the world has grown substantially as it has relentlessly facilitated their development in countries where there have been none (ICA, 2013:12). For that, the institution is credited for having contributed immensely to the development of modern cooperatives worldwide (Dogarawa, 2005:4). Cooperatives are now found in nearly every country, from the developing nations of Africa, Asia, and South America, to the industrialised countries of Europe and North America (Zeuli & Cropp, 2005:11).

### **3.3 COOPERATIVE DEVELOPMENT IN THE AMERICAS**

Cooperatives were imported to the Americas by European colonists, who used them as tools to establish themselves in foreign countries (Merrett & Walzer, 2004:27; Zeuli & Cropp, 2005:15). Even though they were of European origin, they eventually became popular with Americans who experienced the hardships of the Industrial Revolution (Battilani & Schröter, 2012:34). To reflect cooperative development in the Americas, the USA and Brazil are used as cases.

#### **3.3.1 United States of America (USA)**

Cooperatives started in the USA in 1752 (Zeuli & Cropp, 2005:15). The first cooperatives to be established were financial cooperatives, specifically mutual insurance companies (Merrett & Walzer, 2004:27). Towards the end of the century, agricultural cooperatives emerged, and these were followed by savings cooperatives at the beginning of the 19<sup>th</sup> century (Roy, 1981:53). It was towards the middle of the 19<sup>th</sup> century that Rochdale-type consumer cooperatives started to emerge in the USA (Roy, 1981:51).

By the end of the 19<sup>th</sup> century, different types of cooperatives were found in many parts of the country, with agricultural cooperatives dominating the sector. Despite their dominance, agricultural cooperatives were not properly organised and as a result were less influential in policy formulation. They became organised in 1867 when the Grange Movement was formed to promote self-help and improvements for farmers (Zeuli & Cropp, 2005:16).

The Grange Movement quickly became a formidable movement with 858 000 members in 32 states by 1875 (Zeuli & Cropp, 2005:16). The rise of the Grange Movement heralded the involvement of cooperatives in politics. This gave them the leeway to influence government policy, and since then, cooperatives have been intertwined with American politics (Zeuli & Cropp, 2005:16). Reciprocally, this entanglement led to the direct involvement of the government in cooperative development. In 1908, state extension services were provided to cooperatives (Merrett & Walzer, 2004:33). From then onwards, legislation was successively enacted to provide assistance to cooperatives.

Despite the economic and political upheavals that the USA experienced, agricultural cooperatives have remained significant role players in the economy to the extent that the country boasts the largest cooperative sector on the continent (Birchall, 2004:7). However, this does not mean that American cooperatives were unaffected by the global economic fluctuations of the 20<sup>th</sup> century. The Great Depression of 1929 and World War II between 1939 and 1945 adversely affected the American cooperatives as they did the conventional businesses. Both calamities brought a substantial decline in the American cooperative sector (Battilani & Schröter, 2012:28). However, by 1945, the sector had recovered and grown significantly after the consolidation and reorganisation of agricultural cooperatives (Zeuli & Cropp, 2005:20). The era was characterised by mergers and consolidations to form regional cooperatives. This resulted in larger and more powerful central cooperatives equipped with modern managerial and marketing services (Merrett & Walzer, 2004:41). In this way, cooperatives re-established themselves and introduced a new business approach that empowered them to be relevant and competitive in changing markets. The establishment of these integrated cooperatives signalled the advent of New Generation Cooperatives (NGCs) in the USA.

### **3.3.1.1. *New Generation Cooperatives (NGCs)***

The concept emerged in the USA in 1971 but gained prominence in the 1990s, primarily in the states of North Dakota and Minnesota (Walzer & Merrett, 2002:113). NGCs evolved as a consequential response to the significant structural changes that took place in the agricultural industry.

Faced by world economic changes, agricultural cooperatives were compelled to restructure themselves by increasing their concentration and vertical coordination in order to enhance their efficiencies (Coltrain, Barton & Boland, 2000:3). Despite the name, the enterprises were not necessarily new as they still embraced the organisational features of conventional cooperatives, such as the principle of “one member one vote” and the distribution of cooperatives’ equity based on patronage (Harris, Stefanson & Fulton, 1996:16).

Their evolution was spawned by farmers’ need to generate more income by developing new value-added products that could gain more market share (Downing, Volk & Schmidt, 2005:426; Harris *et al.*, 1996:16). Apparently, there was more worth from transforming a commodity into a value-added product than selling it unprocessed. Hence the focus was not only on marketing the members’ products, but processing them as well to add value that would give the products a competitive edge in the market. This necessitated heavy investment in the construction of processing facilities (Walzer & Merrett, 2002:113).

Unlike conventional cooperatives, the NGCs practised a closed or restricted membership system. They limited the number of members permitted based on the size of their enterprise (Zeuli & Radel, 2005:45). Given their high infrastructural needs, NGCs required high levels of equity investment. Membership was restricted to people who provided equity capital, and new shares were not issued unless the processing facility required expansion (Carlberg, Ward & Holcomb, 2006:34). Essentially, the number of members allowed to join the cooperative depended on the needs of the enterprise. The amount of shares sold were proportional to the operational needs of the cooperative. The sale of membership equity shares was used to raise capital to finance the cooperative venture. This required commitment from the members to sell a specific amount of produce as an input into the production process (Walzer & Merrett, 2002:114).

Members were obligated to deliver produce to the cooperative based on the number of shares of stock they had purchased (Stofferahn, 2009:178; Zeuli & Radel, 2005:45). Thus, the quantity and price of delivery right shares issued were determined based on the amount of product needed for the efficient operation of the facility (Coltrain *et al.*, 2000:4).

Although participation in the cooperative was usually limited to the initial investors, shares were sold to other producers if the venture was profitable (Walzer & Merrett, 2002:114; Zeuli & Radel, 2005:45). However, shares were only sold with the approval of the board of directors to prevent external investors usurping the control of the cooperative (Carlberg *et al.*, 2006:34; Stofferahn, 2009:178).

With this system, farmers were able to react quicker to opportunities and problems that arose in the market and the restricted membership with a contractual product-delivery obligation provided stability to the cooperative. Given the capital-intensiveness of agriculture, NGCs appeared to be the preferred choice for raising capital as they allowed outside investors to invest large amounts of capital in the business. They essentially opened up cooperatives to external investors and promoted the distribution of benefits on the basis of equity and not use (Zeuli & Cropp, 2005:20). This feature opened NGCs to censure and were heavily criticised for allowing the participation of non-members. It was claimed that the openness can expose the cooperatives to hijacking by capitalistic investors, which can possibly result in the loss of a cooperative's identity and purpose (Coltrain *et al.*, 2000:4). Despite the fact that NGCs are criticised, the enthusiasm for the concept seems to be unperturbed as it is spreading to other countries. Signs indicate that the system or its aspects are being adopted, particularly in the emerging economies of Asia and Africa. NGCs were not only popular in the USA but in Brazil as well.

### **3.3.2. Brazil**

Cooperatives in Brazil emerged towards the end of the 19<sup>th</sup> century long after they already existed in the USA (Battilani & Schröter, 2012:49). As in the USA, cooperatives in Brazil were introduced by Europeans (Vicari, 2014:688). As they became popular, the government decided in 1890 to enact the first cooperative legislation in the country. The statute was initially meant to provide support to consumer cooperatives owned by military personnel and their families (Derr, 2013:2). However, consequent to the phenomenal growth of the sector in the country, the law was amended to cover other types of cooperatives. The inclusion of other types of cooperatives in the legislation led to the establishment of credit cooperatives in 1902 (Balzer, 2007:48).

Four years later, agricultural cooperatives were formed and soon gained remarkable popularity in rural areas, which led to the formation of regional cooperative federations in 1925 (Derr, 2013:2; Shaffer, 1999:167). The formation of regional unions strongly revitalised the cooperative sector, to the extent that it even withstood the Great Depression of 1929 (Culti, 2002:7). Inspired by this resilience, the Brazilian government started to provide financial and material support to cooperatives in 1945 (Shaffer, 1999:167). The state essentially provided cooperatives with subsidised credit and technical advisory services (Neto, 2001:153). The provision of state support encouraged the cooperative movement. Agricultural cooperatives took the lead in modernising the country's agriculture, developing it into agribusiness and commodities exportation (Vicari, 2014:688). The popularity of cooperatives in the country led to the formalisation of the sector through the establishment of the National Union of Cooperative Associations in 1956 and the Brazilian Cooperative Alliance in 1964 as two major apex cooperative organisations (Shaffer, 1999:167). At this time, cooperative development in the country was mainly driven by the state, with public administration employees, soldiers, and professionals comprising the largest membership (Battilani & Schröter, 2012:50).

Two years after the 1964 military coup, support to cooperatives was drastically curtailed, which led to the demise of several cooperatives, while those that remained were subjected to strict state control (Schneider, 1982:31). Interestingly, the elimination of state support extricated the cooperatives from political and religious entanglement, which diverted their attention back to serving and defending their members' interests (Battilani & Schröter, 2012:50). In other words, the removal of state support unexpectedly revitalised the cooperative sector. Subsequent to the rejuvenation, the National Union of Cooperative Associations and the Brazilian Cooperative Alliance merged in 1969 to form one apex organisation called the Organisation of Cooperatives (Derr, 2013:9). At its inception, this umbrella organisation represented 6 652 active cooperatives that had a total membership of more than nine million in all sectors of the economy (Vicari, 2014:688). The formation of the umbrella body was historic for the Brazilian cooperative movement as it led to national recognition, which enabled cooperatives to lobby for their interests in parliament. Soon after the body was formed, the government promulgated national cooperative legislation in 1971 (Derr, 2013:3).

Prior to this enactment, there was no uniform cooperative legislation in the country, with different pieces of legislation being used in the provision of support to cooperatives.

The end of military regime in 1984 saw the systematic return of government support to cooperatives (Battilani & Schröter, 2012:50). This manifested in the inclusion of cooperatives in the country's constitution and the formation of the National Cooperative Learning Service, which provided support to cooperatives by "organising professional training, promote social welfare for the members, their families and the communities, monitor their development and the quality of cooperative management; [and] defend and maintain cooperative principles" (Derr, 2013:3). The return to democracy gradually extricated cooperatives from the restrictions imposed by the military junta (Battilani & Schröter, 2012:50). The extrication led to the significant growth of the Brazilian cooperative sector. From a membership of less than three million in 1991, the cooperative membership grew to 3.7 million in 1998 (Battilani & Schröter, 2012:50). The increase was primarily attributed to new cooperatives that were no longer controlled by the state and were modelled on the North American cooperative system (Battilani & Schröter, 2012:50).

The ascendancy to power of Luiz Lula da Silva in 2002 also had a significant impetus for the Brazilian cooperatives. His government introduced a number of interventions that directly and indirectly supported cooperative development (Derr, 2013:3). These included the establishment of the Secretariat for Solidarity Economy within the Ministry of Labour, which coordinated all national support activities that promoted job creation, social inclusion, and the solidarity economy (Derr, 2013:3). The Department of Agriculture also established its own division that promoted rural agricultural cooperatives. In addition, the government established the Brazilian Service of Support for Micro and Small Enterprises, which supported and promoted all kinds of small and medium enterprises, and the National Association of Self-Managed Workers and Companies that supported and promoted self-managed enterprises (Derr, 2013:4). With this kind of support, cooperatives in Brazil thrived and agricultural cooperatives dominated the surge.



As in other countries, the Brazilian agricultural cooperatives were subsequently hit by global economic turbulences, which compelled them to restructure their operations. The process culminated in the industrialisation of the sector. This phase manifested in the installation of industrial plants to process agricultural products in order to add value to improve income-generating potential (Neto, 2001:154). This was effectively the beginning of North American NGCs in Brazil. The introduction of NGCs gave the Brazilian cooperative movement the necessary impetus and later became the most dominant form of cooperation in the country. As in North America, the NGCs resulted in the growth of the cooperative movement (Neto, 2001:154). Subsequent to their introduction, the cooperative movement grew to more than nine million members in 2010 from almost half that number in 1991 (Battilani & Schröter, 2012:51). Given this growth, cooperatives account for almost 40% of the Brazilian agricultural gross domestic product (GDP) (Johnson & Shaw, 2014:669). Their contribution to the country's GDP has enabled them to be globally competitive and more influential in the international cooperative community.

### **3.4 COOPERATIVE DEVELOPMENT IN ASIA**

For cooperative development in Asia, India and China were considered the best cases for this study. Their selection was particularly influenced by their membership to the Brazil, Russia, India, China and South Africa (BRICS) consortium. Given this economic relationship, it was believed that experiences from these countries would be more relevant to the South African situation. Like South Africa, these two countries are predominantly rural and have used cooperatives as the key instrument to grow their rural economies.

#### **3.4.1 India**

Cooperatives started in India at the beginning of the 20<sup>th</sup> century. As in the Americas, cooperatives in India came with colonisation. India is predominantly rural and agriculture is the main economic activity for the majority of the rural population. Given the capital-intensiveness of agriculture, poor farmers struggled to raise enough capital. This limitation compelled them to rely on moneylenders for capital as commercial banks were unwilling to assist them. Their difficulty to secure loans from banks exposed the farmers to extortionist moneylenders, who exploited them and profited



from their plight (Anandaram & Dubhashi, 1999:109). This exploitation prompted the poor farmers to form self-help groups as a means to extricate themselves from the usurious credit lenders (Vaidyanathan, 2013:30). This initiative was the beginning of cooperatives in India, and credit cooperatives were the first to be formed. Within a year of their establishment, cooperatives prospered to the extent that they took away 65% of the rural credit share from the unscrupulous moneylenders (Anandaram & Dubhashi, 1999:109). Encouraged by the cooperatives' success, the British colonial government enacted the first cooperative legislation in 1904 (Battilani & Schröter, 2012:47).

Although in the beginning the Indian credit cooperatives were strictly owned, managed, governed, and fully capitalised by their members or commercial credit, the promulgation of the 1904 Act introduced the involvement of government in cooperative affairs (Battilani & Schröter, 2012:48). While cooperatives were managed and governed by their members, the government provided them with support. The state heavily promoted their development by building them a unified banking system based on the British model of primary credit societies, district cooperative banks, and state cooperative banks (Battilani & Schröter, 2012:48). The involvement of the state in credit cooperatives led to their quick growth. As they became successful and popular, the cooperatives soon spread to other sectors and different types of cooperatives were eventually formed. This sudden growth was largely attributed to the amendment of cooperative legislation in 1912, which encouraged the formation of cooperatives in other sectors (Battilani & Schröter, 2012:48).

As the sector proliferated, India witnessed the emergence of agricultural consumer cooperatives, which procured and distributed inputs for their members (Anandaram & Dubhashi, 1999:109). Housing cooperatives were also formed to provide decent shelter to their members and to improve the socio-economic conditions in the slums (Tripathi & Agarwal, 2013:3260). Apart from these benefits, cooperatives in India also empowered women to take a leading role in activities that improved their self-worth. Through cooperatives, women gained employment, and this afforded them dignity and respect from their communities (Basu & Chakraborty, 2008:300).

Most notably, cooperatives in India have boosted the country's dairy industry, significantly resulting in gainful employment and increased dignity for many rural households (Gelb, 1984:398). The Indian dairy farmers produce high-quality milk and have successfully made linkages with urban markets (Basu & Chakraborty, 2008:300). Subsequently, the industry has permeated most of the rural communities, empowering them to improve their socio-economic conditions (Vaidyanathan, 2013:30). Notwithstanding its success in reducing poverty in the country, the Indian dairy industry has been criticised for its unevenness. Apparently, it has been more successful in areas where it originated than in places where it was replicated (Basu & Chakraborty, 2008:300).

Significant institutional reforms are still needed to invigorate the sector and to restore the rural cooperatives to their original grassroots and member-controlled nature (Battilani & Schröter, 2012:48). While the government was initially not actively involved in the formation of cooperatives, in later years, the country witnessed the interference of the state in the initiation and management of cooperatives (Vaidyanathan, 2013:33). This interference has constrained the cooperatives from reaching their full potential and has exposed them to corrupt practices as dominant political groupings have manipulated the sector (Simmons & Birchall, 2008:2133). Politicians have misused cooperatives for their own selfish interests (Vaidyanathan, 2013:34). Nevertheless, the state is conscious of the damage their interference has caused to the cooperative sector.

Even though initially there was reluctance to relent control on cooperatives, the state is gradually withdrawing its influence (Simmons & Birchall, 2008:2135). There are visible signs that the government has started creating a favourable environment for the resurgence of democratic and autonomous cooperatives (Battilani & Schröter, 2012:49). The promulgation of new legislation in 1995 in the State of Andhra Pradesh that introduced the concept of cooperative autonomy and self-reliance is testimony to the government's resolve (Birchall, 2004:16). The legislation has set a precedent in other states that have followed suit and enacted laws to set the cooperatives free of state control (Birchall, 2004:16). Despite the state control, cooperatives in India have managed to improve the socio-economic conditions in rural communities (Anandaram & Dubhashi, 1999:109).

Since their inception in the beginning of the 20<sup>th</sup> century, cooperatives in India have substantially grown, with credit and agricultural cooperatives dominating the sector. Cooperatives are now found in almost every village and provide direct and indirect employment to local communities (Anandaram & Dubhashi, 1999:109; Battilani & Schröter, 2012:47).

### 3.4.2 China

The history of cooperatives in China can be traced to the 17<sup>th</sup> century when cooperative finance was the main form of cooperation (Loubere & Zhang, 2015:32). However, it was only in the 20<sup>th</sup> century that the government formally recognised and promoted cooperatives (Ling, 2006:736). Throughout their history, cooperatives in China have been affected by the economic and political changes in the country. Successive economic reforms that took place in the country always reverberated in the cooperative sector (Lan *et al.*, 2014:379). Although NGOs were also involved in the promotion and establishment of cooperatives, the government dominated the process (Garnevska, Liu & Shadbolt, 2011:71). Cooperatives that were formed through the bottom-up approach of NGOs have, however, proved to be more active and productive than those established by the enforced top-down government approach (Garnevska *et al.*, 2011:71). The state's involvement in the initiation of cooperatives has led to the instability of the sector. Such that, cooperatives in China have undergone numerous developmental phases that were influenced by the political dispositions prevailing at the time.

The establishment of the People's Republic of China by the Chinese Communist Party in 1949 signalled the first phase of cooperative development. The land reform that the new government introduced made the farmers landowners, which promoted enthusiasm for agriculture in the country (Garnevska *et al.*, 2011:1). Spurred by the land reform and the keenness for agriculture, cooperatives grew in the country. During this time, land was re-appropriated to individual peasant farmers who were then encouraged to form agricultural cooperatives (Battilani & Schröter, 2012:45). Under this system, land was pooled and farmers received dividends based on each member's land share (Battilani & Schröter, 2012:45). This land ownership system resulted in the rapid proliferation of agricultural cooperatives throughout the country (Ling, 2006:736).

However, for reasons convenient to politicians, the policy was repealed around 1960 and replaced with a policy that enforced the conversion of individual farms into people's communes. The change in land policy introduced a different approach to cooperative development, which contrasted with the previous system of individual land ownership. Under the new system, the government advocated the collective ownership of land and the payment of dividends based on the contribution to the collective (Battilani & Schröter, 2012:45). During this period, millions of individual small peasant farms were amalgamated into communes that were subject to central planning (Jia, Huang & Xu, 2012:665). The central control of cooperatives obliterated any prospects for the emergence of a stronger autonomous cooperative movement in China. Under this system of collective farming, both the rural credit cooperatives and the supply and marketing cooperatives that drove rural agriculture were placed under the control of the state (Jia *et al.*, 2012:667). Almost every farmer was forced to join the land communes (Battilani & Schröter, 2012:45). Since people were used to individual land ownership, they refused to support the new commune system. This resulted in the failure of the policy and the stagnation of the cooperative sector from the 1960s to the 1980s (Garnevskaja *et al.*, 2011:70).

Subsequent to this decline in the early 1980s, the government reviewed cooperative legislation and introduced another policy that heralded a shift from the commune system to a household responsibility system (community cooperatives). The new policy promoted a system of family farming through the allocation of collectively owned (village-controlled) land to individual households in each village for agri-production and business activities (Lan *et al.*, 2014:379). Under this system, households were given land use rights for 15 years (Deng *et al.*, 2010:495). Unlike in the commune system, in the new system farmers were given the freedom to choose which crops to cultivate and the households became the dominant unit of production (Garnevskaja *et al.*, 2011:72). As farmers had long-term land leases, they were able to invest in the farms and in technological improvements (Battilani & Schröter, 2012:46). This revitalised interest among the farmers, increased agricultural productivity, improved rural income, and reduced the levels of poverty in rural areas (Deng *et al.*, 2010:495; Jia *et al.*, 2012:665). Besides improving China's performance in agriculture, the system has also facilitated other economic reforms (Deng *et al.*, 2010:496).

The introduction of community cooperatives was effectively a major policy shift in cooperative development as it ushered in a market economy in China. It promoted the establishment of cooperatives that emphasised new business cooperation among villagers through village enterprises (Lan *et al.*, 2014:379). Community cooperatives were essentially “community-oriented multi-purpose organisations that were responsible for handling the administrative and social affairs of the village; providing agricultural as well as public services; leasing land, co-ordinating water use; and organising initiatives to develop the village economy” (Ling, 2006:737).

Around 1991, the impact of globalisation was felt in China (Battilani & Schröter, 2012:46). Consequently, this culminated in yet another policy shift in cooperative development, which introduced a socialist market economy. The new era unleashed further rounds of economic reforms marked by the drive to form nationwide markets and the liberalisation of the prices of many agricultural products and inputs (Ling, 2006:737). Subsequently, shareholding cooperatives were formed in China. The formation of shareholding cooperatives was an attempt to clarify property rights, raise incentives, revolutionise equity financing, and inculcate flexibility in the management of cooperative enterprises (Ling, 2006:737). As a result, shareholding cooperatives were characterised by heterogeneity in membership and a mixed profit distribution system centred on share capital and patronage (Zhao & Yuan, 2014:48). The share ownership determined both the influence of a member in decision making, as well as the profit the members earns. This form of cooperation increased China’s rural development as it resulted in swift agricultural industrialisation, modernisation, and urbanisation (Song, Qi, Zhang & Vernooy, 2014:95; Zhao & Yuan, 2014:35).

This rapid agricultural growth did not, however, occur without challenges. Although the massive capitalisation, marketisation, and privatisation of cooperatives prompted economic growth, it was grossly uneven (Zhao & Yuan, 2014:35). There was noticeable economic growth and development in urban areas while rural development was neglected. The model managed to uplift the majority of the Chinese in coastal regions out of poverty but excluded the inland regions (Birchall, 2004:1). The profits from this economic expansion disproportionately benefitted the urban communities and neglected the rural areas (Bromwich & Saunders, 2012:1098). With the skewed economic growth and the exclusion of rural development, it was clear that the model had limitations and that a new policy orientation was required.

As a direct response to these inadequacies, in 2007 the central government promulgated the Farmer Professional Cooperative Act. This marked another policy shift in cooperative development in China. The enactment of the Act was specifically meant to promote the formation of specialised cooperatives to combat rural poverty and to expedite rural development (Bromwich & Saunders, 2012:1098). The Act emphasised the governance of cooperatives on the principles of voluntary participation and free withdrawal, democratic control through the principle of “one person one vote”, and the return of surplus earning to members (Jia *et al.*, 2012:667). The policy was essentially aimed at making agriculture more market orientated by linking small farmers with global markets (Song *et al.*, 2014:99). With these cooperatives, China was embracing the market economy.

The establishment of these cooperatives encouraged the joint procurement of inputs, the pooling together of resources, and the collective marketing of agricultural products (Song *et al.*, 2014:99). With this shift, cooperatives were seen as appropriate means “to achieve economies of scale and scope with regard to input supplies and the marketing of products; reduction of transaction costs; standardisation of produce; and penetration of new markets” (Zhao & Yuan, 2014:35). With these cooperatives, farmers were able to efficiently supply the markets with produce (Song *et al.*, 2014:99). This new form of cooperation generated renewed interest among the rural Chinese and new farmer cooperatives sprang up throughout rural China (Garnevska *et al.*, 2011:72). Different stakeholders such as farmers, research institutions, NGOs, and the government were all interested in the initiation of these new cooperatives (Song *et al.*, 2014:95). However, even with the new approach, the government was still involved in the formation of cooperatives, but mainly in the generation and dissemination of agricultural technology among farmers.

The new cooperatives quickly became popular with the Chinese because within the five years the new law was passed, cooperative membership grew to 46 million (Zhao & Yuan, 2014:36). Cooperatives were the fastest growing sector in China’s rural economy, accelerating agricultural development and increasing farmers’ income (Garnevska *et al.*, 2011:72). Apart from helping farmers share the costs of collection, packaging, storage, handling, and transportation of their produce to distant markets, the cooperatives also provided the technical services the farmers required (Ling, 2006:738).

In so doing, they nurtured their members to develop into more specialised and higher-value producers. This capacitation increased their average incomes and decreased input costs, which resulted in increased profits (Bromwich & Saunders, 2012:1102). Despite this contribution, specialised farmer cooperatives have been criticised by detractors as “false” cooperatives based on the Euro-American model to promote the interests of capitalists (Hairong & Yiyuan, 2013:955). Notwithstanding the criticism, the specialised cooperatives seemed to flourish in China and have become important in “restructuring agriculture; promoting agricultural markets; stabilising supplies; introducing new technologies and improving quality and standards of food hygiene; raising farmers’ income; and integrating farming with processing” (Ling, 2006:738).

Specialised farmer cooperatives have not only proved to be effective in reducing poverty and creating job opportunities, but they have promoted community development in rural communities to the extent that the Chinese regard them as the key component of the Rural Reconstruction Movement that has significantly improved the rural economy (Hairong & Yiyuan, 2013:955; Zhao & Yuan, 2014:54). The new cooperatives are touted in China as mechanisms to enhance the involvement of farmers in industrialised agriculture. With China’s membership of the World Trade Organisation, specialised farmer cooperatives are the means by which local farmers can meet the challenges of global agri-business competition (Ling, 2006:740). They have played a significant role in making Chinese agriculture more sustainable and competitive (Song *et al.*, 2014:106).

From the above discussion, it is clear that government support remains critical to the development of cooperatives in China and India. Throughout their history, both the Chinese and Indian cooperatives have been supported by the government. However, it has been equally clear from both these countries that the direct initiation of cooperatives by the state is detrimental to cooperative development. Although government support is critical for cooperatives to successfully attain profitability and sustainability, the state should not initiate them but must allow communities to form their own enterprises. The government must concentrate on creating a conducive environment by encouraging the establishment of autonomous and member-controlled cooperatives and proficiently provide these enterprises with relevant information and training.



Moreover, the experiences from both China and India have demonstrated that local government is the most relevant level to provide effective support to cooperatives as it is geographically positioned to coordinate and integrate government services. The success of credit cooperatives in India indicates the potential of these enterprises to fund themselves. With commitment, inner drive, and zeal from the members, cooperatives have the ability to generate sufficient funds to be self-sustainable. Equally, it has been shown in China that for success and sustainability, cooperatives cannot solely rely on domestic markets, but should explore international markets as well. The opening up of China to international markets has contributed to the profitability of cooperatives in the country.

### **3.5 COOPERATIVE DEVELOPMENT IN AFRICA**

As in the Americas and Asia, cooperatives were introduced to Africa by European colonists, who used them as political tools to sustain their interests to the disadvantage of local communities (Develtere, 1994:179). Given their imposition, local communities were cynical of cooperatives. This lessened their commitment towards these enterprises and, as a result, cooperatives were hardly effective in socio-economic development. The ineptitude of the initial cooperatives led to their abandonment in preference of more socialistic enterprises that were adopted when African countries were liberated. The independence re-ignited the interest in cooperatives in the newly liberated states because the African leaders perceived them as the relevant tools to improve social cohesion and to fast-track economic growth (Okem, 2015:84). Their proclivity to cooperatives was largely influenced by their familiarity with the model and reluctance to adopt unknown policies that they were uncertain of (Birchall & Simmons, 2010:472). For this reason, cooperatives were then adopted as essential instruments to develop the newly independent states, which were socio-economically distressed because of the lack of adequate resources (Wanyama, 2013:129). Although the new leaders were cynical of colonists' cooperatives, they were optimistic of the model's potential to develop their countries (Magigi, Faustine-Bee & Danda, 2012:256). They were confident that the socialistic cooperatives would be able to achieve the socio-economic development of their new independent states (Muthuma, 2012:176). However, this was not the case, as soon thereafter, cooperatives were embroiled in a number of challenges that debilitated their potential.



Excessive state control compromised their stature and it soon became clear that cooperatives were not serving the interests of local communities but those of the state (Wanyama *et al.*, 2009:362). The enormous resources governments invested in cooperatives were not delivering the expected returns. Instead, they were misappropriated by political elites at the local level, and, as such, they benefited the middle-income earners rather than the poor (Simmons & Birchall, 2008:2133). Excessive state control converted cooperatives into quasi-government agencies that were dissociated from their membership (Birchall, 2003:8). Cooperatives were no longer independent organisations owned and controlled by their members, but state appendages (Simmons & Birchall, 2008:2133). The control by the state created cynicism and decreased solidarity, interest, and commitment among cooperative members, which led to the failure of the socialistic cooperatives (Ruben & Heras, 2012:465).

Subsequent to this failure, more efforts were explored in the 1980s to resuscitate the cooperatives. The initiatives included the introduction of Structural Adjustment Programmes (SAPs), which were reform policies introduced by the World Bank aimed at lessening the role of the state in the national economy and to allow the markets to dominate the provision of socio-economic services (Muthuma, 2012:180; Wanyama *et al.*, 2009:372). Among the reforms that the SAPs introduced were the privatisation of public enterprises, the removal of state subsidies on public goods and services, the liberalisation of internal and external trade, and the restructuring of government institutions (Gibbon, Bangura & Ofstad, 1992:7). These changes promoted the deregulation of various sectors of the economy, minimal state intervention in the economic sphere, and the removal of government support and subsidies from the cooperatives (Okem, 2015:85). The reforms effectively removed the infrastructure and protection that had sustained the cooperative sector for many years. For this reason, SAPs were not embraced by cooperatives that for years had been sustained by state protection. Cooperatives were suddenly compelled to change the way they operated and start acting like conventional business entities. This abrupt removal of state support was ill-timed for the cooperatives as most of them were incapable of adapting to the new dispensation (Muthuma, 2012:180).

With the majority of cooperatives having a weak capital base, heavy indebtedness, and limited creditworthiness, they were certainly unprepared to face the rigours of market liberalisation (Birchall & Simmons, 2010:477). Although their unpreparedness led to the collapse of those that found it hard to operate without government privileges and support, the SAP reforms effectively did not obliterate the cooperative movement (Okem, 2015:85). Stronger and more resilient cooperatives emerged while weaker ones perished (Wanyama, 2009:26). Given the circumstances, cooperatives were compelled to reinvent and re-engineer themselves to adapt to the challenges of the market economy. Even though liberalisation was initially detrimental to cooperative development, it rejuvenated them, enabled them to reclaim their freedom, and re-engineered solidarity among the members to effectively participate in activities that improved their socio-economic conditions (Wanyama, 2013:145). Given the rejuvenation, governments in Africa are supporting the formation of member-owned cooperatives among the marginalised and excluded populations both in urban and rural areas (Johnson & Shaw, 2014:671). This change in cooperative development approach has led to countries like Ethiopia, Kenya, Malawi, and Uganda experiencing increased food production, income, and access to markets, as well as the empowerment of community members (Borda-Rodriguez & Vicari, 2015:333; Hartley, 2014:717; Mbanza & Thamaga-Chitja, 2014:265).

### **3.5.1 Ethiopia**

Cooperatives were introduced to Ethiopia in the 1950s by the imperial regime that ruled the country from 1930 to 1974 (Bernard, Taffesse & Gabre-Madhin, 2008:147; Mojo, Fischer & Degefa, 2017:85). The imperialists primarily established the cooperatives to sustain themselves through the exportation of high-value commercial crops (Mojo *et al.*, 2015:392). They deceitfully used strategies or traditions that appeared as enhancing the socio-economic development of local communities, whereas, in reality, they entrenched their foreign culture and inculcated imperialist tendencies in the Ethiopian community for their benefit. Cooperatives were presented as a combination of the Ethiopian traditional, subsistence-based economy and the modern European market economy, although they were actually tools to sustain the imperialists (Birchall, 2003:8).

The imperialists introduced cooperatives as the best way of modernising and integrating the traditional local economies into a monetised economy, but in effect they were never intended to benefit the local people but were meant to sustain the Europeans (Flygare, 2007:25). In effect, cooperatives were used by imperialists as part of political investment strategies to control the local communities (Ruben & Heras, 2012:465). In other words, the establishment of cooperatives in Ethiopia was never meant to serve the interests of the local people but those of the colonists. The colonists essentially established the cooperatives to impose their socio-economic policies on local communities (Wanyama, 2013:128). For this reason, cooperatives did not operate as private business enterprises that were primarily driven by the interests of their members and the demands of the market, but to satisfy the needs of the colonists (Wanyama *et al.*, 2009:362).

In 1974, the imperialists were overthrown and replaced by a socialist regime that introduced its own cooperatives (Mojo *et al.*, 2015:392). Autonomous and democratic cooperatives were introduced as part of the government land distribution strategy (Kodama, 2007:88). Although cooperatives were initially community led, the state later on gradually usurped their control and converted them into state extensions (Ruben & Heras, 2012:470). Eventually, cooperatives were established through a top-down approach that disregarded the international cooperative principles and were used as tools for the political and economic control of rural communities (Mojo *et al.*, 2017:85). The state control led to the demise of the socialist cooperatives and created cynicism among the Ethiopians. Their trust that cooperatives were institutions that could promote the socio-economic development of their communities evaporated (Benson, 2014:74).

The removal of the socialist regime from power in 1990 brought much-needed rejuvenation of cooperatives in the country (Abate, Francesconi & Getnet, 2014:261). From that period, the government actively supported cooperative development (Francesconi & Heerink, 2011:154). Among the changes the new government introduced was the promulgation of relevant legislation and the establishment of the Cooperative Agency, which organised and promoted cooperatives at national level and provided technical training and financial support at regional level (Bernard *et al.*, 2008:148; Ruben & Heras, 2012:470).

Various state agencies and institutions that enhanced cooperative growth and productivity were also established (Abate *et al.*, 2014:259). In effect, the state vigorously advocated the free-market economy and the recognition of international cooperative principles and values (Mojo *et al.*, 2015:392). The establishment of voluntary and democratically governed cooperatives that used a one-member-one-vote system was encouraged (Bernard & Spielman, 2009:61). Market competition and the provision of technical and logistical support to cooperatives were also promoted (Ruben & Heras, 2012:465). With this support, the Ethiopian cooperative sector experienced phenomenal growth (Mojo *et al.*, 2017:86; Royer, Bijman & Abebe, 2017:48).

Also instigating cooperative growth was the establishment of regional cooperative unions, which primarily focused on marketing cooperative products (Royer *et al.*, 2017:48). Rural marketing cooperatives promoted the commercialisation of agricultural produce from smallholder farmers (Bernard & Spielman, 2009:61; Bernard *et al.*, 2008:148). In this way, cooperatives played a prominent role in the commercialisation and transformation of agriculture (Royer *et al.*, 2017:48). Consequently, cooperatives derived better incomes from their produce than private traders, which enabled members to improve their socio-economic conditions (Kodama, 2007:87; Mojo *et al.*, 2017:86). Generally, cooperative growth in Ethiopia was driven by the voluntary participation and democratisation of cooperatives, their unionisation and integration at regional level, vigorous marketing strategies, the enhancement of technical efficiency through education and training, the establishment of partnerships between cooperatives and other stakeholders, contract farming arrangements in the delivery of supplies and products, improvement in quality control and management, and the enhancement of governance and management capacities (Abate *et al.*, 2014; Kodama, 2007; Royer *et al.*, 2017; Ruben & Heras, 2012).

Despite their phenomenal growth, cooperatives in the country are still faced with certain challenges. The reluctance by some farmers to join cooperatives is still evident, and this phenomenon is attributed to the unpalatable history of cooperatives under the previous regimes (Bernard & Spielman, 2009:62; Mojo *et al.*, 2017:86). Quality management is also a problem as some unions are inconsistent in enforcing compliance with quality requirements (Royer *et al.*, 2017:49). Poor quality control affects the income generated as the exportability of the produce is compromised.

The government also continues to induce communities to establish cooperatives and still plays a role in the supply of inputs for agricultural cooperatives (Benson, 2014:74). This has somewhat retarded the establishment of a vibrant and autonomous cooperative movement in the country as farmers have only patronised the cooperatives to access these resources, but are reluctant to market their products through them or engage in cooperative activities with other members (Benson, 2014:74). The involvement of the government in the initiation of cooperatives is therefore unhelpful for the sector as farmers predominantly join them to access state resources.

Although the practice is debilitating to cooperative growth, it has not yet eroded the diversity and independence of the Ethiopian cooperative movement (Abate *et al.*, 2014:262). Cooperatives are now more market orientated and relatively more democratic than they were in the previous regimes (Kodama, 2007:87). While state control is undesirable, state support remains inevitable for cooperative development. It is doubtful that the Ethiopian cooperative sector would have attained such prosperity had the cooperatives not been integral part of the government's policy directive.

### **3.5.2 Kenya**

Kenya has the most successful cooperative movement in Africa (Mathuva, 2016:86). The colonists first introduced cooperatives in the country in 1908 to promote export trade (Develtere, Pollet & Wanyama, 2008:10; Wanyama, 2007:8). Since then, cooperatives have always been an important feature of the Kenyan agriculture-based economy (Mathuva & Kiweu, 2016:80). The first cooperative to be established in the country was the Lumbwa Dairy Cooperative Society (Gatuguta, Kimotho & Kiptoo, 2014:1). For over two decades, cooperatives in Kenya operated without legislation to regulate their activities. It was only in 1931 that the first cooperative legislation was enacted to regulate the provision of support to European cooperatives, but forbade the participation of Kenyans in the cooperatives (Dondo, 2012:51). For five decades, cooperatives in the country solely benefitted the white farmers and excluded the indigenous people (Wanyama, 2007:8). The whites used cooperatives to market their own produce and to acquire farm inputs at reasonable prices while denying the Kenyans the same privileges (Dondo, 2012:96).

It was only in 1963 when the country attained independence that the Kenyans were first allowed to form and register their own cooperatives (Gatuguta *et al.*, 2014:1). Given their enthusiasm for this form of business, cooperatives quickly proliferated in the country within a short period of time. By 1966, there were almost 200 cooperatives all over the country and in six years, by 1972, this number replicated tenfold to 2 000 (Dondo, 2012:52). This growth was largely driven by the state, which put in place the infrastructure that not only helped their proliferation but their sustainability as well. Most prominent among the infrastructure that the state established was the Ministry of Cooperative Development and Marketing, which drove cooperative development by ensuring that the necessary legislative framework, policies, and codes of conduct were in place (Behrens, McCormick, Orero & Ommeh, 2017:82).

Soon after it was formed, the ministry successively facilitated the promulgation of the Cooperative Societies Act (Cap. 490 of 1966) and the Cooperative Societies Rules of 1969 (Muthuma, 2012:177). Both pieces of legislation ensured that the state was in full control of cooperative development and cooperatives were used as instruments to promote economic development in the country (Wanyama, 2007:9). The establishment of the Cooperative Bank of Kenya in 1968 also had a huge influence on cooperative development as it ensured that financial services were easily available to cooperatives (Behrens *et al.*, 2017:82). Moreover, the Cooperative College was established in 1972 to enhance capacity in the sector through training and research (Behrens *et al.*, 2017:82; Muthuma, 2012:178).

Although all these initiatives resulted in significant growth in the cooperative sector, it soon became clear that excessive state control was suffocating the sector. The cooperative movement gradually lost its voluntary and bottom-up character that enabled members to be in charge of their enterprises, and members' motivation to participate in cooperative activities declined (Wanyama, 2007:11). Cooperatives' autonomy eroded and eventually cooperatives were no longer seen as member-owned but state enterprises, such that by the end of the 1980s cooperatives in Kenya were completely under state control and hardly survived without government or donor financial support (Wanyama, 2007:12). This decimated interest and commitment among the members and obliterated their productivity, which hastened their demise (Ruben & Heras, 2012:465; Simmons & Birchall, 2008:2133).

Like in other African countries, Kenyan cooperatives went through successive phases of development. They moved from the colonist era to the independence era, which entrenched state control, then to the liberalisation era, which introduced liberal economic reforms, and finally to the post-liberalisation era that promoted autonomous and voluntary cooperatives. Although each phase presented unique challenges that culminated in reciprocal fluctuations, the cooperative movement in Kenya has never withered. Since independence, cooperatives in Kenya have increased in number and membership (Wanyama, 2007:17). The numbers have progressively increased from 1 834 in 1969 to almost 13 500 in 2013 (Mathuva, 2016:87). However, despite the consistent growth, the introduction of liberal economic reforms in the 1990s re-engineered the cooperative sector. The removal of state protection and support decimated a large number of cooperatives, but revolutionised those that survived. The challenges experienced during this period forced the Kenyan government to review its cooperative policies.

Subsequently, the Cooperatives Societies Act (No. 12 of 1997) was amended to the Cooperatives Societies Amendment Act (No. 2 of 2004), which essentially reintroduced the government into cooperative development (Wanyama, 2007:16). Despite the reinstatement of the state to cooperative development, the new Act discouraged the state control and promoted the autonomy, self-management, as well as the independence of cooperatives (Muthuma, 2012:181).

The provision of an enabling legislative framework has been central to the development of the sector (Behrens *et al.*, 2017:82). It led to the establishment of a number of institutions that have primarily driven cooperative development in the country. It could be for the government's involvement that the Kenyan cooperative movement has attained its current glory, which seems to emanate from the facilitative role played by the government. For the Kenyan cooperatives, the establishment of the Ministry of Cooperative Development and Marketing was historic and has remained key to their growth and success (Dondo, 2012:102). Few countries in Africa have established fully fledged ministries dedicated to cooperative growth. The ministry has clearly demonstrated the zeal and commitment that the Kenyan government has for the sector. The government has also promoted the establishment of active partnerships between the state and the cooperatives, which have helped in skills transfer and the capitalisation of the sector (RSA, 2012b:27).



The College of Cooperatives continues to provide education and training to cooperative members in a variety of skills, although its relevance is being diminished by various cooperative unions that have opted to provide their own training to their members (Muthuma, 2012:178). The vibrant Kenyan savings and credit cooperatives, the Ministry of Cooperative Development and Marketing, and the national Cooperatives Bank of Kenya have consistently provided financial support to cooperatives (Mathuva & Kiweu, 2016:197). More importantly, Kenyan cooperatives are historically organised and vertically integrated into active local and regional unions, which are significant in marketing and linking local cooperatives with international markets and cooperative movements (Wanyama, 2007:7). Despite their renowned success, capacity constraints within the Ministry of Cooperative Development and Marketing threaten the provision of effective supervision to cooperatives. Apparently, the growth of the sector has outpaced the capacity at the ministry. The shortage of technical officers with adequate knowledge and relevant skills has hindered the provision of meaningful monitoring and evaluation (Muthuma, 2012:182). Despite this challenge, Kenyan cooperatives still play a prominent role in the socio-economic development of the country.

### **3.5.3 Uganda**

Uganda is another success story of cooperative development in Africa. Cooperatives started in Uganda in 1913 when local farmers adopted the model as a response to exploitative colonist marketing systems (Kyazze, 2010:2). At the time, local farmers produced cash crops, coffee, and cotton, which were then processed and marketed by the colonists (Kwapong & Korugyendo, 2010:1). This practice profited the colonists while it disadvantaged the local farmers, which led to the beginning of cooperative enterprises in the country (Kyazze, 2010:2). As the means to extricate themselves from the exploitative practices of the colonists, the indigenous crop farmers formed cooperatives, and the first cooperative to be formed was Kinakulya Cooperative Society. Subsequently, more cooperatives were formed by local crop farmers (Kwapong & Korugyendo, 2010:1). The proliferation of cooperatives within the local farming community prompted the enactment of the first cooperative legislation, the Cooperative Ordinance of 1946, which further enhanced cooperative growth and productivity in the country (Kwapong, 2013:2).



The independence in 1962 brought more changes to cooperative development. The process started with the repeal of the Cooperative Ordinance of 1946 and culminated in the promulgation of the Cooperative Societies Act of 1962 (Kyazze, 2010:2). The Act heralded the active and direct involvement of the government in cooperative development. The state promoted the establishment and diversification of cooperative enterprises in the country. This involvement increased cooperative membership and productivity in the country (Kwapong & Korugyendo, 2010:1). However, the success was short-lived as the state gradually usurped cooperative autonomy and introduced foreign tendencies to the cooperatives. Corrupt practices started to characterise cooperative leadership as political leaders, who pursued their own political and economic ambitions, were appointed as managers (Kwapong & Korugyendo, 2010:1). All this resulted in the decline of both cooperative membership and productivity for almost three decades after independence (Kwapong & Korugyendo, 2010:1).

The period included the liberalisation era in the late 1980s, when the SAPs of the World Bank were introduced. The era ushered in economic reforms that resulted in the withdrawal of state support from cooperatives, including the provision of marketing activities, price regulation, quality assurance, trade finance, and production credit (Ampaire, Machethe & Birachi, 2013:964). These reforms were essentially meant to reallocate the responsibilities and resources from the state to the market in order to facilitate the emergence of a market economy (Wanyama, 2013:131). As in other African states, the Ugandan cooperatives were ill-prepared for the sudden changes, and as a result, there was a noticeable decline in their productivity throughout the 1990s (Kyazze, 2010:3). Although a sizeable number of cooperatives succumbed, some survived the tribulations of the liberalisation era and continued to grow in membership (Wanyama *et al.*, 2009:374).

The post-liberalisation era marked the renaissance of the Ugandan cooperative movement. It revitalised the sector and reorganised, replaced, or abandoned the redundant cooperatives (Wanyama *et al.*, 2009:374). Insolvent and non-competitive cooperatives were eliminated, while others were revitalised to survive the process (Wanyama, 2013:145). Cooperatives moved away from being inefficient semi-government enterprises into more independent and autonomous, business-orientated enterprises (Kwapong, 2013:3).

During this period, cooperatives were key in transforming agriculture and have featured prominently in the country's Agriculture Sector Development Strategy and Investment Plan (Adong, Mwaura & Okoboi, 2012:2). Although the revival of the cooperative sector was initiated by the government through a policy framework, the process was mainly driven by the Uganda Cooperative Alliance, the apex body for all cooperatives in the country (Kwapong, 2013:3). The process was largely centred on uniting cooperatives and strengthening cooperation among them to increase their numbers, build commitment in membership, instil financial prudence, and offer marketing services to members (Ampaire *et al.*, 2013:964). The revitalisation process was essentially anchored on building good leadership and governance structures through education and training as most cooperatives were characterised by poor managerial and leadership skills.

It also focused on instilling business ethics and practices that drove the operation of cooperatives as profitable business enterprises; providing incentives such as payment of dividends to cooperative members to enhance their commitment in the cooperative; diversification of business such as the use of cooperative infrastructure as an additional source of revenue; and mobilisation of financial support from private investors to generate equity capital for the operation of the cooperative and building its assets (Kwapong & Korugyendo, 2010:4).

Even though the cooperative movement spearheaded the revival of the cooperative sector and the elimination of state control, state support remained inevitable for cooperative development. It provided the necessary legislative and policy frameworks that facilitated a conducive environment that enabled cooperatives to prevail. The Ugandan National Cooperative Policy (2010) has been influential in growing and strengthening the sector and enabling it to contribute to poverty alleviation, employment creation, and social economic transformation (Kyazze, 2010:20). Without it, the Ugandan cooperative sector would not have attained its current prosperity and financial independence.

It is clear from the above discussion that, as in Asia, cooperatives in Africa prospered because of government support. State support is critically important and indispensable for cooperatives because they are organisations largely formed by impoverished communities, who on their own could not easily get off the ground. Equally, it is evident in the discussion that the initiation of cooperatives by the government is detrimental as it creates inorganic cooperatives that lack autonomy and are dependent on the government for support. Besides the promulgation of relevant cooperative legislation and the establishment of state agencies to promote the provision of technical, managerial, and financial support to cooperatives, the withdrawal of the state from the formation of cooperatives to enhance their voluntariness and democratisation, the unionisation and integration of cooperatives at local and district level, the enhancement of business and technical efficiency through education and training, the establishment of partnerships between cooperatives and other stakeholders, and the exploration of innovative marketing strategies have all emerged as the most important factors that propelled the prosperity of cooperatives in Africa.

### **3.6 CONCLUSION**

Cooperatives originated in Europe and have dispersed to other continents through colonisation. On these continents, cooperatives were consistently used by colonists to sustain and entrench themselves. However, these efforts were less successful because state control did not yield positive outcomes, but rather the deterioration of cooperative enterprises. Instead, state control has made cooperatives perpetually dependent on state support for sustenance. With the help of the ICA, a number of countries worldwide have recognised that state control has been an untenable foundation on which cooperatives were established. As a result, countries have started relenting their grip on cooperatives, and state control is now gradually fading away. Worldwide, cooperatives are reinventing themselves and new forms of cooperation are emerging. With the embrace of the market economy, governments in Africa and Asia are now adopting a facilitative approach to the development of cooperatives. A top-down approach to cooperative development is now giving way to a bottom-up approach that promotes the flourishing of member-owned and -controlled cooperatives.

Throughout the chapter, the role of the government featured prominently as an integral part of the cooperative development process. Since most cooperatives are formed by poor communities, government support is indispensable. Without it, cooperatives in the poor communities of Asia and Africa would not have attained operational sustainability. Cooperative development cannot be completely dissociated from the state as its policy formulation resides with the government. Also, the provision of education and training, which is mainly provided by government, has been key to the success of cooperatives all over the world. Therefore, state support is key to cooperative development.

Despite economic fluctuations, cooperatives have remained relevant and significant tools to improve the socio-economic conditions of poor communities. Successful cooperative initiatives in Africa, the Americas, and Asia are testimony to the fact that cooperatives still have an important role to play in the rural economy. Throughout the chapter, legislation has proved to be fundamental in driving cooperative development in all the countries discussed. It is due to this importance that the next chapter is dedicated to cooperative legislation.

## **CHAPTER 4: LEGISLATIVE AND POLICY FRAMEWORKS**

### **4.1 INTRODUCTION**

The previous chapter indicated that cooperative development is always a matter of government policy. Throughout the world, countries have used legislation to drive cooperative development. Likewise, the situation is the same in South Africa. From the colonial era up to the present dispensation, legislation has been consistently used as the mechanism to offer support to cooperatives, and as a tool to propagate the regime's political ideology. This chapter specifically analyses the legislative and policy frameworks that underpin cooperative development in South Africa, and is therefore part of the literature review. Various pieces of South African legislation from the colonial era up to the present dispensation are scrutinised to provide the historical context in which cooperative development has evolved in the country. The discussion starts with a brief overview of the laws that buttressed cooperative development during the colonial and apartheid eras. Thereafter, the rest of the chapter is dedicated to post-apartheid legislative and policy frameworks. The different pieces of legislation and policies that the present government has enacted in an effort to promote cooperative development are also deliberated upon.

### **4.2 COLONIAL AND APARTHEID LEGISLATIVE FRAMEWORKS**

From their inception at the end of the 19<sup>th</sup> century until 1994, cooperatives in South Africa have largely been characterised and consistently influenced by both colonial and apartheid policies. Both regimes have similarly used legislation to marginalise black people and suppress their economic activities, while promoting the economic interests of the white community. This section briefly reflects on some of the legislation these regimes used in this regard, and only relevant legislation is included in the discussion. This history is important as it provides the background and the context by which cooperative development manifested in the country.

#### **4.2.1 The Transvaal Cooperative Societies Act of 1908**

Although cooperatives were established in the country at the end of the 19<sup>th</sup> century, the first cooperative legislation was proclaimed in 1908 in Transvaal (Van Niekerk, 1988:21). Prior to this, cooperatives in the country were registered under the colonial Company Acts and funded through the Agricultural Development Acts (Schoeman, 2006:52). The main purpose of the 1908 Act was to facilitate the provision of financial support to white cooperatives in Transvaal (Van Niekerk, 1988:24). This heralded the direct involvement of the government in cooperatives affairs, and from then, the state was actively involved in their development and financing. Apart from providing financial support and state supervision to cooperatives, the Act provided for the unlimited liability of cooperative members. This provision initially accelerated the growth of cooperatives in the Transvaal, but after some time, the principle of unlimited liability proved disastrous as it led to the loss of personal capital by the members when some of the cooperatives collapsed (Van Niekerk, 1988:25). After the unification of South Africa on 31 May 1910, cooperatives in the Orange Free State were assimilated by the Transvaal and were then similarly administered by the 1908 Act (Derr, 2013:5). This created confusion in the sector as the cooperatives in the other provinces, the Cape and Natal, remained administered by their respective colonial legislation although the country was unified (Van Niekerk, 1988:25). Despite the uncertainty, the contribution of cooperatives to agricultural economic growth was not affected. Spurred by this economic growth, the government enacted the Land and Agricultural Bank of South Africa Act in 1912 to entrench support for white cooperatives.

#### **4.2.2 Land and Agricultural Bank of South Africa Act (No. 18 of 1912)**

The Act was enacted in 1912 to facilitate the establishment of the Land and Agricultural Bank of South Africa, which took over the financing of white agricultural cooperatives (Piesse *et al.*, 2005:200). By offering loans at preferential rates and under less stringent conditions than commercial banks, the Land Bank played a key role in facilitating further development of white cooperatives (Derr, 2013:5). The loans and advances disbursed by the Land Bank greatly benefited the cooperatives to the extent that there was an unprecedented increase in the growth of cooperatives between 1912 and 1922 (Strickland, 1937:461). The surge in cooperative growth led to the repeal of

cooperative legislation and the subsequent enactment of the Cooperatives Societies Act of 1922.

#### **4.2.3 Cooperatives Societies Act (No. 28 of 1922)**

The formation of the Union of South Africa in 1910 necessitated the repeal and consolidation of legislation from the former colonies. The process resulted in the promulgation of the Cooperatives Societies Act. This was the first piece of legislation to control cooperatives in the united South Africa. Among its provisions, the Act provided for the establishment of agricultural cooperatives with limited liability, removed previous restrictions and allowed for the establishment of trading cooperatives with limited liability, and introduced the principle of conditional liability by which members could voluntarily undertake to accept liability for a specific amount that would serve as security for cooperatives to obtain financial assistance (Van Niekerk, 1988:27). As the Act unified cooperatives into a movement, it promoted their growth and imbued them with national recognition (Derr, 2013:6). Challenges associated with the pricing of agricultural products, however, continued to characterise cooperatives. To address this challenge, the Act was subsequently repealed in 1925 and the Cooperatives Societies Amendment Act of 1925 was enacted (Groenewald, 2000:370).

#### **4.2.4 The Cooperatives Societies Amendment Act (No. 38 of 1925)**

As indicated above, shortly after the 1922 Act came into existence, it soon became clear that even though a large percentage of farmers in a particular area belonged to a cooperative, it was difficult for them to realise maximum prices for their products as farmers elsewhere were able to upset their bargaining power (Van Niekerk, 1988:28). This necessitated the review of the 1922 Act in order to strengthen the bargaining power of cooperatives and to give them full control over agricultural products (Derr, 2013:6). The amended Act also provided for the registration of trading cooperatives, which were excluded from the former Act. This led to a surge in the number of cooperatives in the country from 81 to 405 in 1929 (Van Niekerk, 1988:28).

However, the world depression that resulted in the fall in the price of agricultural products between 1929 to 1932 halted the swell, and reduced the number of agricultural cooperatives from 400 in 1933 to 375 in 1935 (Strickland, 1937:461). This shrinkage led to the exploration of other strategies that could revive the sector, which culminated in the promulgation of the Marketing Act of 1937.

#### **4.2.5 The Marketing Act (No. 27 of 1937)**

The Act was enacted after it was realised that cooperatives were unable to rationalise the marketing of certain agricultural products on their own (Piesse *et al.*, 2005:200). The Act effectively facilitated the intervention of the state in the marketing of agricultural products (Vink, 2012:553). It tightened control over the marketing of agricultural products by placing it under the control of the Minister of Agriculture and the Control Boards (Piesse *et al.*, 2005:200). The pricing of agricultural products was removed from the hands of the farmers and placed under the control of the Marketing Board. The purpose was to stabilise the price of agricultural products, eliminate short-term fluctuations, and ensure that farmers received a reasonable price for their products (Strickland, 1937:463).

The Act also promoted the establishment of cooperatives in specific industries. In this way, it brought decisive changes in the way cooperatives were managed (Derr, 2013:6). Larger cooperatives became economically successful while the smaller ones found it difficult to survive due to inflated prices and little innovation (Groenewald, 2000:377). Subsequently, smaller cooperatives were absorbed by well-established cooperatives, which resulted in the establishment of central cooperatives (Schoeman, 2006:52). This stifled emerging cooperatives and debilitated cooperative growth in black communities.

The Act was used by the government as a tool to promote white farmers and to asphyxiate black farmers (Vink, 2012:555). For this, the Act became the most controversial piece of legislation in the history of agriculture in the country (Groenewald, 2000:378). Controversial as it was, the Act was never repealed but remained in place until the democratic dispensation. It was only in 1996 that the Act was repealed and replaced with the Marketing of Agricultural Products Act (No. 47 of 1996).



Despite its long tenure, the Act was generally unsuccessful in achieving its aims as it failed to keep the maximum number of white commercial farmers increasing with efficient production, reduction in marketing margins, and price stability (Vink, 2012:557). It later became clear to the government that the challenges besetting agriculture could not be resolved single-handedly by the Marketing Act. This realisation led to the repeal of the Cooperatives Societies Amendment Act and the proclamation of the Cooperative Societies Act of 1939.

#### **4.2.6 Cooperative Societies Act (No. 29 of 1939)**

The recommendations from the Commission of Inquiry into Cooperatives and Agricultural Credit of 1934 largely influenced the pronouncement of the Cooperative Societies Act (Ortmann & King, 2007a:23). The new Act repealed and consolidated all the previous cooperative laws. Unlike the previous legislation, the 1939 Act gave the cooperatives the right to deal with non-members and accept people other than farmers as members (Derr, 2013:6). This essentially opened up cooperatives to outside investors and heralded the emergence of “modernised” cooperatives in the country. Many cooperatives seized this opportunity as they all had limited liability that protected their members from bankruptcy (Van Niekerk, 1988:33). This contributed to a significant growth in the total turnover of agricultural cooperatives (Derr, 2013:6). From 1939 to 1960, agricultural cooperatives were properly consolidated and developed as a fixed pattern in the country’s economy, contributing handsomely to the GDP (Van Niekerk, 1988:32). However, after 1960 there was stern criticism against the privileges enjoyed by cooperatives, particularly their exemption from income tax and favourable financing by the Land Bank (Derr, 2013:6). The censure led to the appointment in 1963 of the Steenkamp Commission of Enquiry into Cooperative Affairs, whose recommendations led to the proclamation of the Cooperatives Act of 1981 (Van Niekerk, 1988:33).

#### **4.2.7 The Cooperatives Act (No. 91 of 1981)**

The Cooperatives Act of 1981 effectively repealed all previous cooperative legislation. The most distinguishing feature of the Act was the broadening of the cooperative spectrum; it provided for the categorisation of cooperatives into agricultural, special farmers, and trading cooperatives (RSA, 1981:10).

The Act also curtailed tax and financial leeway given to cooperatives by removing their exemption from paying tax (Derr, 2013:6). Like other business enterprises, cooperatives were expected to pay tax. Given that the Act was promulgated at the time South Africa was undergoing liberal political reforms, there was a general expectation that the Act would similarly reflect progressiveness. Contrary to this anticipation, the Act overlooked the international cooperative principles, which at the time were adopted by countries worldwide as the founding tenets of cooperatives. With this ignominious omission, South Africa missed the opportunity to link up with the international cooperative community.

Despite the Act broadened the cooperative sector, it sustained the racial allocation of resources to cooperatives. Black cooperatives like *stokvels* and burial societies remained unrecognised (Schoeman, 2006:55). Notwithstanding that it was enacted at the time political reforms were starting to emerge in the country, the Act perpetuated the suppression of black farmers, segregated black and white farmers, and exclusively provided support to white farmers. The Act therefore sustained the status quo and prolonged the exclusion of black communities from the country's economic activities. State support remained inaccessible by black cooperatives, and this phenomenon persisted until racial exclusivity was eventually abolished in 1994. It was only then that the conditions for black cooperatives in the country started to improve.

#### **4.3 POST-APARTHEID NATIONAL LEGISLATIVE FRAMEWORKS**

The neglect of black cooperatives under colonial and apartheid rule was a sufficient reason for the democratic government to formulate laws and policies aimed at exterminating institutionalised racial prejudice. Reciprocally, legislation was used to reverse the effects of apartheid and to enhance the participation of black communities in economic activities. Since 1994, the national government has successively promulgated legislation and adopted policies in an effort to develop cooperatives in black communities to improve their socio-economic conditions.

### 4.3.1 Reconstruction and Development Programme (RDP)

The RDP was the first policy framework the democratic government promulgated to improve the socio-economic conditions in black communities. This policy championed the process of rebuilding the country after many decades of racial subjugation. It acted as the fundamental framework by which the government's efforts to eradicate poverty, deprivation, and racial discrimination were buttressed. Like the previous regimes, the democratic government was cognisant of the important role that cooperatives could play in the development of rural communities. The RDP therefore called for the provision of support to cooperatives in order to build a vibrant and expansive agricultural sector to enhance rural development (African National Congress, 1994:103).

Although the RDP recognised cooperatives, their role in rebuilding the country was not explicitly described in the framework. Cooperatives were superficially mentioned and no specific detail was given on their exact role in the reconstruction and development process. Equally, less detail was given on how the cooperative sector would be developed and supported by the government in order to play their expected role. It could be due to this omission that no significant improvement was evident in the development of cooperatives in black communities for almost ten years.

Perhaps, during this time, the new government was more preoccupied with the eradication of major infrastructural backlogs inherited from the apartheid regime than rural economic development. Unfortunately, at this time, cooperatives were not given adequate attention. In fact, the first decade was characterised by a void in the development of a cooperative policy. There was no policy that could drive cooperative development in the new South Africa – hence the marginal involvement of cooperatives in the massive RDP that characterised the country in the first ten years of liberation. Although black enterprises participated in the RDP, it was mainly the established white companies that largely benefitted. It was only towards the end of the decade that the void in cooperative legislative frameworks was finally recognised and attended to with the proclamation of the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, as the first legislation to directly mention the role of cooperatives in the country's economic transformation.

#### **4.3.2 Broad-Based Black Economic Empowerment (B-BBEE) Act (No. 53 of 2003)**

The B-BBEE Act was the first legislation pronounced by the democratic government that specifically called for the participation of black cooperatives in the country's economy. However, the Act was not entirely legislation for cooperatives, but a generic law for all types of business enterprises. It was mainly intended to facilitate the increased participation of all types of business enterprises from previously disadvantaged groups in the country's economy. The Act was meant to promote the ownership and management of business enterprises by people from previously disadvantaged groups to "increase their access to economic activities and to promote investment programmes that could lead to broad-based and meaningful participation in the economy by black people" (RSA, 2003:4). This activity was meant to promote the sustainable development and empowerment of rural communities. In essence, the Act was intended to promote the involvement of cooperatives in the democratisation of the South African economy. Proper implementation of the Act would have certainly enhanced greater participation of black communities in the economy.

Given that the Act viewed cooperative development as an empowerment tool and cooperatives as the means to expedite the participation of the previously disadvantaged groups in the country's economy, surely by now cooperatives would have made a significant impact on improving the socio-economic conditions of black communities (RSA, 2003:4). Unfortunately, the Act has not been properly implemented and the B-BBEE discourse has not benefited cooperatives as anticipated, but has rather promoted the formation of elitist classes within society (Satgar, 2007b:5). Although it was meant to substantially increase a critical mass of black entrepreneurs, the Act has instead created a small clique of a remarkably wealthy elite (Southall, 2006:67). Government tenders meant to promote emerging cooperatives have been usurped by political elites or those connected with them. This has resulted in the enrichment of a select few established enterprises while the majority of cooperatives are neglected and are still as destitute as before the Act was promulgated. They remain marginalised without economic power and their participation in the country's economy is still marginal.

Their exclusion essentially derailed the B-BBEE discourse, politicising cooperative development to the extent that cooperatives are now focused on the achievement of black economic empowerment rather than serving the needs of their members (Daniel *et al.*, 2011:204). The “get-rich-quick” culture of B-BBEE has also not assisted the institutionalisation of cooperatives in a sustainable way (Satgar, 2007b:5). Instead, it contributed to inculcating the misconception that cooperatives are a means to access state largesse. However, this does not necessarily mean that the Act is entirely inappropriate, but the challenge largely rests with its implementation. Despite this inadequacy, the Act has acted as the precursor of the formulation of the South African Cooperative Development Policy.

#### **4.3.3 Cooperative Development Policy of South Africa (2004)**

In 2004, ten years into democracy, the government released the South African Cooperative Development Policy. This was the first policy instrument that specifically dealt with cooperatives in the new South Africa. Its objectives were to

create an enabling environment for cooperatives to flourish; enhance entrepreneurship in rural communities; promote economically sustainable cooperatives; establish democratically controlled cooperatives that subscribe to values of self-reliance and self-help; promote the participation of black people in rural communities, women, youth and people with disabilities in the formation and management of cooperatives (RSA, 2004:5).

The policy essentially outlined the government’s vision on cooperative development, defined the role that cooperatives have to play in the development of communities, affirmed the recognition of international cooperative principles, and explained the responsibilities of the government in driving cooperative development in the country (Jara & Satgar, 2008:7).

Stated differently, the policy was designed to transform the economy and bring about equitable society in South Africa. It was intended to provide guidance in cooperative development and to facilitate the provision of support to cooperatives to promote their growth (RSA, 2004:13). To achieve this objective, the policy intended to use preferential government procurement programmes to promote the development of cooperatives in black communities (RSA, 2004:13).

The practice hardly took place, as government procurement programmes rarely benefited the cooperatives, but rather the companies owned by political elites. The exclusion has devastated and condemned the emerging cooperatives into a state of dysfunctionality or demise, particularly those that were formed on the premise that they would benefit from government tenders (Wessels, 2016:3). The policy states that the government must provide a facilitative environment for cooperatives to flourish (RSA, 2004:12). This provision is often misused by politicians as a tool to gain political leverage. State support for cooperative development is frequently misused, particularly during election periods, as part of service delivery programmes.

This political manipulation has compromised the credibility of cooperatives in stimulating socio-economic development, tainted their reputation as poverty-alleviating strategies, and gained them notoriety of being the route to access state largesse (Tukuta, 2011:3). This defeated the objective of the policy to enable a growing, self-sustainable, and integrated cooperative sector that promotes economic growth, poverty alleviation, and employment creation in poor communities (RSA, 2004:5). In effect, political interference has not only exterminated the energies of cooperatives, but has misdirected them to unprofitable ends (Tukuta, 2011:3).

Of great importance, the policy expressly calls for the provision of cooperative education and training in public education institutions (RSA, 2004:15). So far, only the University of KwaZulu-Natal (UKZN) offers a three-year formal qualification on cooperative management. None of the country's other tertiary institutions offer cooperative development as a serious course. This attitude must change and the initiative taken by the UKZN must be emulated by other tertiary institutions in the country, particularly the TVET colleges. Despite the slow implementation of the policy, it should be credited for facilitating the provision of both financial and non-financial support to cooperatives. It should also be commended for promoting the recognition of international cooperative principles as the founding tenets for the establishment of cooperatives in the country. The greatest challenge with the policy is its poor implementation. National and provincial government institutions seem to be lethargic in implementing the provisions of the policy. This could create an incorrect impression that the policy is inappropriate, although in reality it is logical but lacks proper implementation. Notwithstanding the implementation challenges, the policy has facilitated the development and promulgation of the Cooperatives Act of 2005.

#### 4.3.4 The Cooperatives Act (No. 14 of 2005)

This was the first cooperative piece of legislation in the democratic South Africa. It effectively repealed all cooperative legislation enacted by the previous regimes. In line with the South African Cooperative Development Policy, the Act is intended to create a cooperative sector that could redress the structural socio-economic imbalances in the country (Satgar, 2007b:7). Contrary to the previous acts, it expressly abolishes racial discrimination and specifically promotes the development of cooperatives in black communities. The Act explicitly targets black people in rural areas to ensure that emerging cooperatives are provided with support in order to improve the socio-economic conditions of poor communities (Lyne & Collins, 2008:181).

Unlike its predecessors, the Act embraces the international cooperative principles and values espoused by the ICA and International Labour Organization (Satgar, 2007b:4). It promotes the adoption and implementation of these principles and values in developing cooperatives in the country. The Act unambiguously “recognises that a viable, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the country through job creation, income generation, facilitation of broad-based economic empowerment, and the eradication of poverty” (RSA, 2005:2). Compared to earlier versions, the Act is improved as cooperatives were no longer required to comply with the narrow legislative definition of a cooperative, but any venture that prescribes to the ICA international cooperative principles is permitted (Schoeman, 2006:51). Importantly, this makes it easier for communities to establish, register, and operate cooperatives; such that a wider range of community ventures are able to register as cooperatives. This is a notable departure from the one-sidedness of the 1981 Act, which mainly promoted the development of agricultural cooperatives (Satgar, 2007b:4).

In so doing, the new Act advocates for the inclusion and recognition of all types of cooperatives – housing, worker, financial services, consumer, social, burial, service, marketing and supply, and agricultural cooperatives – as eligible for government support (RSA, 2005:14-16). The inclusion ensures that more enterprises in a wider range of industries are able to trade as cooperatives (Schoeman, 2006:51). By promoting plurality, the government wants to ensure that all cooperative endeavours by poor communities are accommodated.



This positions cooperatives at the centre of socio-economic development in rural communities. Unlike the previous versions that discouraged the participation of blacks in the economy in preference of whites, the Act advances the interests of communities in rural areas (Ortmann & King, 2007a:25). The Act also commits the government to the provision of targeted support to enhance the development of cooperatives owned by women (RSA, 2005:2). Essentially, this ensures that previously disadvantaged groups are provided with necessary support programmes to promote their interests (Lyne & Collins, 2008:181).

The relocation of the mandate for cooperatives from the Department of Agriculture to the Department of Trade and Industry (dti), and subsequently to the Department of Small Business Development, reaffirms the government's commitment to their development. This was particularly significant as it opened up cooperatives to different sectors of the economy, unlike in the previous ministry, which mainly focused on agriculture (Khumalo, 2014:69). In the new ministry, cooperatives are afforded the same benefits, incentives, and support programmes provided to SMMEs (Lyne & Collins, 2008:182). However, despite that the Act claims to provide targeted support to emerging cooperatives, it does not specify the type, the nature of the support, or how and when the support would be provided. Moreover, it is doubted that the Act is well promoted given the government's ineptitude. It is likely that poor communities in rural areas do not know about its contents. Disproportionate propagation of government information in rural areas may have hindered its dissemination. Despite its poor implementation, the Act has at least contributed to the enactment of the Cooperatives Bank Act of 2007.

#### **4.3.5 Cooperatives Bank Act (No. 40 of 2007)**

The proclamation of the Cooperatives Bank Act was another effort by the government to enhance cooperative development in the country. The Cooperatives Bank Act was specifically designed "to promote and advance the social and economic welfare of all South Africans by enhancing access to banking services; promote the development of sustainable and responsible cooperative banks; and establish regulatory framework and regulatory institutions for cooperative banks" (RSA, 2007:12).



Effectively, the Act was passed to address the inadequacy of the Cooperative Act (No. 14 of 2005) with regard to the establishment of regulatory frameworks and institutions for financial services cooperatives. Given the peculiarity of financial services compared with other types of cooperatives, specific regulatory mechanisms compatible to their uniqueness were necessary to ensure their smooth operation.

The Act is not, however, very clear on how cooperatives could benefit from the cooperatives banks. The Act was formulated by National Treasury, and, as such, it is technically a financial administrative piece of legislation. Nonetheless, it did provide guidelines by which cooperative banks can be established. Given the poor dissemination of government information particularly in rural areas, it is doubted that the legislation is known by the majority of the people in these communities. There is possibly a need for the Act to be widely publicised so that communities are well informed of its provisions because as long as it remains unknown, its provisions will be as irrelevant and useless as to be non-existent. Communities can only take advantage of the Act if they are adequately informed of its provisions.

#### **4.3.6 The National Skills Development Strategy (NSDS) III**

The NSDS III was pronounced in 2011 soon after the formation of the Department of Higher Education and Training (DHET). The NSDS III intended “to improve the effectiveness and efficiency of a skills development system to promote sustainable employment” (RSA, 2011:5). This is essential for improved productivity and the overall growth and development of the economy (RSA, 2011:18). Besides skills development, the NSDS is meant to empower communities to create opportunities to make a living for themselves (RSA, 2011:19). As indicated in Chapter 2, low education and training, as well as the lack of skills, are some of the constraints that subdue the functionality of cooperatives. With adequate skills, cooperatives can improve their level of productivity so that they can contribute to providing sustainable livelihoods in poor communities (RSA, 2011:19).

It is particularly for this reason that the NSDS III calls for the provision of training needs and capacity-building interventions to cooperatives so that they can remain active participants in the country's economy. In this regard, the NSDS emphasises collaboration between state departments in responding to the training needs of cooperatives (RSA, 2011:19). Collaboration between DHET and the dti in establishing a cooperative training academy to provide training and education to cooperatives is advocated (RSA, 2011:19). Most importantly, the NSDS appeals for collaboration between the Sector Education and Training Authorities and cooperatives to maximise their economic role (RSA, 2011:19).

It also calls for the provision of funds by the National Skills Fund for the capacitation of cooperatives, particularly those operated by the youth, women, and disabled people (RSA, 2011:19). Although these provisions could lessen the skills dearth in black communities and improve the capacity and functionality of cooperatives, it is doubted that these provisions have been implemented yet. Proper implementation of the NSDS is still a challenge, and without it, these objectives will be difficult to attain.

#### **4.3.7 National Development Plan (NDP): Vision 2030**

The NDP was adopted in 2012 as the country's supreme development framework. Like the previous development frameworks it replaced, the NDP recognises the role of cooperatives in promoting rural socio-economic development. This recognition confirms that cooperatives are strategic tools in rural development and play a significant part in the country's long-term development goals. It also reaffirms that their role of promoting economic transformation and black economic empowerment by facilitating the ownership and management of commercial enterprises by black communities is still viewed as relevant by the government. The NDP is resolute that cooperatives can play an important role in promoting the rural economy, particularly in agriculture, mining, agro-processing, and fisheries (RSA, 2012a:196). Given this confidence, the NDP calls for the restoration of the traditional role that agriculture used to occupy in the rural economy. It views agriculture as the primary economic activity that has the potential to create almost one million jobs in rural areas by 2030 (RSA, 2012a:197). Cooperatives are therefore expected to exploit this economic opportunity, hence their development in rural areas is promoted.

Although the NDP is confident of the potential of cooperatives in job creation, it is equally cognisant of the debilitating structural inadequacies in rural areas, particularly the unproductive land reform programme and poor infrastructure, which could both hamstrung this potential by constraining investment in land improvement and farm infrastructure (RSA, 2012a:199). To lessen the influence of these factors, the NDP calls for an improved land reform programme and the revitalisation of rural infrastructure (RSA, 2012a:200). Moreover, it advocates for the intervention of the state in the identification of relevant markets for cooperatives both domestically and internationally in order to grow the sector.

The NDP is convinced that through cooperatives, agrarian rural communities can exploit economies of scale and establish linkages with markets and value chains (RSA, 2012a:205). The inclusion of cooperatives in the NDP is clear testimony of the government's confidence in their role as tools to improve the social and economic conditions of poor communities. Given that the framework is long term and has only been in existence for seven years now, it is not easy to assess its impact. However, it is equally alarming that it is only 11 years away from 2030 and no significant implementation of the framework has been observed. Seven years is not too short a time for some of the plan's provisions to have been implemented already and their impact to start showing some visibility on the cooperatives.

#### **4.3.8 Integrated Strategy on the Development and Promotion of Cooperatives in South Africa (2012 to 2022)**

Consequent to the challenges with the implementation of the Cooperatives Act of 2005, the dti developed and released this ten-year strategy to facilitate the process. Consistent with both the 2004 policy and 2005 Act, the strategy is aimed at promoting cooperatives to

unleash their potential in creating and developing 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 (RSA, 2012b:7-8).

The strategy is essentially aimed at enhancing efficiency in the provision of both financial and non-financial support services to cooperatives, creating a market for cooperative products, and improving the sustainability of cooperatives (RSA, 2012b:38).

According to the strategy, these services could be better provided through the establishment of Cooperative Development Agencies (CDAs) at provincial and district municipal levels. The CDAs are envisaged as “one-stop-shops” that should drive and coordinate the development of cooperatives at these levels of government. This provision pivotally positions both the provincial government and the district municipality at the centre of cooperative development. Although the strategy has been in existence for seven years now and has reached the middle of its ten-year term, it is not clear whether its provisions have been implemented yet. Otherwise, the strategy is theoretically sound and with proper implementation, it could grow the cooperative sector in the country. Hence, subsequent to its release in 2012, the government reviewed and amended the Cooperatives Act of 2005 to align it with the strategy and create an enabling environment for its implementation. The process culminated in the promulgation of the Cooperative Amendment Act of 2013.

#### **4.3.9 The Cooperative Amendment Act (No. 6 of 2013)**

The Cooperative Amendment Act provides for the establishment of institutional arrangements necessary to accelerate cooperative development as reflected in the 2012 strategy. The Act introduces institutions that were initially not part of the earlier version, including the replacement of the Cooperative Advisory Board with a Cooperative Advisory Council (RSA, 2013a:2). However, it is not yet clear how this change of name benefits cooperatives. The Act also promotes the establishment of a supervisory committee, which is responsible for the supervision of the board to represent the interests of the members (RSA, 2013a:30). As the interests of the general members are sometimes overlooked by the board, this committee is expected to enhance democracy by ensuring the participation of the general members in the affairs of the cooperative. Besides keeping the members informed of cooperative issues, the committee is expected to assist in entrenching a sense of ownership among members. As such, it will inculcate pride and commitment in the members.

Most prominently, the Act calls for the establishment of both the Cooperatives Tribunal and CDAs. Chapter 12A of the legislation establishes CDAs as central institutions that should drive and facilitate cooperative development throughout the country, while Chapter 12B institutes the Cooperatives Tribunal for winding up the cooperatives (RSA, 2013a:58-84).

In addition to these structural arrangements, Chapter 12C of the Act provides for an Intergovernmental Relations Framework to coordinate cooperative development in all three spheres of government (RSA, 2013a:84-90). This is an important inclusion, given the serious lack of coordination in government support provided to cooperatives. Different state institutions both at national and provincial level seem to be working in isolation without cooperation. Proper implementation of this provision could improve the coordination and integration of government support services, which will enhance the functionality of the cooperatives.

Unlike its principal Act, the amended version clearly emphasises the significance of the ICA's cooperative principles (RSA, 2013a:4-6). In the former version, these principles were superficially mentioned in one sentence without detailing and explaining each principle. The description of the cooperative principles gives credence to their importance as the tenets by which cooperatives should be established. Apart from this, the Act broadens the definition of a primary cooperative. In the previous Act, a primary cooperative was defined as a cooperative formed by a minimum of five natural persons. While still maintaining the minimum number of five persons, the amended version has added other aspects to the definition. Now, primary cooperatives can also be formed by two juristic persons, or a combination of any five persons, whether natural or juristic (RSA, 2013a:8). This clarity removes any ambiguity on the minimum number of persons required to form a cooperative and helps to facilitate the easy formation of cooperatives by communities.

In addition, the new Act provides for the categorisation of primary cooperatives (RSA, 2013a:24). This was necessary to enable the minister to prescribe on a sliding scale the projected annual threshold revenue for each of the categories of primary cooperatives (RSA, 2013a:24). Since cooperatives will now pay tax on a sliding scale based on the categorisation, the overburdening of emerging cooperatives could be avoided since some of them would be exempted from paying tax. It is likely that this

would benefit the majority of the cooperatives in poor communities as they may belong to an exempted category.

In contrast to the 2005 Act, the new Act introduced the concept of “associate members”, which paved the way for the inclusion of non-members who have no voting rights in cooperative activities (RSA, 2013a:22). This is a significant departure from the previous Act as it opens up the closed conventional cooperative membership system and allows outsiders to participate in cooperatives as investors, employees, or service providers. With the majority of cooperatives burdened by lack of capital, the exposure could ease the hardship and assist in the mobilisation of funds. In fact, the opening up of the cooperative membership to outsiders is now used worldwide as a means to raise capital.

The new Act also calls for the establishment of national apex cooperatives, which are expected to play a prominent role in lobbying the government and engaging the private sector and other stakeholders. It is anticipated that the establishment of this organisation will go a long way in enhancing cooperative development in the country. The new Act has amended the sections of the principal Act that deal with the administration and management of cooperatives, particularly financial management, to ensure that operational sustainability and financial viability are achieved and maintained. Overall, the amendment version looks comprehensive and impressive, but the greatest challenge lies with its implementation, specifically the operationalisation of CDAs.

#### **4.3.10 B-BBEE Amendment Act (No. 46 of 2013)**

Just like any other amendment act, the purpose of the B-BBEE Amendment Act was to make additions or omissions to the original Act – No. 53 of 2003. Therefore, the amendment was meant to insert, add, or omit certain aspects to give more clarity, and to provide better and broader definitions of concepts contained in the earlier version. This was aimed at strengthening the implementation of the legislation and to enhance its impact on society. Like the principal Act, the amended legislation is not specific to cooperatives but generic to all types of business enterprises. Therefore, only certain sections in the amended Act are specifically relevant to cooperatives.

Firstly, the Act clarifies the meaning of “preferential procurement” by specifying that enterprises owned or managed by black people, including cooperatives, should be given preference when government tenders are issued (RSA, 2013b:4). The government must exercise some bias towards cooperatives when procuring public goods. Proper implementation of the Act would benefit cooperatives, particularly those that were formed on the premise that they will benefit from government procurement processes (Wessels, 2016:3).

Generally, the Act is meant to increase the participation of cooperatives in the economy and to promote their access to financial and non-financial support to enhance their sustainability (RSA, 2013b:4-6). This is aimed at placing cooperatives on the same economic footing as other business enterprises. For some time, cooperatives have been denied benefits that were afforded to conventional enterprises. The Act attempts to put an end to this practice by affording cooperatives the same opportunities as other business enterprises. The legislation essentially elevates cooperatives to the same level as other businesses that in the past have been favoured for black economic empowerment. In effect, cooperatives are officially recognised as significant participants in the country’s economy. With this attitude from the government, proper implementation of the Act could yield positive benefits for cooperatives, propelling them to sustainable growth and effective contribution to the development of poor communities. However, given the government’s lethargy in the implementation of the legislation, the impact of this Act on cooperatives has not yet been observed. This will perhaps be revealed during the empirical investigation.

#### **4.4 PROVINCIAL POLICY FRAMEWORK**

Like national policies, provincial policies are equally important in driving cooperative development, particularly at local government level. Since this study was conducted in the Eastern Cape province, relevant provincial policies and strategies were reviewed.

#### **4.4.1 Strategy and Implementation Plan for Support and Development of Cooperatives in the Eastern Cape Province**

In consistency with both the South African Cooperatives Development Policy of 2004 and Cooperatives Act of 2005, the Eastern Cape Provincial Government developed its own strategy in 2008 to facilitate the development of cooperatives in the province. In essence, the strategy was meant to be the main tool that the provincial government would use in the establishment, operationalisation, and sustenance of cooperatives in the province. The strategy envisioned “vibrant and independent cooperatives that would play a significant part in the province’s economic structure” (Eastern Cape Provincial Government, 2008:11).

The strategy expected the cooperatives to play a major role in the social, economic, and cultural development of communities in the province. However, the strategy is cognisant that cooperatives would only be able to play this developmental role when a strong cooperative movement of well-functioning primary cooperatives is established (Eastern Cape Provincial Government, 2008:6). Therefore, the aim of the strategy is to strengthen the existing cooperatives and to mobilise local communities to establish primary cooperatives (Eastern Cape Provincial Government, 2008:4). The provincial government want to use the strategy as the tool by which it would support the establishment and operations of cooperatives in the province. It is not yet clear to what extent the strategy has managed to play this role. Presumably, the empirical investigation will shed light on this aspect.

#### **4.4.2 Eastern Cape Rural Development Strategy (RDS)**

Formulated in 2010, the Eastern Cape RDS was aimed at creating sustainable growth and development of rural communities. Fundamentally, it was meant to drive rural development through the establishment of sustainable cooperatives in rural communities (Eastern Cape Provincial Government, 2010a:2). Notwithstanding this objective, the strategy is conscious that development in rural areas can occur when the government has created an enabling environment (Eastern Cape Provincial Government, 2010a:2). Although cooperatives are useful in mobilising communities into self-help units, comprehensive state support is necessary to make these enterprises productively sustainable.



While the strategy acknowledges that the government is providing support to cooperatives, this has not yet resulted in a critical mass of sustainable cooperatives because service provision is erratic and unintegrated. Despite the fact that government institutions have the same clientele, they work in isolation from one another, and are more focused on spending their budgets than capacitating cooperatives. This has left the majority of cooperatives operationally dependent on the state. With proper implementation, this strategy could go a long way in growing a sustainable cooperative sector that could contribute to the enhancement of socio-economic development in rural communities.

#### **4.4.3 Eastern Cape Provincial Industrial Development Strategy (PIDS)**

The Eastern Cape PIDS was formed in 2010 to drive the establishment and development of industries that could catalyse economic growth in the province. Cooperatives are part of the package that this strategy advances for growing the provincial economy. Like the RDS, the PIDS acknowledges that for cooperatives to play their contributory role in the local economy, a facilitative environment must be provided (Eastern Cape Provincial Government, 2010b:7). To promote the functionality of cooperatives, the state must lead, promote, and resource their development. In this regard, the PIDS advocates “the removal of inhibiting factors; the targeting of pro-poor growth sectors; provision of support packages; and the use of state procurement programme to enhance black economic empowerment” (Eastern Cape Provincial Government, 2010b:8).

While promoting the role of cooperatives in growing the local economy, the PIDS recognises that cooperatives’ level of contribution is dependent on the extent to which local productive capabilities are developed. Equally, the PIDS is aware that cooperatives in rural areas are effectively constrained to play a meaningful role in growing the local economy by the limitations in their immediate environment, which can be removed by putting enabling infrastructure in place and providing cooperatives with training and skills development (Eastern Cape Provincial Government, 2010b:34). Until these impediments have been removed, the contribution of cooperatives to growing the provincial economy will remain marginal.

#### **4.4.4 Eastern Cape Provincial Jobs Strategy (PJS)**

The Eastern Cape Provincial Government released its PJS in 2012 in an effort to initiate and stimulate the creation of employment opportunities in the province. Among the methods that the PJS proposed for job creation was the development of cooperatives and strengthening their support (Eastern Cape Provincial Government, 2012:27). Despite the challenges faced by cooperatives, particularly with lack of managerial and technical support, marketing opportunities, and access to capital, the provincial government is convinced that cooperatives have the potential to create job opportunities in the province, particularly in rural areas.

Given this conviction, the provincial government has already put in place several supportive instruments to promote the development of cooperatives in the province. These include the Eastern Cape Provincial Cooperatives Development Strategy, the Invaba Cooperatives Fund, the Eastern Cape Rural Development Agency (ECRDA), and the Local and Regional Economic Development (LRED) Fund. Except for the Cooperative Strategy, all these instruments provide both financial and non-financial support to cooperatives. The PJS is resolute that with sufficient access to markets, funding, and mentorship, cooperatives have the potential to contribute to job creation, particularly in agriculture, municipal waste removal, and the maintenance of public buildings (Eastern Cape Provincial Government, 2012:31). Although the majority of cooperatives have been established in agriculture, few have explored municipal waste removal and the maintenance of public infrastructure. The government has a duty to promote the involvement of cooperatives in these sectors. The government must still do much more to ensure that cooperatives are indeed the instruments to create job opportunities in the province.

#### **4.4.5 Provincial Development Plan (PDP): Vision 2030**

The Eastern Cape PDP came into existence in 2014 as the overarching provincial development framework in line with the NDP. It replaced all the previous provincial development planning frameworks. Like the NDP, the PDP recognises the important contribution that cooperatives can make in growing the provincial economy. Given this recognition, the PDP commits the Eastern Cape government to provide support in the development of cooperative enterprises.

In this regard, the provincial government undertakes to provide funding, training, and mentoring to cooperatives (Eastern Cape Provincial Government, 2014:34). Funding to cooperatives will be provided through the ECDC, Small Enterprise Finance Agency (SEFA), the dti, the Hlumisa Development Fund, and other sources (Eastern Cape Provincial Government, 2014:34). More importantly, the PDP states that the provincial government is committed to establishing small business incubator initiatives throughout the province as additional means to support cooperative development (Eastern Cape Provincial Government, 2014:73). All these institutions are meant to impart skills, knowledge, and experience in the management and operation of cooperatives.

Although the provincial government is committed to providing support to cooperatives, their development cannot be an isolated process championed by a single department or entity, but should be integrated into all sector growth strategies and be supported by all stakeholders. Given that the PDP is a long-term strategy and has only been in existence for five years, it could be too early to evaluate its impact on the cooperatives in the province.

#### **4.4.6 Eastern Cape Local and Regional Economic Development (LRED) policy**

In 2016, the Eastern Cape Provincial Government published the LRED policy to harness and mobilise local human, social, financial, and natural capital towards common goals and objectives (Eastern Cape Provincial Government, 2016:3). This policy seeks to provide comprehensive funding to existing and prospective business enterprises at regional and local level that could lead to economic development (Eastern Cape Provincial Government, 2016:4). In this regard, the policy provides the LRED Fund as the tool to support enterprises that could promote sustainable job creation and income generation in poor communities in the province to improve their quality of life (Eastern Cape Provincial Government, 2016:5). The LRED policy is meant to facilitate the provision of financial support to promote the participation of historically disadvantaged communities in the mainstream economy, particularly the youth, women, and people with disabilities (Eastern Cape Provincial Government, 2016:6). Besides providing support, the policy aims to ingrain the notions of accountability both in beneficiaries and government officials. The policy fell short, however, in suggesting how this could be done. It only states that “relevant control

mechanisms will be established to ascertain prudent financial management and [to] ensure that maximum impact is derived by the community” (Eastern Cape Provincial Government, 2016:6). This is a critical shortcoming of the policy as its successful implementation heavily relies on control mechanisms in place. Without specifying clear control guidelines, the policy will be no different from other failed policies and will be equally inefficient and ineffective.

Moreover, the policy aims to focus on sustainability as funding will only be directed to business enterprises that appear viable and have potential for growth (Eastern Cape Provincial Government, 2016:7). This is to ensure that limited resources reach a wider range of beneficiaries. Although the assessment for viability is a good reason for funding, the aim to reach a wider range of beneficiaries is not helpful. The policy should rather be aimed at capacitating and strengthening existing and emerging cooperatives rather than establishing new enterprises. There are already many cooperatives that need state support to attain profitability. Strengthening these cooperatives would have more impact than generating new enterprises that have no guarantee of sustainability. The appearance of viability and the potential for growth do not always translate into sustainability. The focus on quantity rather than on quality is unhelpful as it often fails to create sustainable enterprises. Effectively, it is not the quantity of cooperatives that matters the most but their quality. Establishing a large number of cooperatives would not necessarily result in productive and profitable enterprises. Few self-sufficient cooperatives could have a far greater impact on creating jobs and alleviating poverty than a thousand unsustainable cooperatives, which would instead be a liability to the state.

To promote the sustainability of cooperatives, the policy intends to engage other partners to provide beneficiaries with capacity-building programmes to enhance the effective utilisation of resources (Eastern Cape Provincial Government, 2016:7). The attainment of this objective would be commendable as the greatest challenge for cooperatives is the lack of education and training. The policy also calls for the promotion of accessibility to market opportunities through government procurement programmes by synergising it with other relevant legislation and policies, particularly the Preferential Procurement Policy Framework Act, No. 5 of 2000 (Eastern Cape Provincial Government, 2016:7). Surely, capacity building and market accessibility

would both embed the notion of self-reliance among cooperatives and lessen their dependence on government support.

To ensure that poor communities benefit, the policy intends to exercise flexibility in the allocation of grants by relaxing qualifying conditions in approving grant applications from poor communities. Although this is aimed at ensuring that poor communities benefit from the policy, it has a risk of opening up the floodgates for undeserving enterprises to access the grant. When conditions for grant approval are relaxed, chances are high that unviable enterprises may go through the system undetected. A stringent grant approval process is preferred given that government funds have already been wasted on unworkable enterprises. Despite these shortcomings, it is believed that proper implementation of the LRED policy could still lead to significant improvement in the functionality of cooperatives in the province.

#### **4.5 MUNICIPAL POLICY FRAMEWORKS**

In line with national and provincial legislation and policies, municipalities must develop their own plans and strategies to drive economic and social development in their own areas of jurisdiction. The CHDM in the Eastern Cape is the research site of the study, and, as such, the plans and the strategies the institution has formulated in an effort to stimulate cooperative development are explored. Only the municipality's Integrated Development Plan (IDP) and the SMME and Social Enterprise Development Strategy are deliberated on, given their relevance to the research problem.

##### **4.5.1 The Chris Hani District Municipality's (CHDM) Integrated Development Plan (IDP) (2017-2021)**

An IDP is the most important planning framework for local government. Consistent with the NDP, the IDP has identified the development of cooperatives as one of the strategies to create jobs, generate income, reduce poverty, and improve the overall standard of living of communities in the district. The IDP estimates that the number of registered cooperatives spread throughout the six local municipalities of Enoch Mgijima, Sakhisizwe, Intsika Yethu, Inxuba Yethemba, Emalahleni, and Engcobo have increased to over 200 since the council adopted them as one of the key strategies to grow the region's economy (CHDM, 2017:36). The increase is consequent to the

various interventions the district municipality has explored in an effort to support cooperative development in the region. These include the establishment of the Chris Hani District Cooperative Forum to coordinate cooperative activities in all six local municipalities (CHDM, 2017:37).

The municipality has provided a budget to increase the number and variety of cooperatives in the district (CHDM, 2017:37). Although this was politically correct, the focus on increasing the number of cooperatives rather than strengthening the existing enterprises is doubted to have yielded increased profitability and eliminated the problems faced by cooperatives. Ironically, the IDP acknowledges that, despite the support provided by the district municipality, cooperatives are still faced by a myriad of factors that inhibit their development. Cooperatives in the district are still faced by challenges of market accessibility, finance availability, suitable business premises, lack of skills and managerial expertise, access to appropriate resources and technology, and poor-quality rural infrastructure (CHDM, 2017:37). This clearly indicates that the focus on increasing the number of cooperatives rather than strengthening the existing enterprises is ineffective. The municipality should preferably concentrate on strengthening and capacitating the existing cooperatives. As a means to address these challenges and to drive cooperative development in the region, the CHDM has formulated the SMME and Social Enterprise Development Strategy 2015-2030.

#### **4.5.2 The CHDM's Small, Micro, and Medium Enterprise (SMME) and Social Enterprise Development Strategy 2015-2030**

In line with the IDP, the SMME and Social Enterprise Development Strategy also recognises the important role that cooperatives can play in growing the region's economy. In this regard, the strategy advocates the strengthening and the capacitation of cooperatives through an integrated approach that blends theory and practice. Thus, the strategy proposes the use of both classroom-based training and a hands-on mentorship programme (CHDM, 2015:122). This approach is preferred as it could facilitate meaningful transfer of skills as classroom training could be efficient in addressing basic and generic issues whilst mentorship could be useful for addressing complex and specialised challenges (CHDM, 2015:125).

Besides capacity building, the strategy emphasises the provision of support to cooperatives. It proposes the improvement of the business environment in which cooperatives operate. In this regard, it calls for the creation of a conducive environment for cooperatives to flourish by removing the entry barriers that discourage meaningful and sustainable enterprise development (CHDM, 2015:121).

Although the call for the removal of barriers is appreciated, it is not clear how this will be achieved as the strategy does not specify how this will be done. Similarly, the strategy has identified the lack of marketing opportunities as generally inhibitive to cooperative growth. While it acknowledges that market exposure is a challenge, it fails to provide strategies that can enhance marketing. Instead, it vaguely recommends that access to public sector procurement opportunities and private sector market and export opportunities must be improved (CHDM, 2015:127). Without specifying how this would be done, the strategy falls short in addressing the challenge.

Likewise, the strategy has identified that cooperatives in the district lack a market-led product development culture, which has incapacitated them from identifying and taking advantage of economic opportunities offered by the growing global economy (CHDM, 2015:127). Even in this regard, it does not offer any possible suggestions that can be explored to inculcate the required culture. This strategy identifies the challenges that face cooperatives but falls short on providing clear and detailed mechanisms that could be used to alleviate the constraints.

More importantly, the strategy mentions that access to finance remains an endemic challenge for cooperatives in the district. The non-availability of affordable business and investment finance is a long-standing constraint for cooperatives in the region (CHDM, 2015:128). In this regard, the strategy calls for the availing of cheap and affordable start-up working capital. It proposes that the current grant system be reviewed and a funding model based on reduced grant reliance, risk participation, and repayable loans be explored (CHDM, 2015:128). This recommendation is highly commendable because the provision of unconditional grants has inculcated a culture of dependence in cooperatives. There is a clear need for repayable loans to debunk the misconception that cooperatives are tools to access state largesse and to eliminate their perennial dependence on the state.



Most notably, the strategy affirms the commitment of the district municipality to support cooperative development by citing the establishment of the CHCDC and the Chris Hani Development Agency. Established on the auspices of the CDAs as espoused in the Cooperative Amendment Act (No. 6 of 2013), the CHCDC is strategically positioned to become a pilot and a benchmarking model within the cooperative movement in South Africa (CHDM, 2015:49).

The CHCDC has offered much to support the development of cooperatives in the region. It has not only started exploring ways of establishing a cooperative bank in the region, but has also facilitated the registration of a large number of cooperatives and has provided valuable training and business support services to the cooperative sector throughout the district (CHDM, 2015:49). Most importantly, it continues to play a critical role in capacity building, training cooperatives across the district, and assisting them to attain self-sustainability and reduce their failure rate (CHDM, 2015:49). Although the CHDM is clearly resolute on providing support to cooperatives, it needs to establish collaborative partnerships with national and provincial governments, as well as other provincial agencies and organisations, to provide support to cooperatives. The CHDM cannot single-handedly carry out this mammoth task given the capacity constraints and resource deficit. However, with collaborative support from the national and provincial governments, its initiatives could go a long way in enhancing the functionality and sustainability of cooperatives in the region.

#### **4.6 CONCLUSION**

This chapter explored the legislative and policy frameworks that underpin cooperative development in South Africa; starting as far back as the colonial era and moving to the present dispensation. It is evident in the discussion that both colonial and apartheid legislation supported the development of cooperatives by white people, while similar initiatives by black people were ignored and suppressed. This led to black cooperatives remaining undeveloped and underdeveloped for quite a long time.

Subsequently, this has compelled the present government to undertake initiatives that facilitate the negation of the effects of the past segregative injustices and to speed up the involvement of black communities in the country's economy. This has led to the pronouncements of a number of progressive policies aimed at improving the socio-



economic conditions in black communities. Although the government has put in place these progressive policies, their implementation is still a great challenge and as a result, they have not yet yielded the required outcomes. There is evident lethargy and endemic incapacity by the government to implement these policies. Without implementation, policies alone are of no value.

Besides the state's lethargy and incapacity, cooperatives themselves are equally engulfed in a myriad of challenges that inhibit their development and effectiveness. To overcome these challenges, to drive cooperative development forward, and to make cooperatives sustainable business enterprises, a well-coordinated and integrated approach between cooperatives, the government, and other role players is critically needed. Although the government provides support to cooperatives, government departments and agencies seem to be working in isolation. There is no integrated approach to drive cooperative development both nationally and provincially, hence less impact is evident at the local government level.

## **CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY**

### **5.1 INTRODUCTION**

Almost all the previous chapters have focused on literature review, while this chapter and the subsequent chapters concentrate on the empirical investigation. This chapter provides the approach and methodology by which the empirical investigation was conducted, while the next two chapters discuss the research findings and the conclusions drawn from the research. The aim of this chapter is to describe the research approach, paradigm, design, and methodology used in conducting the empirical investigation. The chapter seeks to describe how the research process unfolded by outlining the manner in which the research was structured and executed to comply with scientific prescripts. This entailed choosing the research approach, research paradigm, research design, and research setting, the types of data collected, the methods used to collect the data, and the techniques employed in analysing the data.

The chapter therefore describes the research strategy utilised to elicit relevant and valid data from the various sources consulted to answer the research question. The chapter starts by explaining the research approach, the research paradigm, and the research design the study pursued. Thereafter, the chapter describes the research setting from which the subjects for data collection were drawn. Linked to this is the discussion of the methods by which the data were collected and analysed. At the end of the chapter, the ethical principles observed during the empirical investigation are outlined.

### **5.2 RESEARCH APPROACH**

Every research study involves the collection, analysis, and interpretation of information to increase knowledge about a particular issue. The process is systematic so as to gather sufficient knowledge to provide an accurate and truthful representation of the issue investigated (Schurink, 2009:788). The main and overriding objective of a research study is therefore the attainment of useful knowledge.

Research must therefore incrementally and progressively contribute to building a body of knowledge about the issue investigated. As such, research must be unambiguous, planned, organised, logical, scientific, and focused on answering the research question. In other words, it must be guided by a well-defined research approach, design, and methodology to provide credible findings. In social sciences, there are various research approaches that a researcher can pursue to conduct an investigation. A researcher can pursue a quantitative or a qualitative study but if he/she prefers, can combine both approaches in one study (Mouton, Auriacombe & Lutabingwa, 2006:579). The researcher chose a qualitative approach for this study.

### **5.2.1 Qualitative research**

Qualitative research is a form of investigation focused on interpreting the views of the subjects. It attempts to understand social phenomena from the perspectives of those being studied. Rather than explaining and predicting the social phenomenon, qualitative research is aimed at describing and understanding it (Babbie & Mouton, 2001:53). It is more concerned with the exploration of people's subjective meanings and interpretations to explain the issue investigated (Blaikie, 2010:204; Schurink, 2009:788). It is less concerned with the quantification of the social phenomenon and more with its description. The qualitative approach seeks to explore and understand the meaning the subjects ascribe to a social phenomenon (Creswell, 2014:4). It is aimed at revealing people's ideas or hidden feelings or beliefs about the issue under investigation (Auriacombe, 2005:384; Bless, Higson-Smith & Sithole, 2013:16). Qualitative research is more an interpretative approach that explains social phenomena by unravelling people's perspectives (Ritchie, Lewis, Nicholls & Ormston, 2014:3).

This study used qualitative research to understand the role that cooperatives play in the socio-economic development of communities in the CHDM. The study therefore used the subjects' feelings, views, opinions, and perceptions as the frame of reference. This enabled the description and understanding of the phenomenon from the perspective of the subjects (Theletsane, 2014:9). In this way, the researcher was able to explore the research topic in a more holistic way. Therefore, the role of cooperatives in socio-economic development was analysed, interpreted, and understood in the context by which the subjects viewed it.

### 5.3 RESEARCH PARADIGM

Qualitative studies are generally guided by different research paradigms. These are sets of assumptions, beliefs, or dictates that influence the study, how the data is collected, and how the results are interpreted (De Vos, Strydom, Fouché & Delpont, 2011:40; Du Plooy-Cilliers *et al.*, 2014:19). Every research study is based on certain assumptions about what constitutes “valid” research and which research methods are appropriate in a particular setting (Maree, 2007:52). In all research, a paradigm is informed by philosophical assumptions about the nature of knowledge to be gained (*ontology*), how that knowledge is gained (*epistemology*), and which ethics and value systems underpin the gaining of knowledge (*axiology*) (Wagner, Kawulich & Garner, 2012:51). A research paradigm is essentially the theoretical framework that consists of the concepts, assumptions, expectations, beliefs, and theories that inform a study (Schurink, 2009:806). Different beliefs of ontology and epistemology influence the way research is conducted, and researchers have developed different methodological positions based on their ontological and epistemological orientations (Mavuso, 2013:62). A research paradigm therefore informs the research design and guides the methodological approach a study adopts (Schurink, 2009:807). Positivism, interpretivism, and critical realism are some of research paradigms that researchers can pursue in social science research. Given that this study was aimed at gaining an in-depth understanding of the role cooperatives play in the socio-economic development of the CHDM, interpretivism was deemed the most appropriate paradigm to provide the answers sought by the research.

#### 5.3.1 Interpretivism

Unlike positivism, which emphasises that social phenomena can only be explained and understood through objective and observable evidence, interpretivism maintains that social phenomena can be understood and explained on the basis of the meanings people ascribe to their own experiences and interactions with others (Du Plooy-Cilliers *et al.*, 2014:25). This is based on the fact that human beings are always engaged in the process of making sense of what is happening around them and they continuously interpret, define, justify, and rationalise all their actions (De Vos *et al.*, 2011:8). Moreover, people are not objects that can be studied using the same methods.

They are dynamic and the environment in which they operate not only constantly changes, but influences them as well (Du Plooy-Cilliers *et al.*, 2014:27). Given this dynamism, it would be difficult to understand social phenomena without exploring subjects' experiences, thoughts, insights, and/or opinions. Since there is a continuous interaction between people and the environment, human behaviour cannot be understood by observing only the external environment; the internal environment must be observed as well. Therefore, social phenomena can be well understood by interpreting the meanings the subjects provide (Blaikie, 2010:99). In other words, interpretivism places value on the significance of subjects' views and the way the researcher interprets them (Ritchie *et al.*, 2014:11). In this study, interpretivism formed the basis of the researcher's philosophical beliefs about the nature of the data collected, how the data were collected, and the ethics and value systems observed when the data were collected. Essentially, it determined the type of questions that were explored and the processes by which answers to those questions were obtained (Du Plooy-Cilliers *et al.*, 2014:19). As interpretivism is based on the assumption that reality should be interpreted through the meanings the subjects give, the researcher was able to understand the role cooperatives played in the development of communities in the CHDM through interpreting the responses the subjects provided during data collection.

#### **5.4 RESEARCH DESIGN**

In research, a research paradigm is aligned to the research design, which is a framework by which data are collected for a study (Becker & Bryman, 2004:253). A research design is the particular way a researcher seeks to answer the research question (Webb & Auriacombe, 2006:589). The research design therefore links the research question with the empirical findings (Maree, 2007:71). Action research, case studies, conceptual studies, content analysis, ethnography, grounded theory, historical research, and phenomenological studies are examples of research designs used in qualitative studies (De Vos *et al.*, 2011:401; Leedy & Ormrod, 2013:141). This study used the case study research design.

### 5.4.1 Case study research

Case study research is a field of enquiry that holistically examines a specific phenomenon in its entirety (Auriacombe & Mouton, 2007:445). It is the systematic gathering of information about a particular case to allow effective understanding of its functioning (Berg, 2001:225). This is a detailed, intensive, and systematic examination of a carefully selected case, which can be a programme, event, activity, individual, a period of time, organisation, a community, process, or a geographical region to describe and explain a phenomenon under investigation (David & Sutton, 2004:111; Maree, 2007:75; Payne & Payne, 2004:31). In this regard, the study focussed on a programme within a particular geographical area, namely; the cooperatives within the CHDM.

For this study, case study research was particularly chosen because it afforded the researcher the opportunity to conduct the empirical investigation in a real-life context (Yin, 2009:18). The researcher was able to interact directly with the subjects in their natural settings. In that way, it provided the researcher with in-depth information about the subjects in their own environment with all its complexities and contexts (Punch & Oancea, 2014:148). It enabled the researcher gain a better understanding of the phenomenon and its complexity (Schurink & Auriacombe, 2010:438). Effectively, it enabled the researcher to understand the uniqueness, the idiosyncrasy and the complexity of the cooperatives in CHDM (Welman, Kruger & Mitchell, 2005:25).

Therefore, the case study enabled the researcher to delve into the finer details and discover information that possibly might not have been obtained with any other research design (Denscombe, 2007:36). This understanding was possible because the case study allowed the researcher to use a variety of data sources to answer the research question. The researcher had the opportunity to focus on the research without being confined to a particular source of data (Davies, 2007:184). Essentially, the researcher was able to use all the sources of data perceived relevant and appropriate (Patton, 2015:449). This flexibility enabled the researcher to realise and identify the intricacies, recurring patterns, and consistencies of the subjects' experiences and opinions on the role of cooperatives in socio-economic development (Du Plooy-Cilliers *et al.*, 2014:142; Welman *et al.*, 2005:25).

## 5.5 RESEARCH STRATEGY

Data triangulation was used as a research strategy for this study. Apart from being the most suitable method for case study research, data triangulation was chosen because it enabled the researcher to collect data from different sources using different methods to enhance the validity of the findings (Burns, 2000:419; Hussein, 2009:2; Patton, 2015:259; Terre Blanche, Durrheim & Painter, 2014:287). In effect, triangulation enhanced the comprehensiveness of data quality and the scientific rigour of a study (Bickman & Rog, 2009:233; David & Sutton, 2004:111; Denscombe, 2007:38; Schurink & Auriacombe, 2010:444; Welman *et al.*, 2005:194). Three different sources of data and two different methods of collection were used to provide an inclusive account of the research topic. The multiplicity in data collection ensured that the research topic was viewed from different angles because no single method or source would have adequately provided the data this study required. Therefore, triangulation ensured that the research topic was holistically and profoundly explored (Schurink & Auriacombe, 2010:437). The convergence and integration of data from different sources and methods provided a fuller and broader picture of the role of cooperatives in socio-economic development (Holborn, 2004:3). In providing a more complete understanding of the research topic, triangulation made the research findings richer (Babbie, 2013:117; Creswell, 2014:4; Neuman, 2014:167).

## 5.6 RESEARCH SETTING

Data are always gathered from a specific setting. Stated differently, every research study takes place within a particular setting from which data are gathered. Therefore the choice of a place where data are collected is fundamental in any research project (Maxwell, 2005:87). This decision is often influenced by the research approach adopted and the research question(s) to be answered (Schurink, 2009:816). Settings that presumably contain relevant data to explore and answer the research question truthfully and meaningfully are chosen most often. The same applied with the choice of the CHDM area as the research site. The CHDM was chosen as a site for empirical investigation because it was presumed to contain the information sought by the study.

Besides its rural nature and the high levels of poverty and unemployment, the CHDM is the only municipality in the Eastern Cape province that has a functional Cooperative Development Centre. Although this institution is structurally not the same as the CDA espoused by the Cooperative Amendment Act of 2013, the institution functionally resembles the CDA. The Cooperative Development Centre plays a prominent role in the development of cooperatives in the district, particularly in their registration, capacitation, sourcing of funding, and in the provision of technical services. Apart from having the CDC, the region has over the past ten years been a consistent recipient of government funding from various government agencies in an effort to promote cooperative development in the area. Given these factors, the district was viewed as an ideal setting to contain the information sought by the study. Essentially, the CHDM provided the units of analysis for this study.

### **5.6.1 Units of analysis**

Generally, units of analysis exist in various forms. They can be individual people, groups, organisations, movements, institutions, geographical units, collectives, or any other thing a researcher is interested in for observing and collecting data for research purposes (Auriacombe, 2005:384; Auriacombe & Mouton, 2007:446; Bless *et al.*, 2013:133; De Vos *et al.*, 2011:93; Neuman, 2014:68; Welman *et al.*, 2005:193). Although the study used various sources to collect data, namely the individual people, cooperative enterprises and government institutions, the units of analysis were effectively individual human beings because both the cooperative enterprises and government institutions were represented by human beings. Collectively, these individual human beings constituted the population of the study.

### **5.6.2 Population**

A population is the total quantity of cases that are considered for investigation (Walliman, 2011:185). Effectively, it is a sum of subjects from which a sample is selected (Babbie, 2016:135). For this study, all the body of people that were considered for data collection and who possessed the information needed to answer the research questions were the population. This included the individual people in local communities, the members of cooperative enterprises, and the officials in state institutions in the district. Given their huge number and the limited resources, it was



impossible to collect data directly from all the subjects in the population, hence sampling was performed.

## **5.7 SAMPLING**

Sampling is a procedure by which a sample is selected from a population. The process entails taking only a portion of the entire population, scrutinising it, and then generalising the findings to the entire population (Burns, 2000:82). Since the findings from the sample are extrapolated to a wider population, sampling is a crucial component of the research process. In this study, sampling was performed to restrict the set of subjects from which the actual information was collected, given the limited resources (Bless *et al.*, 2013:161; Burger & Silima, 2006:657). In this regard, purposive sampling method was used.

### **5.7.1 Purposive sampling method**

Purposive sampling is a non-random sampling technique, which is sometimes called judgemental sampling because it is often based on a researcher's judgement regarding the characteristics of the sample (Bless *et al.*, 2013:172). The researcher's intuition, ingenuity, knowledge of the population, and the purpose of the study played a large role in the choice of subjects (Burger & Silima, 2006:663; David & Sutton, 2004:152). The method was chosen because the study was not concerned about the representativeness and generalisability of the sample, but rather with selecting subjects who possessed useful and relevant information to understand the phenomenon under investigation and to answer the research question truthfully (Bernard, 2013:162; Schurink, 2009:816). The method enabled the recruitment of subjects with particular features who allowed the exploration and understanding of the research problem (Ritchie *et al.*, 2014:67). It allowed the researcher to select knowledgeable subjects who provided the best information, which would have been difficult to obtain with any other method (Bickman & Rog, 2009:235; Leedy & Ormrod, 2013:152). Effectively, the method enabled the researcher to identify and target the appropriate sample that best served the purpose of the study (Davies, 2007:57; De Vos *et al.*, 2011:232).

### 5.7.2 Sample

A sample is a source of data for research. It constitutes all the subjects that are exclusively selected from the rest of the population for observation to make inferences in relation to the research question (Burger & Silima, 2006:657). The sample for this study consisted of three sub-samples selected from three different sections of the population. The first sub-sample consisted of government officials from state institutions in the district. Fourteen officials were recruited from the following institutions: the CHDM, CHCDC; Engcobo, Emalahleni, Intsika Yethu, Inxuba Yethemba and Sakhisizwe local municipalities; the Department of Rural Development and Agrarian Reform; the Department of Rural Development and Land Reform; the Department of Social Development; the Department of Economic Development and Environmental Affairs (DEDEA); the Small Enterprise Development Agency (SEDA); the ECRDA; and the ECDC. All state institutions that provided cooperative support in the region were included in the sample. All the officials that were selected were knowledgeable and extensively experienced in cooperative development work. Letters requesting permission to interview the officials were sent to the respective organisations and the permission was granted accordingly. No particular method was used for the selection of officials. They all participated at the behest of their institutions, which were requested to avail to the interviews officials experienced in working with cooperatives. In other words, the researcher accepted whichever official the institution delegated. Notwithstanding this, all the officials who participated in the interviews proved passionate and experienced in cooperative work.

The second sub-sample consisted of cooperative enterprises located in the CHDM. Although the focus was on agricultural cooperatives, manufacturing cooperatives were also included given their incidence in urban areas. Except for these two, all other types of cooperatives in the district were excluded from the study. The two types of cooperatives were specifically selected for their prevalence in the district and their contribution to job creation. Only cooperatives registered on the CHCDC's database were selected. Given their knowledge of cooperatives in the region, the CHCDC volunteered to assist in the recruitment of the subjects. After specifying the quantity of cooperatives that must be recruited from each local municipality, targeted cooperatives were telephonically invited to be part of the sample.

Given that only operational cooperatives were targeted, purposive sampling was used to identify subjects for inclusion in the sample. Ninety cooperatives were recruited for this sample but 89 eventually participated. Fifteen cooperatives were invited from each of the six local municipalities in the district. Each recruited cooperative was represented by a single delegate, either the chairperson or secretary.

The last sub-sample consisted of cooperative beneficiaries. Essentially, these people were either cooperative employees or customers. In one way or another they benefited from the cooperatives through employment gained or products bought. One hundred and fifty-one subjects were recruited for this sub-sample. For the recruitment of this sample, the researcher solicited the services of the ward councillor, who called the subjects in their wards to a community meeting on the dates the researcher had identified. From the meetings, the researcher explained the purpose of the research and thereafter, urged the subjects to volunteer to be part of the sample. Approximately 25 subjects were selected from each meeting convened in the six local municipalities in the district. Then a total of 151 subjects were recruited for this sample. Purposive sampling was used to select the wards for inclusion in the sample. Only one ward was selected from each local municipality based on the willingness of the ward councillor to assist the researcher. Wards from which ward councillors were unwilling to assist the researcher were technically excluded. In any event, not all the wards in the district could have been included in the sample given their large number. Only a few wards could be included in the study given the limited resources. Therefore, the total sample for the study was 254 (14 + 89 + 151) subjects. This sample size was considered relatively large given that qualitative studies prefer smaller samples (Davies, 2007:146).

## **5.8 DATA COLLECTION**

Data collection is critically fundamental in any research study as the credibility of the findings is relative to the quality of the data collected. Therefore, data-collection methods and instruments used must always be reliable to ensure the validity of the empirical findings (Manona, 2004:34). Two different data-collection methods, namely interviews and focus groups, were used to collect data from the sample. In-depth individual interviews were used to collect data from the state officials, while the focus groups collected data from the cooperatives and community members. The use of

both the interviews and focus groups not only improved the internal consistency and generalisability of the findings, but enhanced the credibility and validity of the research findings as well (Hussein, 2009:10).

### **5.8.1 Interviews**

Interviews are two-way conversations between a researcher and a subject, and are meant to learn about the subject's ideas, beliefs, perceptions, and behaviours in relation to the research question (Maree, 2007:87). Interviews were specifically used in this study for their ability to provide detailed and comprehensive information. They assisted the researcher in exploring and understanding the research questions from the perspective of the subjects (De Vos *et al.*, 2011:342; Patton, 2015:437). In other words, they helped to explore the subjects' constructions of reality and to reveal the meanings they attach to their experiences (Punch & Oancea, 2014:182). Although they were time consuming and expensive, the interviews provided the researcher with rich and relevant information to interpret, understand, and answer the research questions (Du Plooy-Cilliers *et al.*, 2014:188; Wagner *et al.*, 2012:133). Various types of interviews can be used in qualitative research. Depending on the purpose of the research, a structured, unstructured, or semi-structured interview can be used, and each type has its own strengths and limitations (May, 2011:132).

#### **5.8.1.1 Structured interviews**

In this interview type, a researcher rigidly uses an interview guide as the point of reference. During this type of interview, the researcher consistently asks the subjects a predetermined set of questions, using the same wording and order of questions as they appear in the interview guide (Kumar, 2014:178). The advantage of this interview type is that it provides uniform information that allows the comparison of data and can easily be processed by computer programs (Kumar, 2014:178). Given the lack of in-depth detail of the data these interviews collect, they were deemed unsuitable for this study.

### **5.8.1.2 Unstructured interviews**

In contrast to the rigidity of the former, unstructured interviews are characterised by flexibility in content, structure, question wording, and order (Kumar, 2014:177). A researcher is at liberty to structure and arrange the content in anyway preferred. Questions can be formulated and issues raised on the spur of the moment depending on what occurred to the researcher's mind during the interview (Kumar, 2014:177). Although they effectively provide an understanding of the experiences of the subjects and the meanings they make of their experiences, these interviews are very time consuming and resource intensive (Bless *et al.*, 2013:198; De Vos *et al.*, 2011:348; Du Plooy-Cilliers *et al.*, 2014:188). Subjects can side-track and mention issues unrelated to the questions. Therefore, the researcher should at all times be vigilant to the responses given to identify and isolate irrelevant issues (Maree, 2007:87). Given these shortcomings, the vastness of the sample, as well as time and financial constraints, unstructured interviews were equally inappropriate for this study.

### **5.8.1.3 Semi-structured interviews**

A semi-structured interview blends the more flexible unstructured interview with the rigid structured interview (Berg, 2001:70; May, 2011:134; Walliman, 2011:193). The blending is meant to maximise the advantages of the two and to eliminate their disadvantages. Apart from blending the benefits, a semi-structured interview is more time manageable compared to the unstructured interview. It was precisely for these reasons that these interviews were used in this study. Given their time manageability, they were deemed the most appropriate method for collecting data from the government officials, who did not necessarily have the luxury of time (Bernard, 2013:182). Using a predetermined set of questions to guide the interview (see Appendix 1), the researcher was able to regulate the flow of the discussion and manage the time spent on each question. This type of interview proved to be the most appropriate method to explore the perceptions, feelings, beliefs, and views of the government officials within the limited time the researcher had at his disposal.

All 14 officials were interviewed at their work stations and therefore had limited time for the interviews. Although the questions were typically asked to each official in a systematic and consistent manner, the researcher digressed at times and probed far beyond the prepared questions. In certain instances, the questions were modified based on the responses given by the subject. This provided the researcher with some latitude to explore further and engage the subject in dialogue (May, 2011:134). Equally, the subjects were permitted to reply freely and as extensively as they wished (Flick, 2011:112). The researcher was, however, in control of the interview at all times to maximise the limited time at his disposal.

### **5.8.2 Focus groups**

In addition to the interviews, focus groups were used to collect data from the cooperatives and community members. Focus groups are a special data-collection strategy used for interviewing a group of people at the same time (Neuman, 2014:471). These were specifically used in this study to corroborate the data from the individual interviews and to obtain a multi-dimensional view of the research problem. Unlike the interviews, the focus groups were particularly useful in providing attitudes, opinions, and perceptions from several subjects at the same time (Kumar, 2014:156). Instead of conducting several individual interviews with many subjects, a few group interviews were conducted. This proved to be the quickest and most economical method of collecting data from a large sample.

Most importantly, the focus groups facilitated the interaction between the researcher and the subjects, while at the same time providing the subjects with the opportunity to share perceptions among themselves, to the extent that the subjects were able to explore the contents of their verbally expressed perceptions, views, opinions, experiences, and attitudes (Berg, 2001:114). In this way, valuable insight into social relations and dynamics within the cooperative sector was shared. In other words, the focus groups were equally beneficial to both the researcher and the subjects. Two sets of focus groups were conducted; one set for the cooperatives and the other for the community members. In both instances, a list of open-ended questions (see Appendices 2 and 3) that required the subjects to provide elaborate responses were used to guide and control the interviews.

### **5.8.2.1 Cooperative focus groups**

Eighty-nine cooperatives participated in the focus groups. All the focus groups were held at local municipal offices in various towns in the district. Towns were preferably used because they are central to the surrounding villages from which the subjects were drawn. Both the local municipalities and the CHCDC played a crucial role in organising the venues in which the focus groups were held. Some of the focus groups were audio recorded, while others were not, given the nature of the venues used. In some instances, large venues were used and this made audio recording impossible given the echo generated.

### **5.8.2.2 Community focus groups**

One hundred and fifty-one community members across the district participated in the focus groups. Each focus group consisted of approximately 25 community members recruited from the community meetings the respective ward councillors organised in each of the six local municipalities in the district. All the focus groups were held in community halls in the selected wards. This made audio recording of the sessions impossible given the echo created by the large size of the venues. In all these sessions, the researcher relied on notes for data collection.

## **5.9 DATA ANALYSIS**

The mass of unstructured data from both the interviews and focus groups necessitated that a qualitative data analysis method was used. Even though there is no universal and prescribed formula to conduct qualitative analysis and researchers can follow any particular pattern of analysis, certain guidelines must be followed to ensure the credibility and trustworthiness of the findings (Davies, 2007:196; De Vos *et al.*, 2011:400; Maree, 2007:100). In this regard, three different guidelines are commonly used in qualitative data analysis (Kumar, 2014:317). Firstly, the researcher can develop a narrative description of the case; or, alternatively, the researcher can choose to identify the main themes emerging from data transcripts and write about them extensively and quote verbatim; or, thirdly, the researcher can quantify the data by indicating the frequency of the occurrence of the main themes in order to indicate their prevalence (Kumar, 2014:317).

Given the nature of data collected and the fact that the study was interpretivist in nature, the second option was deemed the most appropriate. The study was less concerned about the quantification of the data and more focused on the expression and interpretation thereof (Maree, 2007:100). In other words, the researcher was not particularly interested in the commonality and repetitiveness of the responses, but in their uniqueness and variability. This made thematic content analysis the most relevant method to analyse the data. This method identifies, analyses, and reports themes that emerge from data (Braun & Clarke, 2006:79). Since this study is underpinned by a theoretical framework, theoretical thematic analysis was used to identify the main themes that emerged from the transcripts of the focus groups and the interviews (De Vos *et al.*, 2011:410). This means that, the researcher used the literature as a guide to identify themes from the data (Braun & Clarke, 2006:84). The data analysis process started with the transcription of the contents of both the interviews and focus groups into three data sets based on their source. During the transcription, data from the audio recordings were collated with the researcher's field notes. After transcription, the data were subjected to coding by breaking them down into various segments that contained common features (Bless *et al.*, 2013:342).

The process entailed sorting, organising, and reducing the mass of data into themes. This activity culminated in the categorisation and condensation of data into more manageable fragments of information, and irrelevant data were discarded. During this process, the researcher was mainly interested in identifying semantic themes from the data. Thus, themes were identified from the data within their explicit or surface meaning (Braun & Clarke, 2006:84). The researcher was mainly interested in the meaning of the expressed content. In other words, he was not looking for anything beyond what the subjects expressed during the interviews. After coding, the three sets of data were then compared and merged to identify similarities and variations. The process ensured that emerging concepts, patterns, associations, and explanations from the three sets of data were established.



Similarities and differences that emerged from the three datasets were identified with the purpose of corroborating or disconfirming the literature review. This comparison allowed for the alignment of analysed data with both the literature review and the theoretical framework to corroborate existing knowledge or generate new knowledge (Maree, 2007:111). The corroboration of the findings with both the literature review and theoretical framework increased the transferability of the findings.

## **5.10 ETHICS CONSIDERED DURING THE RESEARCH**

In undertaking the empirical investigation, the following ethical issues were complied with in line with the Stellenbosch University ethics policy.

### **5.10.1 Approval by Stellenbosch University's Research Ethics Committee**

Stellenbosch University requires its researchers to obtain ethical clearance before they embark on their empirical research. An application for ethics clearance was accordingly submitted to the Research Ethics Committee. After a rigorous review process, the application was finally approved, which granted the researcher permission to start with fieldwork (see Appendix 8).

### **5.10.2 Gaining access to the research site**

Gatekeepers sometimes control access to research sites and researchers must first approach them before they may recruit subjects for a research study (Bless *et al.*, 2013:35). The same applied to this study as it involved interviewing officials from state institutions. This necessitated that before the interviews were initiated with the officials, permission be obtained from their respective principals. Upon the approval of the research project by the Stellenbosch University's Research Ethics Committee, formal requests for permission were lodged with the various organisations the researcher visited (see Appendices 4 and 5). Letters of approval from these institutions are attached as Appendices 6 and 7.

### **5.10.3 Informed consent**

In any research study that involves human beings as subjects, information cannot be collected without their knowledge, expressed willingness to participate, and informed consent (Kumar, 2014:285). Therefore, prior to the commencement of the focus groups and interviews, the researcher explained to the subjects the purpose of the research, the expected duration of the interviews, the procedures to be followed, and the possible advantages and disadvantages of the research. After the briefing, the subjects were requested to complete and sign the consent forms as an indication of their willingness and approval to participate in the study (see Appendix 9).

### **5.10.4 Voluntary participation**

Participation in a research study must always be voluntary and no one must be coerced to participate (De Vos *et al.*, 2011:116). During the briefing session, the subjects were informed of their freedom of choice to participate (or not) in the research and their right to withdraw from the interview at any time they so wished. In addition, the subjects were informed of their right to refuse to answer any question they were uncomfortable with. Before starting the interviews, the researcher requested permission to audio record the proceedings.

### **5.10.5 Anonymity and confidentiality**

Ethics dictate that the identity of the subject is not disclosed and that subsequent reporting does not allow the tracing of the interviews back to the subjects (Ritchie *et al.*, 2014:96). The identification of a subject and the disclosure of the information he/she has given are unethical. Throughout the research, the anonymity of the subjects was maintained. The researcher ensured that no names of subjects were mentioned and that the information they gave in the interviews cannot be associated with them. Essentially, no information collected can be traced back to its source. As it is also unethical to share information about the subjects with people unrelated to a research study, the researcher ensured that no one except himself and the research supervisors could access the collected data (Kumar, 2014:268).

### **5.10.6 Non-maleficence**

It is unethical for research to create injury, harm, anxiety, or harassment to subjects (Kumar, 2014: 286). Fundamentally, research should not expose subjects to any form of injury or harm (Bless *et al.*, 2013:29; De Vos *et al.*, 2011:115). No subjects were exposed to physical, psychological, or any other form of harm. Most importantly, no subject was compelled to divulge any personal, private, confidential, or embarrassing information.

### **5.10.7 Deception of subjects**

Deception is the misleading of subjects, deliberately misrepresenting facts, or withholding information from subjects in order to entice their participation in a study (De Vos *et al.*, 2011:118). This essentially entails hiding from the subject the true nature of a research study (Bless *et al.*, 2013:34). No misinformation was used to maximise the participation of the subjects in the study. Everything pertaining to the study, its purpose, the method by which the subjects were selected, and the choice of the research site was truthfully explained. The identity of the researcher and the institution under which the research was undertaken were revealed to the subjects. No misleading, untruthful, or deceitful information was provided.

### **5.10.8 Avoidance of plagiarism**

It is plagiarism to present material or research findings as one's own work when in fact they belong to somebody else (Bless *et al.*, 2013: 36). The researcher maintained honesty throughout the dissertation by ensuring that the contents of the interviews and the focus groups were reported truthfully, and all the sources of information used were acknowledged accordingly.

### **5.10.9 Provision of incentives**

There is no consensus whether it is ethical or not to offer incentives to research subjects (De Vos *et al.*, 2011:121; Kumar, 2014:285). Given the uncertainty, no incentives were offered to induce the participation of subjects in this study. The subjects were made to realise the importance of their participation by the researcher emphasising the purpose of the study and the benefits it may generate. Preferably,

subjects should rather benefit through knowledge gained during a study rather than the payment of financial incentives (Mavuso, 2013:84).

## **5.11 CONCLUSION**

The chapter mainly explained the process by which the empirical investigation was conducted. It outlined the research paradigm the study followed. It also explained and justified the choice of the CHDM as the research site and described how the subjects were obtained from the population. The chapter also explained the sampling method used in selecting the subjects for the empirical investigation. Most importantly, the chapter described the process by which the data were collected and analysed. At the end, the chapter mentioned the ethical requirements the researcher observed during the empirical investigation.

## CHAPTER 6: ANALYSIS AND DISCUSSION OF THE EMPIRICAL FINDINGS

### 6.1 INTRODUCTION

The previous chapter outlined the process by which the empirical investigation was conducted. This chapter analyses and discusses the data collected from the empirical investigation. In other words, this chapter explains how the large volume of data from the interviews and focus groups was reduced by sifting the trivial from the significant, and how significant patterns were identified to construct the framework by which the findings of the study are communicated (Patton, 2002:432). The chapter therefore describes how the unstructured data from the interviews and focus groups were transformed and simplified to make them more readable, understandable, and manageable (Berg & Lune, 2014: 55). This chapter is fundamentally aimed at bringing order, structure, and meaning to the voluminous data, as well as to organise and present the data in a clear and systematic way to enable making valid and accurate conclusions (Walliman, 2011:12).

As indicated in the previous chapter, this study used qualitative thematic content analysis as the procedure by which the mass of unstructured data from the interviews and focus groups was analysed. This entailed non-numerical examination and interpretation of data to discover underlying meanings and patterns of relationships (Babbie, 2007:378). In other words, the data analysis performed concentrated on analysing the subjects' perceptions, attitudes, understanding, knowledge, values, feelings, and experiences to identify existing patterns and the ideas that explain their existence (Bernard, 2013:394; De Vos *et al.*, 2011:397). This form of analysis was not concerned about measuring or quantifying the subjects' responses but with interpreting and making sense of their content because numerical values do not necessarily capture the essence of human experience (Bless *et al.*, 2013:338; Maree, 2007:100). It was not the frequency of the responses that was central to the analysis and provided the new information sought by the study, but their distinctiveness and diversity in content (Bless *et al.*, 2013:339). Even if the response was expressed by a single subject, it was considered important as long as it provided new information.

The significance of the response was not primarily based on the number of subjects who expressed the same opinion but on its uniqueness, individuality, and originality. Essentially, it was not the repetitiveness of the response that made it important but the quality of the information it provided. Hence, instead of using numerical values, the entire chapter uses verbatim quotations to contextualise and express the research findings (Kumar, 2014:317).

In conducting the thematic content analysis, the researcher preferred manual analysis to the computerised system. This decision was based on the fact that there is always the risk that words may take on different meanings during software analysis, and this would result in the loss of important research data (Bless *et al.*, 2013:346). Manual analysis was therefore performed to prevent the occurrence of this risk and to ensure a contextual and comprehensive analysis of the data. Apart from that, computer software programs do not necessarily perform qualitative analysis, they just assist in doing it (De Vos *et al.*, 2011:401). Therefore, the role of the researcher remains irreplaceable, particularly in that coding and reasoning need the human touch to infuse creativity and originality in the data (Davies, 2007:206). In fact, qualitative analysis often requires human intellect and the analytical rigour that computers hardly provide (Patton, 2002:442). However, even though data analysis was predominantly conducted manually, computer software, the Statistical Package for the Social Sciences (SPSS), was restrictively used to analyse the biographical data. The exercise was aimed at providing a numerical overview and visual presentation of biographical data in the form of graphs, pie charts, and tables to convey a message quickly and efficiently to the reader (Du Plooy-Cilliers *et al.*, 2014:225).

## **6.2 INTERVIEWS**

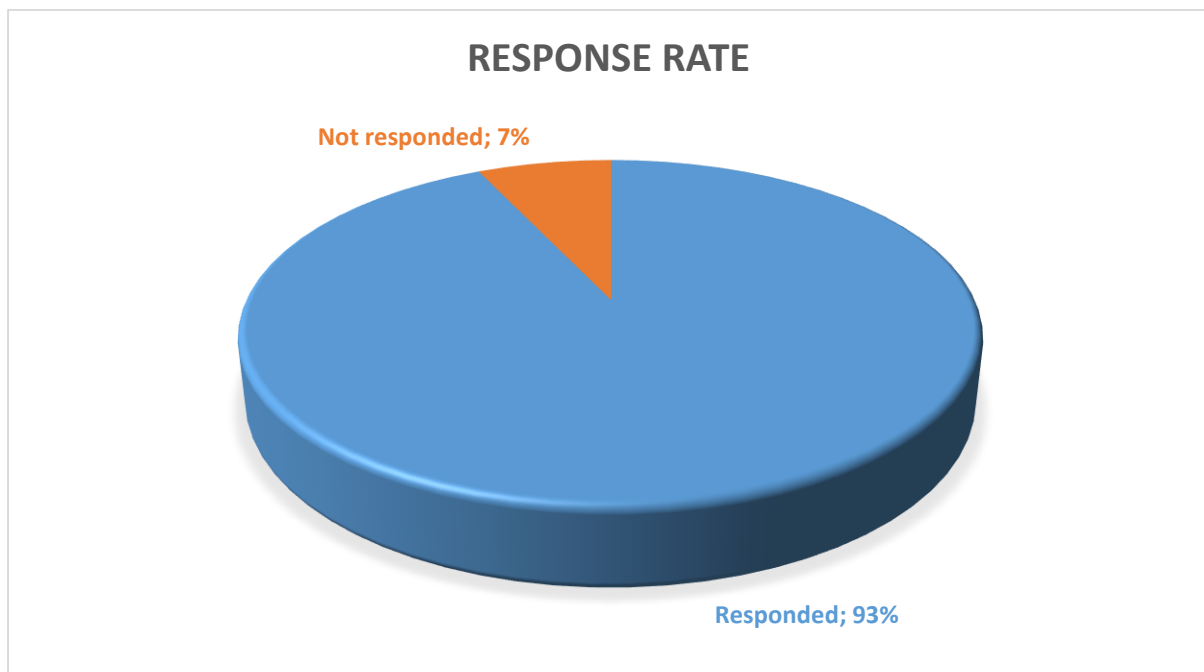
All the interviews were conducted in the private offices of the subjects after permission was obtained from the relevant authorities. Before every interview, the researcher explained the purpose of the interview and thereafter asked the subjects to sign the consent forms to indicate their willingness and approval to participate in the research. Permission to record the interview and to take notes during the session was also requested from the subjects before the interviews started.

### 6.2.1 Response rate

Fifteen institutions were targeted for the interviews, and officials of 14 institutions were successfully interviewed. Labour and political instability at one municipality prevented conducting the interviews. This reduced the size of the targeted sub-sample to 14 subjects, as presented in Table 6.1 and Figure 6.1.

**Table 6.1: Response rate**

SUBJECTS	NUMBER	PERCENTAGE
Invited	15	100
Responded	14	93
Not responded	1	7



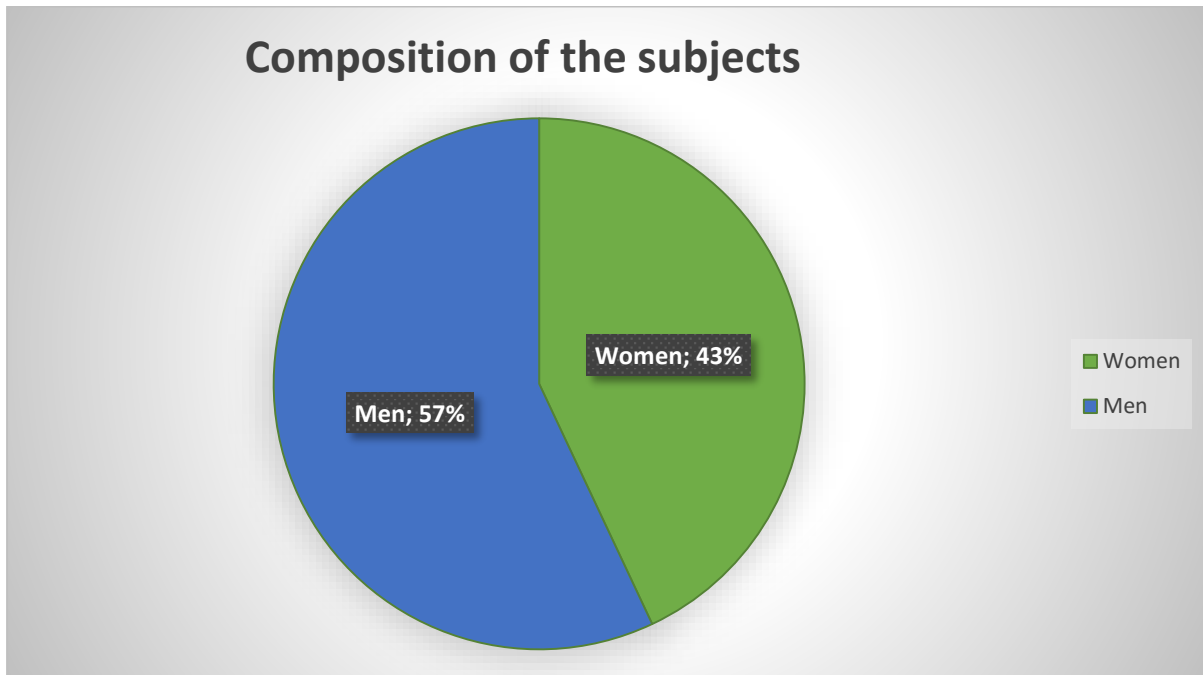
**Figure 6.1: Response rate**

### 6.2.2 Composition of the subjects

All the subjects recruited for the interviews were state officials working in different state institutions operating in the region. They were particularly included in the study because of their knowledge of and experience in working with cooperatives. Although a balanced gender mix was preferred, it could not be attained and the sample subsequently contained more males than females (see Table 6.2 and Figure 6.2). This discrepancy did not, however, have any significant bearing on the findings. All the interviews were invariably insightful.

**Table 6.2: Composition of subjects**

SUBJECTS	NUMBER	PERCENTAGE
Men	8	57
Women	6	43
<b>TOTAL</b>	<b>14</b>	<b>100</b>

**Figure 6.2: Composition of subjects**

### 6.2.3 Analysis of the interviews

The unstructured data from the interviews were subjected to thematic content analysis. The data were first transcribed and then coded to condense the data into themes. Coding entailed selecting, focusing, simplifying, abstracting, and transforming the unstructured data from the interview transcripts into various themes (Bryman & Bell, 2014:336). The process culminated in the derivation of the following themes, which are directly in line with both the study objectives and the research questions.



### **6.2.3.1 To what extent do cooperatives enhance the socio-economic development of communities in the CHDM?**

In line with objective (i) and research question (i), the subjects mentioned the following issues:

#### *(a) Income generation*

Cooperatives are used in the district as the means to generate income for the community.

*“People have formed cooperatives because they were driven by a common passion to achieve a specific goal, the generation of income” (Interview 2).*

*“Cooperatives were designed to be mechanisms that placed the informal businesses into the mainstream economy” (Interview 3).*

*“Some people have formed cooperatives because they have a common interest for business” (Interview 7).*

People used cooperatives as business enterprises to provide them with economic benefits. Just like Tripathi and Agarwal (2013:3261) observed in India, communities in the CHDM use cooperatives as the means to gain economic advantages that they could not achieve individually. People formed cooperatives in order to derive some form of income to sustain themselves and their families. Although the cooperatives in the region were not yet fully profitable business enterprises, they were at least able to generate some income from the sale of their produce, which sustained their members and families. Irrespective of the size, the income generated contributed in improving the economic welfare of the members and their families. While cooperatives in the district were not yet fully participative in the mainstream economy, the subjects were optimistic that, with a proper support system, they had the potential to transform into fully profitable businesses.

(b) *Job creation*

Communities in the district used cooperatives to create employment opportunities.

*“The main reason that led to the formation of cooperatives is unemployment, people do not have jobs and cooperatives have been used as means to provide job opportunities”* (Interview 1).

*“Cooperatives have been the creators of job opportunities and providing food security in the communities”* (Interview 2).

*“Generally, the reason for the establishment of cooperatives is unemployment, people view cooperatives as way to create job opportunities”* (Interview 4).

*“Cooperatives have an impact, more especially agricultural cooperatives as they can employ locals for ploughing, harvesting and transport”* (Interview 8).

The Chris Hani region is predominantly rural and characterised by high levels of poverty and unemployment, hence cooperatives are used for job creation. In fact, cooperatives in rural areas are used as economic engines to create job opportunities and increase the income (Van der Walt, 2005:3). Likewise, cooperatives in the district contributed to curbing spiralling unemployment by providing jobless community members with gainful employment opportunities. As observed by Beesley and Ballard (2013:254) in KwaZulu-Natal, cooperatives in the CHDM act as the creators of employment opportunities in remote rural communities where investors are reluctant to venture.

(c) *Poverty alleviation*

Communities in the district also used cooperatives as a poverty alleviation tool. As an effort to reduce poverty in their families, people formed the cooperatives.

*“Cooperatives had made a difference in the lives of people although the impact is low. They can have a significant impact on alleviating poverty and creating job opportunities if they cannot be imposed on communities”* (Interview 1).

*“Cooperatives have the potential to have a great impact on socio-economic development of communities in the CHDM if they can be run in a proper and efficient way, like business entities. If cooperatives can be owned by people*

*who are not after immediate profit, they have a potential to reduce poverty and improve socio-economic conditions” (Interview 4).*

*“People have formed cooperatives for various reasons, some have formed them for creating job opportunities, alleviating poverty, accessing government funding or passion for cooperation” (Interview 5).*

*“There were various reasons why people formed cooperatives, they could be the means to alleviate poverty, create job opportunities or food security” (Interview 11).*

*“The reasons for the establishment of cooperatives were poverty alleviation and reducing unemployment” (Interview 12).*

From these excerpts, it is evident that communities in the CHDM rely on cooperatives for poverty alleviation. As long as the people are involved in cooperatives, they are able to lessen the impact of poverty on their families. As Birchall (2003:7) noted in other countries, cooperatives in the district managed to move poor people out of poverty and sustained them in a better position as long as they continue to be engaged in cooperative endeavours.

(d) *Food security*

People in CHDM used cooperatives as a food security measure.

*“With the spoon-feeding that government is providing to cooperatives, there is something happening at community level. Cooperatives are able to sell and consume their produce. There are cooperatives where there is a commitment and these seem to be having an impact on improving the lives of people” (Interview 3).*

*“Some people have formed cooperatives for food security. They have used cooperatives mainly as mechanisms for family food production, to produce food for themselves and their families. Certainly there is a contribution that cooperatives are making in improving the lives of the people. Through cooperatives, people have been able to put food on the table. This can be enhanced if communities could start cooperatives with passion rather than be pushed by the desire to access government funds. If people could be able to*

*contribute capital rather than relying on being spoon-fed by government, cooperatives can be able to change the conditions of communities” (Interview 11).*

*“Most families have been solely reliant on social grants for living, and cooperatives have since assisted these families in food production and in income generation” (Interview 12).*

The majority of the cooperatives in the CHDM are agricultural, and sell the greater part of their produce for a profit. However, members are also allowed to take home a small portion of the produce for consumption. In this way, cooperatives do not only provide food security to their members and families, but to the community as well. For some time, the cooperatives have consistently been supplying the local communities with fresh crops, vegetables, and meat. This not only lessens poverty but also provides the communities with fresh food necessary for improved health.

*(e) Community empowerment*

Cooperatives in the district contribute to community empowerment.

*“More importantly, cooperatives have played a fundamental role in promoting the empowerment of communities” (Interview 8).*

Through their involvement in cooperative activities, community members have gained empowerment. This corresponds well with the observation Philip (2003:6) made in her study of cooperatives in South Africa that, as self-help community organisations, cooperatives empower their members and improve their quality of life through the enhancement of their economic opportunities. With the formal and informal training programmes that the government and other institutions provide to cooperatives, members are capacitated in various skills that benefit them individually and as a group. Therefore, the skills that the members acquired do not only benefit their cooperatives but the community as well. In line with Gibson’s (2005:6) research, cooperatives in the CHDM have not only empowered their members to develop their individual potential as contributing members of the community, but have also capacitated them to develop local-based development initiatives that address their economic and social needs.

In various ways, cooperatives contribute to the socio-economic development of the communities in the district. To some degree, cooperatives have enhanced the socio-economic development of communities in CHDM. Irrespective of the magnitude, they contribute to employment creation, income generation, poverty alleviation, crime reduction, food security, and community empowerment in the district. Community members have gained employment opportunities in a number of cooperatives, particularly in agricultural cooperatives during the planting and harvesting seasons. Notwithstanding the seasonal nature of these jobs, the cooperatives at least contribute to the generation of household income and alleviating poverty in many families. Apart from that, cooperatives also contribute to community empowerment. The knowledge and the skills they have imparted to their members have not only benefitted the cooperatives, but individual members and the community as well. Beyond the cooperatives, some members have been able to initiate their own private business ventures using cooperative-earned skills, while others have used them in other community development initiatives and leadership roles. Given this contribution, cooperatives in the district have made a positive change in the lives of the members, their families, and the wider community.

### ***6.2.3.2 Which legislative frameworks support the development of cooperatives in the district?***

The awkwardness by which the government has implemented cooperative legislation emerged as a cause for concern from the interviews. In fact, the subjects were perturbed by the government's reluctance to implement cooperative legislation. They blamed the poor implementation of the associated legislation as one of the factors that inhibits growth in the sector. They firmly believed that, had the government implemented the legislation, cooperatives would by now be operating in a different shape and level. They were convinced that the exclusion of cooperatives from government tenders retards their growth, given that the lack of markets was one of their major challenges.

*“The poor implementation of the preferential procurement policy with regard to cooperatives has grossly disadvantaged them, given that many cooperatives struggle with access to markets. Cooperatives are now compelled to compete against established business enterprises, and because of their weak financial*

*muscle, they were unable to secure any valuable contracts with government. Securing a government contract would have been a major breakthrough for many cooperatives” (Interview 1).*

*“Sometimes cooperatives managed to secure government contracts, but they ended up losing those contracts because they don’t have enough capital needed to provide the service. The contract will eventually go to established business enterprises because government departments are impatient to wait for them mobilise the funds. This attitude from government has not been helpful at all to cooperatives, but destructive. It is time that the government seriously implements legislation that supports cooperatives” (Interview 3).*

From the excerpts, it is clear that government institutions are prejudiced towards cooperatives because they force them to compete against established businesses although their financial strengths are not the same. This is unfair, if not illegal, given that the B-BBEE Amendment Act (No. 46 of 2013) advocates the provision of preferential treatment to black cooperatives in the awarding of government tenders (RSA, 2013b:4). Poor implementation of the cooperative legislation is both demoralising and damaging to cooperatives. The lack of implementation of the law has not only delayed the growth of emerging cooperatives, but has also stunted those that have already passed the emerging phase. As portrayed in Chapter 4, there is a myriad of relevant legislation in South Africa that, if implemented properly, could bring much needed improvement to the functionality of cooperatives.

### **6.2.3.3 Which factors lead to the failure of cooperatives in the district?**

Besides poor implementation of cooperative legislation, the subjects also pointed out a number of factors that they believed debilitate the functionality of the cooperatives.

#### *(a) Involuntary participation*

It transpired in the interviews that some cooperatives in the district were involuntarily formed because government was central in their establishment.

*“People have primarily formed cooperatives because of the advice from government officials and politicians, who promised them access to government funding. People think forming a cooperative is a quick way to gain government*

*finance. People simply formed cooperatives as the way to get government funding irrespective of their interest in the business” (Interview 2).*

*“Largely, people have been forming cooperatives simply because government says they should form them. Government institutions, officials, and politicians usually go out to communities and tell them to form cooperatives as the means to access government funding. Effectively, there was no inner drive or motivation or interest from the community to form the cooperative. People have simply joined or formed cooperatives because of the advice from government officials and politicians, who promised them access to government funding. Therefore, there is no voluntary participation but coercion. There is a lack of voluntarism in the way cooperatives are formed. Since people have not voluntarily formed the cooperative, there is no sense of commitment and ownership but a dependency syndrome” (Interview 3).*

*“Generally, people have formed cooperatives because of the information from government, which encouraged them to form these enterprises. Essentially, government has been encouraging people to form cooperatives” (Interview 4).*

From the comments, it is clear that cooperatives in CHDM were formed contrarily to the ICA universal principle of voluntary participation and, as such, they were inherently susceptible to manipulation. For cooperatives to remain business enterprises owned, capitalised, and controlled by their members, people should join voluntarily (ICA, 2013:2; Roy, 1981:6). The principle of voluntary participation not only inculcates a sense of ownership and commitment in the members, but also insulates the cooperative against external influence and manipulation. Cooperatives must be organically formed by communities on the basis of self-help and self-support. The subjects also expressed the same view:

*“The formation of cooperatives should be in the members’ own will, not of the government departments” (Interview 13).*

*“Members should select themselves on the basis of what one can offer to the cooperative. Thus, the participation should be based on the skills one will contribute to the cooperative. Cooperatives as business entities should be initiated by communities, not government. The setting up of cooperatives by*



*government is incorrect. Government should only conscientise communities about cooperatives, not initiate them” (Interview 1).*

From the quotes, it is discernible that the government has enticed communities to form cooperatives. People did not voluntarily form cooperatives of their own volition, but were induced to do so by the state. The involvement of the government in setting up cooperatives was improper because it denied communities their right to freedom of association and diminished the autonomy of their enterprises. Therefore, the evolution of cooperatives in the district was not spontaneous but was influenced by state funding. Access to government finance was the major motivating factor for their establishment. Cooperatives formed this way are rarely functional on their own, but are perennially dependent on external support for existence. Besides antagonising the ICA cooperative principles, the initiation of cooperatives by the state compromises their functionality and credibility, decimates their autonomy, and obliterates their ingenuity and innovation.

Since they are not based on the aspirations and initiatives of their members, but were established on the insistence of the government, they lack a sense of ownership and commitment. Members are neither committed nor motivated since the concept to initiate the cooperative never belonged to them but to the state. With no inner drive from the members but only the interest to access state funding, such cooperatives are based on an untenable foundation. Given their weak base, their sustainability is indeterminate. From the onset, these cooperatives are destined to be eternal burdens on the state. Hence they barely succeed on their own but rely on government support for their survival. In fact, state-initiated cooperatives rarely induce real solidarity among their members and are often predisposed to unproductivity (Ruben & Heras, 2012:465). Cooperatives are more productive and profitable when there is less state influence and interference (Forgacs, 2008:69).

Ideally, cooperatives are supposed to be less dependent on external support and more self-supportive, with members financing their own cooperatives. Hence the ICA emphasises the principle of economic participation of cooperative members (ICA, 2013:2). Contrary to this principle, cooperatives in the CHDM were from their inception sustained by government.



Like the cooperatives in the study Thabethe (2012:753) conducted in Durban, cooperatives in the CHDM are hardly independent because their members do not treat them as businesses but as the means to make ends meet. As Kanyane and Koma (2014:124) note in South Africa, people in the district use cooperatives as “cash cows” and when funding dries up, they become disillusioned and demotivated to continue with them, which leads to the demise of some of these enterprises.

(b) *Easy access to state finance*

As already indicated above, communities in the district primarily formed cooperatives to access state largesse. People formed cooperatives because the government persuaded them to do so. Most cooperatives started as poverty-alleviation projects initiated by various government departments, which often gave them start-up capital. The practice has inculcated the notion that cooperatives are a route to access government finance.

*“People have formed cooperatives to access government funding. People would casually tell you that ‘we were told to open cooperatives so to get funding’. Most government departments when they have funding would go out to communities and encourage them to form cooperatives as they will give them start-up capital”* (Interview 1).

*“People joined cooperatives with the mindset of getting money quick. People regarded cooperatives as ‘cash cows’, the quickest way to make money. They always expect to get immediate money from the cooperative”* (Interview 3).

*“Cooperatives have been formed mainly to access government funding. Most cooperatives that were formed in the municipality were mainly motivated by the funds made available at the time. Once the money was availed and utilised, the interest diminished and the numbers decreased. Members became demotivated and some of these cooperatives even died. In fact, most of the members never had an interest to start a business in the first place but to access the funds. In the minds of communities, particularly rural communities, cooperatives were regarded as part of ‘government freebies”* (Interview 6).

*“Most people have formed or joined the cooperatives without passion for the cooperative form of business but specifically for the access of government*

*funding. When there is no funding, members start to desert the cooperative and it eventually dies” (Interview 7).*

*“Cooperatives are seen as instruments of change and are also seen as the only avenue for accessing government support, hence if someone has a skill or an idea he/she is encouraged to cooperate with others to access state support” (Interview 12).*

Despite cooperatives having the ability to create job opportunities and generate income, communities in the CHDM mostly use them to access state funding. People engaged in cooperatives not because they wanted to create job opportunities and generate income, but mainly to access government funding. This phenomenon is largely attributed to the involvement of the government in the initiation of cooperatives. Apparently, the direct involvement of the state in the initiation of cooperatives has created a misconception that cooperatives are a means to distribute state largesse, hence communities misconstrue them as “government freebies”. Since the government has initiated the cooperatives, the people have never treated them as business enterprises but rather as channels to siphon state funds they are not entitled to. Incidentally, this has led to the proliferation of unviable cooperatives in the district. Moreover, the lack of monitoring systems in some government departments has contributed to the abuse of state financial resources. It aggravated the misconception that cooperatives are the channels to access state largesse.

*“Communities see cooperatives as the way to access state largesse and this problem has been assisted by some government departments that gave funding to cooperatives without first establishing effective monitoring systems. This allowed cooperatives to misappropriate the funds and after doing that, they dissolve and re-establish themselves under a different name, with one or two new members to disguise themselves. In this disguised form, the ‘new’ cooperative will apply and get funding from the same or different state institution, while other deserving cooperatives remain unfunded” (Interview 14).*

Giving direct funding to cooperatives without first establishing effective monitoring systems is irresponsible. The omission has opened up the floodgates for the misappropriation of public funds. Given the lack of effective monitoring systems in state institutions, state institutions provide funding to repeat beneficiaries whilst other

deserving cooperatives remain unfunded. The repeat funding of the same enterprises deprives other deserving cooperatives the necessary resources that would have improved their performance and enhanced their role in socio-economic development. As a result, the unfunded cooperatives remain stagnated in the state of underperformance.

(c) *Lack of knowledge*

It emerged from the interviews that the lack of knowledge on the purpose, basic principles, and values of cooperatives was rife in the district. This anomaly was identified as one of the factors that lead to the failure of cooperatives in the area. The subjects believed that the majority of members do not understand the cooperative form of business. Members lack the basic knowledge of how the model work and do not know their obligations. It is common for members to behave as if cooperatives are not their own businesses but government-owned enterprises.

*“Cooperatives were not properly formed. People with no knowledge or interest in cooperatives have formed them just for the purposes of accessing government funding. It is common to find members unaware of their roles in the cooperative or do not know what a cooperative is. Actually, they don’t understand the very basic concept of cooperatives. It is necessary that people are properly educated on what entails a cooperative.”* (Interview 1).

*“There is widespread lack of knowledge on cooperative legislation and on cooperative principles. As a result, the majority of people still refer to cooperatives as ‘projects’, which indicates that people joined the cooperatives without the basic knowledge but with the mind of getting money quick”* (Interview 3).

*“Cooperatives do not treat themselves as business entities but as recipients of government grants. They are focused on benefitting from government rather than on being productive”* (Interview 4).

*“With cooperatives, government is forcing people to do something that they do not know, something they never had a dream or interest of doing. Only few had a dream of owning a business. Most cooperative members do not understand that a cooperative is a business, and those who understand it, do not*

*understand the meaning of the word 'business'. People do not consider cooperatives as business" (Interview 6).*

*"Education on the cooperative form of business is needed as most members still regard cooperative as a project. Effort must be made to teach them to understand that a cooperative is a business. Whoever is involved in a cooperative must clearly understand cooperative principles. It is this lack of knowledge that has resulted in cooperatives developing dependency syndrome. As long as communities are not well educated on the cooperative principles before they form a cooperative, cooperatives will remain confronted with problems forever. People should know that cooperatives are business entities and must not rely on grants. People do not treat cooperatives as business but as state enterprises that have to be sustained by government. There is no sense of pride and ownership in the membership since the majority of the cooperatives have been started on the insistence of government. Members rely on grant and they don't want to explore any other sources of finance. In fact, they are not prepared to invest anything in the cooperative. People would start and register a cooperative, and after that, they will approach government and ask, 'I have opened the cooperative, and what should I do now?' Clearly, people do not understand what a cooperative is. This is the reason why cooperatives die. Often, after funding has been granted, money is misused and the cooperative eventually dies" (Interview 11).*

*"People really do not understand that cooperatives are their own businesses and have the responsibility to look after the cooperative assets. It is common for cooperatives to call the officials and only report a broken or faulty equipment instead of repairing it. They do not want to take any form of responsibility for the equipment and machinery government has provided to them. Everything broken or needing repairs, government must repair. It seems they totally forgot that cooperatives are their own businesses. One cooperative member once called the office to report a water tank that was issued to the cooperative, which was blown away by wind. Instead of retrieving the tank, they called the office to come and do that. This was outrageously unbelievable" (Interview 13).*

*“It is normal for cooperatives to call office every time their equipment breaks down. Members are totally unwilling to spend even a cent on their cooperatives. They expect government to do everything, from buying them equipment to servicing the equipment. Their role is limited to handle the cash when there are sales. It is clear that communities do not understand that cooperatives are their own businesses and they need to take full responsibility of their operations”* (Interview 14).

Ideally, cooperative members must understand the cooperative principles and possess the required knowledge and skills to drive the cooperative forward; however, the situation is different in the CHDM. Members lack the basic understanding of the cooperative model of business. They do not understand that cooperatives are their own businesses and must be managed by corporate principles. Largely, cooperatives operate as liabilities that rely on government grants. People who lack the basic knowledge and understanding of the very business they operate, do not drive it to success, but rather steer it into oblivion, as is the case with some cooperatives in CHDM. A knowledge deficit was the major cause for most of the problems experienced by cooperatives in the area.

As people lack knowledge of the cooperative business model, they mistakenly think that cooperatives are the quickest way of accessing economic benefits without having to work for them. It is precisely this lack of knowledge about the cooperative business model that creates the misconception that cooperatives are an easy route to access government money. However, given the following comments, this state of affairs could have been expected in the district:

*“Government officials must also be capacitated on the concept of cooperatives. Seemingly, they also don’t understand how cooperatives operate. Workshops are needed for both government officials and politicians on cooperatives as they seem to lack the understanding of the model”* (Interview 1).

*“Our own organisation has already started providing training to government officials on cooperative principles so that they understand cooperatives better and move away from the mindset of projects”* (Interview 4).

It is a cause for great concern that government officials are equally ignorant of the cooperative business model. It is extremely alarming that the very government officials who should be driving cooperative development lack the necessary knowledge and understanding of how these enterprises function. Under these circumstances, it is unrealistic to expect cooperatives in the district to operate optimally. With state officials oblivious of the basic knowledge and understanding of the cooperative business model, it is unlikely they would impart sound knowledge and proper guidance to cooperative members. Given their lack of information, it is doubtful that they can effectively stimulate the development of functional and autonomous cooperatives. It is no wonder that cooperatives in the district are besieged by operational challenges. The ineptitude in the cooperatives could be justifiably attributed to this anomaly. Cooperative members cannot understand the cooperative concept if the officials guiding them are equally ignorant. Without adequate knowledge and accurate information, cooperatives cannot successfully play their role in socio-economic development. Obviously, a massive educational campaign on the cooperative form of business is needed in the district for both the state officials and the cooperative members to enhance their understanding of the model.

(d) *Conflict*

The interviews also revealed that cooperatives in the district are plagued by conflict.

*“Conflict amongst the members is frequent. Immediately funds are made available to the cooperative, usually infighting starts. The fights are generally around the control of the financial resources. Similarly, when the cooperative is experiencing some success, there would be contestations for the control of the cooperative. In most instances, the person who brought up the idea to form the cooperative would want to usurp it and control it to make it his/her own private business”* (Interview 1).

*“Infighting and conflicts among the cooperatives are common. Often there are conflicts between the members and other similar cooperatives. Unnecessary competition/animosity between cooperatives is rife. There are instances where cooperatives have refused to work together [cooperate] in sharing the resources or facilities that government has provided”* (Interview 6).

*“Conflict to control the financial resources is common. Once they have money in the bank, members would demand that money be divided amongst themselves” (Interview 8).*

*“Once the funding has been provided, conflict starts, given the different views on how to expend the funds” (Interview 10).*

Given that every member has an equal claim to ownership, cooperatives are inherently vulnerable to conflict. The risk is particularly high in state-initiated cooperatives because of the intense competition between the members to access the resources in their haste to get rich. The prevalence of conflict in the cooperatives in the CHDM can therefore be attributed to their initiation by the state. Organisations plagued by conflict are hardly functional, but are predisposed to failure. The initiation of cooperatives by the government has seldom enhanced their functionality, but has instead created most of their conflict. Inorganic cooperatives are rarely sustainable because, in most instances, there was never a passion for the business endeavour and people formed them because of the inducement. Cooperatives as community organisations must evolve organically through community initiatives, and the government must refrain from initiating them and give the communities the space to initiate their own cooperatives.

*(e) Poor dissemination of information*

Lack of information on government services was also mentioned as an impediment to cooperatives' productivity.

*“Lack of information on the government grant system is one of the factors affecting the performance of cooperatives. Communities do not know how to access funding” (Interview 4).*

*“There were challenges with information dissemination. Communities in rural areas do not always receive information on government services on time” (Interview 9).*

It is clear from these excerpts that poor dissemination of information on government services disadvantages and marginalises cooperatives in the CHDM. Although there are various state institutions in the district that were specifically formed to provide



services to cooperatives, their services remain inaccessible because of the incompetence of state officials, who fail to properly disseminate information to communities on the services they provide.

*“Sometimes officials are lazy or unwilling to go out to communities and find out which cooperatives need support. They don’t want to go out to communities and identify their challenges. Perhaps one would argue that they look out for comfort zones or target the areas they are mostly familiar with and comfortable to work with”* (Interview 1).

The reluctance of government officials to go out in the field disadvantages the communities that rely on them for information. This has resulted in cooperatives being unaware of government services, which effectively deprives them the information that could improve their productivity.

(f) *Lack of commitment*

Since cooperatives are member-owned, they should naturally evoke a stronger sense of commitment from their members than conventional businesses. As owners, members should have a keen interest in the success of their enterprise. Being the owners of the business should be sufficient motivation for the members to work hard for the success of their enterprises. However, this was not the case with cooperatives in the CHDM as the interviews portrayed organisations characterised by a lack of commitment from the members.

*“People have not voluntarily formed the cooperatives and, as a result, there is no sense of commitment. This has led to people always expecting to get immediate money from the cooperatives. People regarded cooperatives as the quick way to make money”* (Interview 3).

*“Cooperatives are characterised by the unavailability of members, no cooperation, unavailability of minutes and no sitting of meetings”* (Interview 13).

The quotes indicate that a deficit in commitment is rife within cooperatives in the district. The lack of cooperation among members and the failure to hold meetings because of the unavailability of members are clear manifestations that there is no interest in the business.



This lack of commitment from the membership can be attributed to the way the cooperatives were formed. Most of them were initiated by the government with the provision of financial assistance. The involvement of the state has led to the misconception that cooperatives are channels by which public funds are distributed to communities for their personal use. If the government provides finance to facilitate cooperative development, people mistake this as an easy way to make quick money. This attitude indicates that cooperatives formed through state initiative are unsustainable. Such cooperatives scarcely induce commitment from their members. In other words, state largesse deteriorates and erodes commitment by the members. Therefore, cooperatives must organically emerge from the community and must be initiated by the people, and not the government. The current approach in which the government is at the forefront in the initiation of cooperatives is ineffective as it fails to produce committed membership. In any organisation, member commitment is essential to breed unity and innovativeness that are needed to drive it forward (Borda-Rodriguez & Vicari, 2015:334). No business can succeed when its owners are not committed. The success of an organisation is relative to the commitment displayed by its members or employees. The higher the commitment, the greater are the chances for success. Without commitment from the members, almost every form of support provided to a cooperative will be inconsequential.

*(g) Inadequate capacity building*

The interviews indicated that cooperatives in the CHDM are largely owned and operated by old and illiterate people, who never contemplated being in business before.

*“Cooperatives were started by people who were in business by default”*  
(Interview 1).

*“Most cooperatives are faced with the challenges of poor management, skills unavailability and formation of cooperatives without a vision, mission, and objectives”* (Interview 13).

The above-mentioned quotations reveal the absolute lack of skills and a serious need for training for cooperatives in the district. In fact, the situation in the CHDM is not an isolated case because rural areas are generally characterised by a low skills base and poor competencies. It is precisely for this reason that capacity building is the most critical component of cooperatives' success (Zeuli & Radel, 2005:48). As noted by Mbanza and Thamaga-Chitja (2014:258) regarding cooperatives in Rwanda, lack of capacity prevents cooperatives in the CHDM from maximising their production potential, hampers their profitability, and inhibits their contribution to socio-economic development. Since cooperatives in the district were formed by people who were in "business by default", the need for training is overwhelming to augment their lack of technical and managerial skills, and to re-orientate the organisations into functional business enterprises.

*"Productively, cooperatives are fine but their main problem is financial management. They have a potential to have a great impact if they can be run in a proper and efficient way like a business entity. If cooperatives can be owned by people who are not after immediate profit, they had a potential to reduce poverty and improve socio-economic conditions"* (Interview 3).

The lack of financial management appears generic to cooperatives and is symptomatic of the general dearth of business management skills in the sector. In any business enterprise, financial management is a critical skill that is central to its success, and its deficit compromises the potential profitability of an enterprise. Cooperatives are business enterprises and, as such, they must be operated according to sound business management principles and practices. Without skilled bookkeepers, cooperatives in the district are trapped in an operational quagmire. Although financial management emerged as an immediate requirement for cooperatives in the CHDM, comprehensive business management training is essential.

*"Generally, there is a lack of business acumen amongst the cooperatives and government is not investing in human capital. There is no effort to grow the skill base in cooperatives as human capital is not developed"* (Interview 1).

Despite the claim that human capital development is non-existent within the cooperative sector, SEDA, ECDC, and ECRDA have reported that they have already started providing training on governance, management, and bookkeeping to promote the functionality of cooperatives in the district. However, their programmes need to be rolled out throughout the district given the magnitude of the problem. Clearly, capacity building needs to be invigorated for cooperatives to have an impact on socio-economic development. Rather than concentrating on disbursing large financial grants, the government should focus on capacitating cooperatives with the necessary skills and competencies.

(h) *Youth apathy*

The subjects raised concern about the lack of youth participation in cooperatives.

*“Cooperatives are mostly owned by old-aged people, particularly women. There is no mix of youth in cooperatives. The introduction of youth to cooperatives is critical”* (Interview 6).

*“There is a glaring lack of youth in cooperatives. Out of ten cooperatives there is only one youth cooperative. Youth involvement in cooperatives should be increased”* (Interview 11).

*“The involvement of youth in cooperatives is important as the majority of members are old. Very few cooperatives have youth as members. Youth must be attracted to cooperatives and made to understand the concept. Innovation in bringing out new products is necessary to grow their markets. Cooperatives should generate new ideas. However, this could [only] happen if youth and the educated can be attracted to cooperatives. Therefore the mindset has to be changed both in youth and communities”* (Interview 4).

The above comments indicate that cooperatives are owned and operated by old people, who lack the necessary business management expertise and who are inept at technological advancements. The subjects believed that the involvement of youths in cooperatives would at least eliminate some of these challenges, particularly the lack of marketing skills. Apart from modernising knowledge, skills, and strategies, youth involvement can enhance novelty and managerial prowess.

It is believed they would rejuvenate managerial practices, innovate product development, and revolutionise marketing strategies. In a changing world, cooperatives cannot remain stagnant but must embrace transformation. Youths are therefore specifically needed to overhaul the way business is conducted in cooperatives by invigorating dynamism and innovation. Hence it is important that cooperatives must be made attractive, receptive, and accommodative to young people (ICA, 2013:11). Strategies to increase their participation should be vigorously explored because this will not only provide youths with a platform to develop their livelihoods, but will also contribute to reducing the crime and unemployment levels in the district.

Although youth involvement was considered a panacea to some of the challenges facing the sector, other subjects were cynical. They doubted that the participation of youths in cooperatives would perform miracles. They were pessimistic that youths would bring anything valuable to cooperatives because, in enterprises in which youths were already involved, there was nothing phenomenal.

*“Already there are youth cooperatives but they also have the same challenges as other cooperatives. Youth cooperatives are also focused on quick money. They are equally unsustainable as other cooperatives. Apparently, most youth cooperatives have been started the same way as other cooperatives. Government has played a prominent role in their formation. Like other cooperatives, the majority of youth cooperatives are mainly focused on accessing government funding” (Interview 1).*

This quotation indicates that the involvement of youths in cooperatives cannot be treated as a sufficient solution to the challenges facing the sector. Given the history of youth cooperatives in the district, other subjects did not believe that youth involvement would improve performance. They doubted that youths would resuscitate cooperatives into modern businesses. However, this does not mean that the participation of youths in cooperatives would be insignificant. The dismal performance of youth cooperatives in the CHDM can equally be attributed to the way they were formed. Like other cooperatives, youth cooperatives were established on the insistence of the government, and in the same way as other people, the youths were susceptible to the misconception that the enterprises were a quick way to access state largesse.

Given the vulnerability, their participation cannot be simply dismissed as inconsequential based on the history of government-initiated cooperatives. Efforts to attract their interest must be pursued, while the initiation of cooperatives by the government should be discouraged because of the problems they already created. Inorganic cooperatives have proved to be challenging and unsustainable.

(i) *Lack of monitoring and evaluation*

Every implemented programme needs proper monitoring and evaluation to ensure it attains value for money and achieves the expected outcomes. However, this was not exactly the case with the provision of support to cooperatives in the CHDM. Subjects expressed some reservations about the way support is provided. They believed that the government is not providing effective monitoring and evaluation, hence the poor state of some of the cooperatives in the district. There is a strong view that, with proper monitoring and evaluation, cooperatives would be in a different position.

*“Proper monitoring of cooperatives through regular visits is needed. In most instances, government officials are doing monitoring not for the capacitation of the members but for compliance purposes. The gap between the officials and cooperatives is too wide. Sometimes officials would do monitoring through telephone without visiting the cooperatives. Seemingly, they are reluctant to leave their comfortable offices to visit cooperatives. Perhaps, this is because cooperatives are owned by illiterate and rural people. Apparently, government officials are undermining the cooperatives. Government is too distant from cooperatives. Even when training is provided, cooperatives would be given a two- to three-day workshop and thereafter there would be no follow-up monitoring and evaluation to ensure that training provided is properly implemented. The once-off training with no follow-up monitoring is not helping the cooperatives. The crucial part for any training provided is its implementation. Government institutions or agencies that offer training must do a follow-up monitoring to see to it that the training provided is implemented. The same applies to financial support; it must not be once-off activity, there must be proper and intensive grant monitoring” (Interview 1).*

*“For cooperatives to have greater impact, proper and clear programmes of monitoring and evaluation must be in place” (Interview 8).*

*“Yes, cooperatives have an impact on reducing poverty and unemployment. However, if there could be proper monitoring and evaluation, cooperatives would have greater impact” (Interview 9).*

These remarks made it obvious that the government does not provide proper monitoring and evaluation of cooperative support services. There are inadequacies with the way officials monitor and evaluate cooperative development. However, there is no doubt that monitoring and evaluation are fundamental to the support programmes that the government provides to cooperatives. With proper monitoring and evaluation, the support programmes would have long improved the productivity of cooperatives and enhanced their impact on socio-economic development.

*(j) Government procurement process*

In some of the legislation discussed in Chapter 4, government procurement was identified as one of the key strategies to support cooperative development in the country. However, the lack of adequate commitment by government entities to implement the legislation and to procure from cooperatives make it difficult for these enterprises to survive the harsh market conditions. As far back as 2004, the South African Cooperative Development Policy called for the use of government procurement programmes to promote cooperative development by awarding state tenders to cooperative enterprises (RSA, 2004:13). This hardly takes place in the CHDM as the government procurement programmes seldom benefit the cooperatives, but rather other established enterprises. Cooperatives are systematically excluded from benefiting from government tenders, which in most cases are reserved for those who are politically connected to or the acquaintances of government officials. Their exclusion from government tenders has effectively deepened their financial hardships.

*“Government procurement policies that support cooperatives must be implemented. Government procurement systems are sometimes not assisting cooperatives. Government orders are often too short-noticed for cooperatives given their incapacity and poor financial muscle. Sometimes government will give them an order to provide certain goods within a very short notice period, then cooperatives would be unable to deliver given their lack of capacity and finance and the order will then be redirected to an established enterprise. Enough time must be given to cooperatives to deliver” (Interview 1).*

It is apparent that cooperatives are not given preferential treatment as professed by the legislation, but are forced to compete unfairly with established enterprises. This not only disadvantages them but also forces them into a state of unprofitability. Instead of improving, their financial predicament worsens.

(k) *Interference by funders*

Even when cooperatives have secured finance from state institutions, there is sometimes interference in procurement processes. The subjects claimed that at times state funding institutions are obstructive to cooperatives' operations, specifically with delays in the release of funds or directing how funds should be utilised.

*“Often, funders dictate on how the funding must be utilised. In fact, they control the procurement processes. Funders decide on what should be procured for the cooperative without consulting them. Implements are sometimes procured by the funders without considering the expertise and ability of the cooperatives members to utilise them. Also, there is an allegation that they often procured products of poor quality at high prices. For example, there is a cooperative, where the machinery bought could not be serviced locally and had to be sent out of town for servicing, and this was procured without the involvement of the cooperative. Another machine was procured although it was not necessarily needed at the time and as a result, it has been lying there and was never used. Another critical factor is the turnaround time for the release of funding. The time funders took to make funds available to cooperatives is very long. This had been disastrous for many cooperatives” (Interview 1).*

*“Supply chain procurement processes are still a challenge. They do not allow the end user to identify the supplier for the equipment or machinery that is requested. The end user can only provide the specification for the product” (Interview 6).*

From the comments, it is clear that funders often disadvantage cooperatives as they dictate or make decisions without consulting them. The exclusion of cooperatives from procurement processes is problematic because as the end users, they should be given the opportunity to choose the type of the product they need. This omission often results in the products supplied failing to meet the specifications or being of inferior quality.



Incidentally, this affects cooperative productivity because poor-quality products are less durable, and they soon break down and must be replaced. Given the cooperatives' fragile financial status and their dependence on state support, replacing worn-out or broken equipment often takes a long time. Also, when specifications are not met, the equipment supplied cannot be used, nor can it be easily exchanged or replaced because cooperatives are not the buyers but the recipients. They have to wait for the financiers to replace or exchange the product. Cooperatives are often stuck with unusable equipment or machinery for some time before it is exchanged or replaced. Most of this interference takes place in government-initiated cooperatives, which are inherently susceptible to external manipulation and control because they lack autonomy and independence. Operationally, the interference by financial institutions worsens their predicament and compromises their productivity.

*(l) Interference in roles*

The Cooperative Act (No. 14 of 2005) stipulates that cooperatives must have an elected board of directors and a management committee (RSA, 2005:32). These are parallel structures that should play different roles in the administration of a cooperative. It transpired from the interviews that it was a challenge for some cooperatives to differentiate between the two roles.

*“There is a lack of understanding of the different roles that cooperatives members should play. Board members also want to be managers. Seemingly, the distinction between these roles still need to be clearly clarified to cooperatives”* (Interview 1).

Although the legislation is meant to facilitate the sound operation of the cooperatives, it has instead created confusion among the members. Given their low levels of education, it is not easy for the members to differentiate between the two roles. It also appeared that the board sometimes distrusts the management, particularly if it consists of non-members who are specifically recruited for their skills. Since they are the owners of the cooperative, board members often think that they have the right to interfere with managerial duties, and this is a clear manifestation of their lack of business management acumen. Their intrusion in managerial duties creates unnecessary tensions that disrupt the functionality of the cooperatives.



The different roles that the management committee and the board of directors respectively play need clarification through proper education and training. Tensions of this nature need to be extinguished quickly as they have the potential to take the attention away from the core functions of the cooperative and derailing it from attaining its objectives.

*(m) Lack of markets*

People in the CHDM join cooperatives because they expect to be provided with marketing opportunities. Ideally, cooperatives must provide their members with marketing opportunities by forming market linkages with local, regional, national, and even international traders (Ferguson & Kepe, 2011:424). Notwithstanding this obligation, cooperatives in the district fail to provide this service to their members, and instead, expect the government to provide it. As a result, market access is a general challenge for the cooperatives in the district.

*“Lack of markets is one of the main challenges for cooperatives. It is common for cooperatives to start with production without having identified the market for the produce” (Interview 10).*

*“Cooperatives are generally faced with lack of business management skills, particularly business planning skills” (Interview 3).*

Apart from the lack of markets, cooperatives in the district are also characterised by poor business planning. Starting with production with no market identified for the products is crude business planning. Obviously, a business that operates under such practices would not succeed. This again points out to the way cooperatives were formed in the district. Cooperatives of this nature were most probably formed to access state resources. That they started with production even though there was no identified market is the manifestation of the haste by which they were formed. From the onset, such cooperatives were never meant to be profitable businesses, but to be conduits to access state finance; hence they even started with production although there was no market. Production was probably started to delude the funders, who may have requested some evidence that indicated that the business was in fact operational.

Therefore, the enterprise may have been mainly formed to comply with legalities, which were to be met in order to be granted funding. However, since most cooperatives were established on government insistence, the state should assist these enterprises with marketing. In fact, marketing should be an integral part of the basket of services the state provides to cooperatives. Besides poor business planning, cooperatives also lack sophistication in negotiation skills and marketing novelty, which limit their market horizons.

*“Generally, cooperatives are trading internally and they should try to focus on export market. They should explore diversifying their markets and products. External marketing is needed. Thus, innovation in bringing out new products could be necessary to grow the markets”* (Interview 4).

*“Cooperatives are characterised by lack of marketing and linkages, which have made their marketing strategies ineffective. They should explore other marketing strategies such as using social media such as Whatsapp, Facebook, Twitter, Instagram, telegram, and snapchat. Moreover, they also lack business negotiating skills to secure a market for their products”* (Interview 11).

Cooperatives have apparently been using obsolete and ineffective marketing strategies, while innovation is part of modern business practice. With cooperatives largely comprised of old members, innovation is difficult to attain. While the government is still exploring ways to attract youths to cooperatives, efforts must equally be made to find markets for existing cooperatives. In this regard, some state institutions that were part of the interviews claimed to have already started with the process.

*“Our local municipality has already started providing support by facilitating market opportunities. Marketing of agricultural produce with local supermarkets has been explored. The local abattoir has also been approached to buy stock from local farmers”* (Interview 6).

To enhance the profitability of cooperatives, efforts like these need to be emulated throughout the district since the government has initiated most of these enterprises. It is important to ensure that cooperatives are viable enterprises to promote their independence and to extricate the state from the burden of providing perpetual support.

(n) *Lack of collaboration*

Different state institutions in the CHDM individually and independently provide services to cooperatives. Despite having the same clientele, they work in isolation from one another.

*“There is no cooperation or collaboration between government departments, agencies, and institutions supporting cooperatives. Government institutions are working in silos. There is an element of territoriality amongst them”* (Interview 1).

This individualistic approach has made service provision to cooperatives erratic, uncoordinated, and fragmented. Even though there are overlaps in some of the services they provide, each institution seems to prefer to work independently. The practice is detrimental to both the cooperatives and the government because it opens up some gaps that cooperatives exploit to their benefit. It enables the cooperatives to receive the same support service repeatedly from different government institutions. The resources that would under normal circumstances be shared among different cooperatives are in fact given to a single recipient by several state institutions without any of them being aware of it, hence the call for the integration of government services.

*“Cooperation between government departments and agencies must be promoted and enhanced. Working in isolation is not helpful. The advantage of the collaboration will allow the state agencies to collectively push the cooperatives forward. This will also close the gaps that allow the cooperatives to exploit the system, whereby they go around looking for the same support in various government departments or agencies”* (Interview 4).

*“There is a lack of integration between government departments. Generally, government departments are working in silos. [There is a] lack of coordination between government departments and agencies. Information must come out*

*from one centre. Government support services must be under one roof”* (Interview 7).

*“Government departments need to come together and craft a way forward to work with cooperatives”* (Interview 14).

The fragmentation and geographical dispersion of state support services into different service points are clearly onerous, disadvantageous, and inconvenient to cooperative members given their old age. Members are sometimes compelled to hop from one organisation to another in search for service provision, which are often located far from each other. However, with the integration of services into a one-stop-shop, a basket of services can be provided to cooperatives at a single service point. This will not only be convenient to cooperative members, but it will also save them energy and time of moving from one office to another. Cooperation and integration between the state institutions will benefit both the government and the cooperatives as it will promote service delivery and prevent the wastage of resources, while at the same time it will increase productivity in cooperatives and enhance their impact on socio-economic development.

(o) *Lack of partnerships*

The subjects believed that partnerships between the cooperatives and other stakeholders are inadequate, which also contributed to the poor performance of cooperatives in the district.

*“Partnerships with experienced stakeholders, public and private, are important for the productivity of cooperatives and must be established”* (Interview 5).

Even though a few companies are already working with cooperatives in the district, more partnerships need to be explored with both private and public sector institutions to enhance cooperative development. Like the collaboration between government institutions, the formation of partnerships with other stakeholders is equally beneficial to the development and functionality of the cooperatives. Cooperative development cannot be facilitated by the government alone; other stakeholders have a role to play as well. Not all the services required by cooperatives can be solely provided by the state, as NGOs and the private sector are capable as well.

It is also important that partnerships are extended beyond the NGOs and private sector to incorporate other government institutions. There are government institutions that do not necessarily provide direct support to cooperatives but can offer valuable contributions. It is therefore essential that partnerships are established with these institutions to access their capabilities.

*“Partnerships with institutions of higher learning must be explored”*  
(Interview 8).

*“Cooperatives should be incorporated into schools, FET colleges, and in tertiary institutions’ curricula. There is a general misunderstanding of the cooperative form of business. Therefore the cooperative concept has to be introduced to communities through the formal education system offered by these institutions”*  
(Interview 6).

Although they currently play an insignificant role, the Department of Basic Education and the DHET are crucial partners in cooperative development. As cooperatives are part of the country’s long-term developmental goals, it is important that youths are encouraged to be part of them. For the cooperative business model to be understood by communities, it must be taught as a subject at schools and tertiary institutions. Therefore, cooperatives must be incorporated into the country’s education curriculum for basic and higher education. Their inclusion in the curriculum will not only assist in the understanding of the cooperative concept by the majority of the population, but will eliminate the misconceptions about the model and stimulate interest among the youth.

Exposure to the model will also lessen some of the problems faced by cooperatives, particularly those associated with financial management, product development, and marketing strategies. The lack of academic programmes on cooperative development in the country’s educational institutions has contributed to the poor performance of the sector. Only UKZN is currently offering a formal programme on cooperative management, and other tertiary institutions must follow suit, particularly the TVET colleges. Experiences from Kenya has shown that the inclusion of cooperatives in tertiary education has immensely contributed to the success of the sector in that country.

(p) *Political interference*

The interference of politicians in the administration of cooperatives is worrisome as it weakens their performance.

*“Politicians must desist from involving themselves in the running of cooperatives. Politicians tend to hijack the cooperatives for political gain. They tend to interfere in the running of cooperatives since they are funded by government”* (Interview 1).

Politicians apparently abuse cooperatives for their political gain. In their desperation for popularity and recognition, politicians have framed cooperatives as part of government service delivery programmes. This interspersing of cooperatives in local politics has not only made them unpopular among communities, but also stunted their growth and hampered their functionality. It has turned them into weapons to fight factional political battles, which divides the very communities they are meant to unite and serve. Being desperate for political longevity, politicians not only interfere in cooperatives, but also the duties of the officials.

*“Political influence, such as the involvement of councillors in the duties of officials, is not helpful for the cooperatives”* (Interview 7).

With local government politics regarded as a stepping stone to provincial and national major political appointments, politicians will not easily relent on cooperatives. As community organisations, cooperatives are vulnerable targets for politicians who are desperate for recognition. With the government still taking centre stage in the establishment of cooperatives, it is unlikely that political interference will be eliminated any time soon. Until the government ceases initiating cooperatives, politicians will continue to be involved and portray cooperatives as part of government service deliverables.

#### **6.2.3.4 *What needs to be done to improve the role of cooperatives in socio-economic development?***

State support is indispensable for cooperatives in poor communities. It is particularly needed to enhance their sustainability, given the age, gender, illiteracy, and poverty of their members (Rehber *et al.*, 1999:80).

Collectively, these factors inhibit growth and business viability and create an unfriendly environment for cooperatives to flourish. They can even scare off private investors from investing their resources in cooperatives (Beesley & Ballard, 2013:254). The state is therefore often compelled to take a leading role in providing support to cooperatives. The same applies to cooperatives in the CHDM. Given the dire conditions in rural communities in the district, government support is indispensable. It is specifically required to propel cooperatives into operational entities. Without state support, it is doubted that cooperatives in the district would have gotten off the ground. The significance of state support to the productivity of cooperatives in the district is reflected in the following comments:

*“Government support, both financial and non-financial, is critical. When government is providing support, it must be close to cooperatives”* (Interview 1).

*“Access to funding and government support are critical factors for the success of the cooperatives in the district”* (Interview 5).

Even though state support is critically needed, Vicari (2014:684) cautions that it should not focus on capitalising the cooperatives, but on developing an enabling environment. Despite this caution, most state support in the CHDM goes toward the capitalisation of cooperatives and less is used to create an enabling environment for the enterprises to flourish. The heavy involvement of the government in the capitalisation of cooperatives has inadvertently led to their reliance on the state for operational costs. It has created a sense of entitlement among cooperative members to the extent that they are totally oblivious of their role as the owners of the enterprises but depend on the state for almost everything and they are unwilling to do anything for themselves.

*“Members are generally not willing to do anything for their cooperatives. They expect everything should come from government. The way they behave, it is as if cooperatives are not their own businesses but government enterprises”* (Interview 4).

*“Generally, members do not want or [are] unprepared to do anything for their cooperatives. There is a serious hand-out mentality or dependency syndrome in cooperatives. They expect to get everything from government. They are not prepared to spend even a cent on the cooperative. They behave as if*

*cooperatives belonged to government. They would request everything from government. They are not even prepared to repair broken machinery/equipment or buy seedlings for their cooperatives. In every planting season, they would request government to provide them with seedlings or repair their broken machinery” (Interview 6).*

It is apparent from the comments that state involvement has bred overdependence of cooperatives on state support. Although state support is critically needed, there was a feeling among the subjects that the government was providing more than was necessary. In fact, the subjects were of the opinion that it was mainly the overabundance of state support that resulted in cooperatives being unwilling to support themselves and being entirely reliant on the government. It is basically the profusion of state support that inadvertently creates a parasitic attitude among cooperatives, which exterminates their self-supportive character and inculcates a sense of entitlement and overdependence. The oversupply of state support has effectively decimated their self-sufficiency and infused a perennial dependency syndrome.

*“The government mandate is to make the environment conducive for cooperatives but government is ‘spoon-feeding’ the cooperatives, and has instead created a dependency syndrome in the process. Government has overdone its mandate as it has moved to the extent of ‘holding the cooperatives by hand’ as they don’t want to be seen as if they were not helping them. However, this approach has made cooperatives depend too much on government” (Interview 3).*

By “holding the cooperatives by hand”, the government unknowingly deprives them of the opportunity to learn to stand on their own. As long as the government is “spoon-feeding” them, cooperatives will not attain viability and profitability as business enterprises. At some point, cooperatives need to be given the space to learn to walk on their own without holding the government’s hand. The state must, however, ensure that cooperatives are taught how to walk on their own. The endless “spoon-feeding and holding by hand” have inadvertently created liabilities rather than assets.



Instead of learning how to operate as profitable businesses that create employment opportunities in the community, the cooperatives have become tools to siphon state resources. This phenomenon is again attributed to the way cooperatives were formed in the district. Ideally, cooperatives are supposed to be initiated by communities, not by the state, as is the case in the CHDM.

*“Cooperatives as business entities should be initiated by the people [communities], not the government. The setting up of cooperatives by government is incorrect. Government should only conscientise communities about cooperatives, not initiate them”* (Interview 1).

Cooperatives can only self-actualise and become independent, profitable business enterprises when they are initiated by community members and driven by their knowledge and experience (Harms, 2012:1). Contrary to Harms’ (2012) assertion, cooperatives in the CHDM have largely been established on the insistence of the state.

*“Government institutions, officials and politicians particularly, have went out to communities and advised them to form cooperatives in order to access government funding. They have done this without considering the existing cooperatives. Although there were many existing cooperatives that needed support, the government was not interested in investigating how these enterprise can be supported. They didn’t investigate how many existing cooperatives were in communities and also find out their challenges but they promoted the establishment of new ones. Perhaps, this could be the reason for their high mortality rate in the district. Government was not focused on supporting the existing ones but on establishing new cooperatives”* (Interview 1).

*“Government must desist from initiating new cooperatives, but should rather look for people who have already started their own cooperatives and support them”* (Interview 6).

These quotations indicate that the government is more interested in increasing the number of cooperatives than capacitating existing ones. In other words, the government is less interested in the quality of cooperatives but rather their quantity, whereas the socio-economic impact of cooperatives is not determined by their number but their quality. A few profitable cooperatives can have a far greater impact than a thousand inefficient enterprises. It is therefore a waste of scarce state resources to establish many unviable cooperatives than to support a few existing and viable enterprises. Preferably, state support should focus more on strengthening the existing cooperatives to enhance their profitability than to create new enterprises. It would be prudent to deploy more state resources to cooperatives that have already proved their worth than starting new enterprises with an indeterminate future. In fact, the government should desist from initiating cooperatives for the communities but should focus on providing an enabling environment for them to flourish (Oelofse & van der Walt, 2015:295). Rather than initiating cooperatives, the state should be capacitating communities to initiate their own.

*“The initiation of cooperatives by government is not working. There should be a rethink of how government provides support to cooperatives” (Interview 11).*

*“The approach in the introduction of cooperatives to communities was wrong as it was based on the availability of state funds. Politicians have been the main culprits in this regard. Most people have formed cooperatives because they believed they will get finance from government. This has enhanced the dependability of cooperatives on government. Once the funding has been provided, conflict usually starts based on the different views on how to use the funds” (Interview 10).*

Clearly, the initiation of cooperatives by the state produces more problems than solutions. It fails to develop independent and self-supportive cooperatives, but rather parasitic liabilities that are in perpetual need of state sustenance. In that way, it is both unhelpful and unsustainable.

*“Effectively, cooperatives are like wheelbarrows, they cannot move without being pushed. The dependency syndrome is so endemic in cooperatives” (Interview 11).*

From this comment, it is clear that state support has entrenched an endemic dependency culture in cooperatives. Similar to Steele's (2014:47) finding in his study on cooperatives in Port St Johns, extensive state support erodes the effectiveness of cooperatives in the CHDM and obliterates their freedom to think in the best interest of their members. Instead, the cooperatives have developed a "wheelbarrow" mentality and are unwilling to move on their own without a push from the government. Even the cooperatives that can afford to sustain themselves rely on government grants. This is perhaps the manifestation of the overabundance of state support.

*"Finances are easily available to cooperatives. There is an abundance of government grants that provide financial support to cooperatives"* (Interview 4).

*"Finance is not necessarily a problem. Most of the time finance is available because if cooperatives fail to secure a grant, they can apply for a loan. However, cooperatives are always looking for grants and are not interested in loans"* (Interview 11).

The unproductivity of cooperatives cannot therefore always be associated with the lack of state financial support. The subjects believed that, even though certain cooperatives claimed to be in need of finance, sufficient financial support is provided to cooperatives. Despite the claim of financial abundance, financing remains inaccessible to certain cooperatives in the district because of poor dissemination of information by government officials. This observation was also made by Chiloane-Tsoka and Mello (2011:1449), Khumalo (2014:72), Ortmann and King (2007b:232), and Van der Walt (2008:17) in their respective studies conducted elsewhere in the country, which all concluded that access to funding is generally a problem for cooperatives in South Africa because of poor dissemination of information on state programmes. Various state grants and loans are offered to cooperatives, but these remain inaccessible to cooperatives because of government ineptitude. Cooperatives, particularly those in remote rural communities, are deprived of the services they should be receiving because information on state support is not properly disseminated by government officials (Ladzani *et al.*, 2011:1461; Mashigo, 2014:487). Interestingly, although the interview subjects were state officials, they were quick to point out this incompetence.

*“Rural communities do not know how to access government funding”*  
(Interview 4).

This comment clearly indicates that something is wrong with the way the state support is provided. Dissemination of information to communities is the most fundamental aspect of state support programmes. The ineptitude of government officials in this regard has a devastating effect on cooperatives. It not only disadvantages them in accessing financial assistance, but accessing other services as well. Effectively, poor dissemination of information does not only cause cooperatives to stagnate in a state of underperformance, but it also deepens their financial difficulties.

Although the subjects acknowledged the indispensability of state support in rural communities, they also felt that the provision of grants to cooperatives needed to be reviewed because it entrenched a culture of entitlement and state dependence.

*“Clearly, the government funding model is a problem. The government funding policy is too lenient. Strict vetting of cooperatives is necessary. Cooperatives have to prove their worth, display their own inventiveness and contribution in building or getting the enterprise running in order to sift unviable businesses. Moreover, the review of the funding model is necessary, particularly that government only provides capital finance and no operational finance. Thus, government only invests in buying the equipment for the cooperatives. No operational capital is provided and cooperatives end up unable to operate the machinery or equipment bought”* (Interview 3).

It is clear from this comment that the current funding model needs to be reviewed as it is a challenge both to government and the cooperatives. The leniency in the awarding of grants has opened up the floodgates for the abuse of the system. Funding is apparently granted to cooperatives irrespective of their viability. Even enterprises that appeared unviable and lacked proper business planning have obtained funding. The subjects called for the review of the funding model, particularly the provision of grants versus loans, as well as the provision of capital finance versus operational finance. If the government insists on giving out grants, the subjects suggested that operational finance must be incorporated into the grant. Without operational finance, most cooperatives found it hard to operate despite the capitalisation.

Except for those cooperatives that could not secure state funding because of lack of information, the subjects believed that most cooperatives in the district have received government grants, to the extent that some cooperatives have been sustained by state grants throughout their existence. However, this perpetual state support has inadvertently converted these cooperatives into liabilities. It has made them absolutely reliant on government for everything. It essentially removed any form of ingenuity for self-sufficiency and made them permanent state dependants.

*“Once a government department has initiated the cooperatives, they tend to concentrate on funding the same cooperatives repeatedly every financial year. Thus, they tend to own such cooperatives”* (Interview 3).

Repeat funding of the same cooperatives by the government has obviously created a sense of entitlement, which subsequently solidifies state dependence. By “owning the cooperatives”, the state effectively takes away their initiativeness and subtly inculcates their reliance on state grants. This practice deprives them of the space to learn and grow as self-supporting enterprises. Instead, it insentiently nurtures cooperatives to be state “parasites” that on their own cannot function well without any form of state support. This does not necessarily mean that there are no productive enterprises in the district, but the way the support is provided makes it difficult for them to self-actualise because it essentially denies them the opportunity to grow and realise their potential. As Kanyane and Ilorah (2015:8) indicate, instead of grooming cooperatives into viable business enterprises, the government has unintentionally encouraged them to become state appendages that are incapable of attaining maturity or independence. The state support adversely affects their productivity and creates a sense of entitlement and parasitism that render them incapable of self-sustenance, and entirely dependent on state grants.

Cooperatives can, however, be rescued from this unfavourable situation if the government rethinks its funding model and introduces a comprehensive and integrated support programme. The restructuring of the support programmes could lead to cooperatives reclaiming their autonomy, extricating themselves from state dependence, and learning to be efficient and profitable business enterprises (Forgacs, 2008:69).

It is the responsibility of the government to instil a sense of responsibility in cooperatives, capacitating them on how to operate as business enterprises, and not relying on state grants. Cooperatives must be trained to be the independent community organisations they are supposed to be. They should not have their work dictated by state largesse, but by the interests of their members (Satgar, 2007b:3).

There are cooperatives that have remained in the infancy stage for a long time, incapable of self-sustenance and financial independence, but in perpetual need of state support. This is not only the manifestation of the inefficiency of state support, but also a severe lack of sense of ownership and commitment from the members. With the easy accessibility of government grants, dependence on the state has worsened to the extent that cooperatives have ceased to consider themselves business enterprises but habitual grant recipients. The system has inadvertently converted cooperatives into “immortal parasites”.

Rather than nurturing them into viable business enterprises, it has turned them into state appendages. Therefore, the government should not principally focus on issuing grants to cooperatives, but should rather concentrate on building their capacity to operate as normal business enterprises (Westoby, 2014:831). It is mainly through the facilitation of a conducive environment that cooperatives can be nurtured into functional business enterprises. While state support is vital, the government cannot continue arbitrarily giving out grants because they encourage the proliferation of inefficient and dependent enterprises. The practice has decimated the cooperatives' ability to generate their own revenue and has undermined their self-help nature (Harms, 2012:4).

Under normal circumstances, cooperatives are not supposed to rely on state funding, but should be funded by their members (Majee & Hoyt, 2011:51). As business enterprises, they should generate their own funds for all their operations (Simmons & Birchall, 2008:2132). However, in poor communities, cooperatives will remain in need of some form of state financial assistance to get off the ground. But even in that case, the process could not be perpetual. Financial support should be provided for a specific period of time, and when it lapses, the cooperatives must have learned to profitably operate on their own. The financial support must have strict conditions pertaining to self-sufficiency.

Therefore, while financial support is provided, the capacity of the cooperatives must be developed. For cooperatives that have failed to attain proficiency during the support period, the government must provide them with low-interest loans. The subjects even suggested the complete overhaul of the grant system and the introduction of loans instead of grants.

*“Instead of grants, government should introduce loans with preferential interest rates of around 7% (prime rate -2) for cooperatives” (Interview 5).*

Even if loans are provided, the state must still provide capacity-building programmes to develop effective cooperatives that would be able to stand on their own without any further assistance from the government. The relentless support of the same cooperatives by the state should be avoided.

### **6.3 FOCUS GROUPS WITH COOPERATIVES**

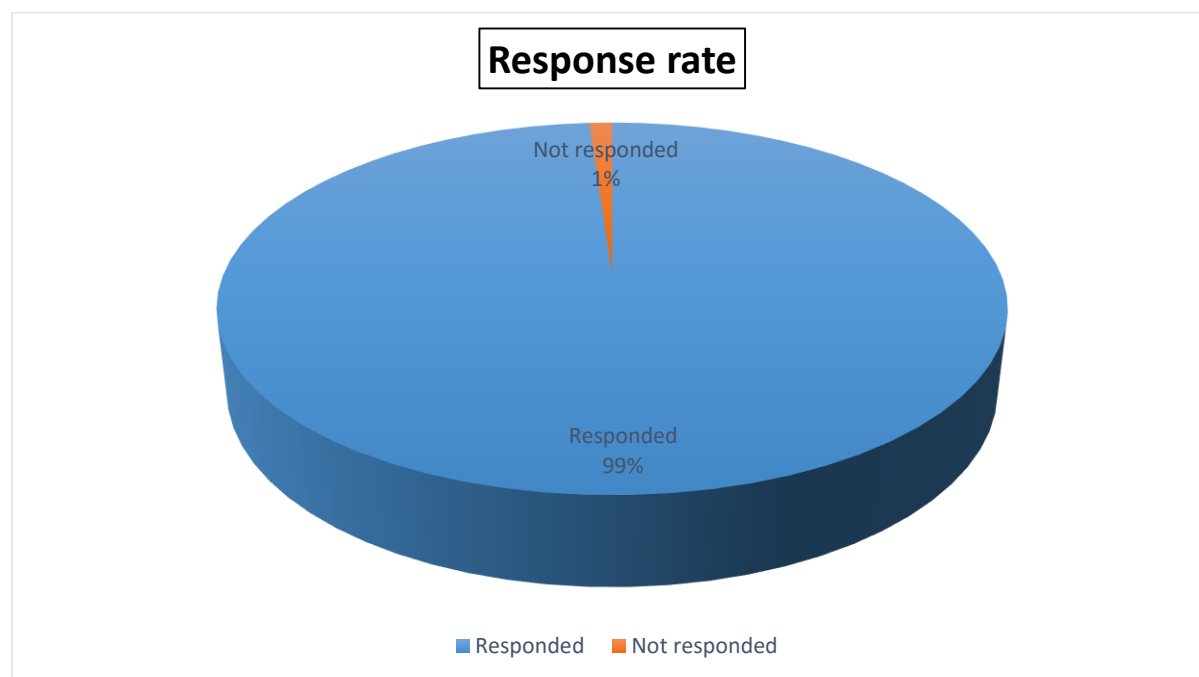
In addition to the in-depth individual interviews, focus groups were conducted with cooperative enterprises in the district. The exercise was aimed at corroborating the data from the interviews and to provide another dimension to answering the research questions. In accordance with Ritchie *et al.* (2014:213)'s recommendation, each focus group met once for a maximum period of two hours. All the proceedings of the focus groups were steered and managed by an interview guide (see Appendix 2), which was a list of prepared open-ended questions (Davies, 2007:202). Unlike in the interviews, not all the proceedings of the focus groups were audio recorded given the awkwardness of the settings in which some of them were held. This necessitated the researcher to rely heavily on extensive note taking.

#### **6.3.1 Response rate**

The CHCDC and the local municipalities facilitated the recruitment of subjects for the focus groups. Almost all the recruited cooperatives attended the focus groups as out of the 90 invited cooperatives, only one did not show up (see Table 6.3 and Figure 6.3). Every invited cooperative was represented by a single member in the focus group.

**Table 6.3: Response rate**

Subjects	Number	Percentage
Invited	90	100
Responded	89	99
Not responded	1	1

**Figure 6.3: Response rate**

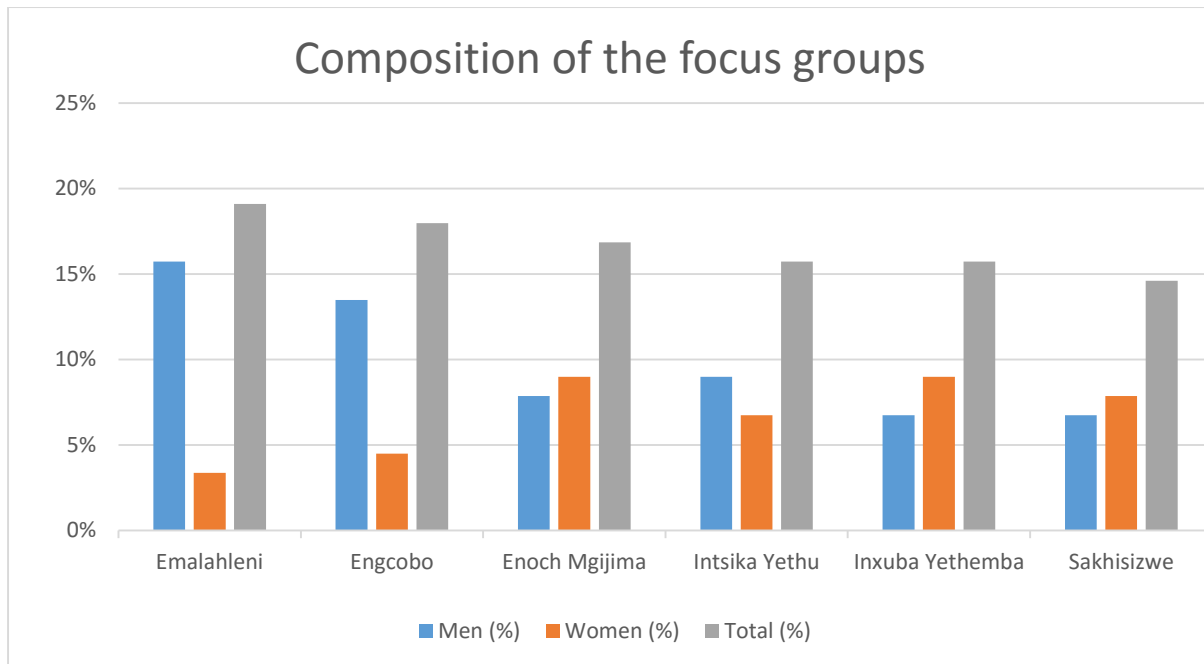
### 6.3.2 Composition of the focus groups

Although a balanced gender mix was preferred, there were marginally more men than women. The discrepancy was attributed to the fact that the majority of cooperatives were in agriculture, which is a sector that is historically male dominated. Table 6.4 and Figure 6.4 indicate the gender composition of the focus group by local municipal representation.

**Table 6.4: Composition of focus groups**

Number	Local municipality	Focus group size	Men (%)	Women (%)	Total (%)
1	Emalahleni	17	16	3	19
2	Engcobo	16	13	4	18
3	Enoch Mgijima	15	8	9	17
4	Intsika Yethu	14	9	7	16
5	Inxuba Yethemba	14	7	9	16
6	Sakhisizwe	13	7	8	15
<b>TOTAL</b>	-	<b>89</b>	<b>60</b>	<b>40</b>	<b>100</b>





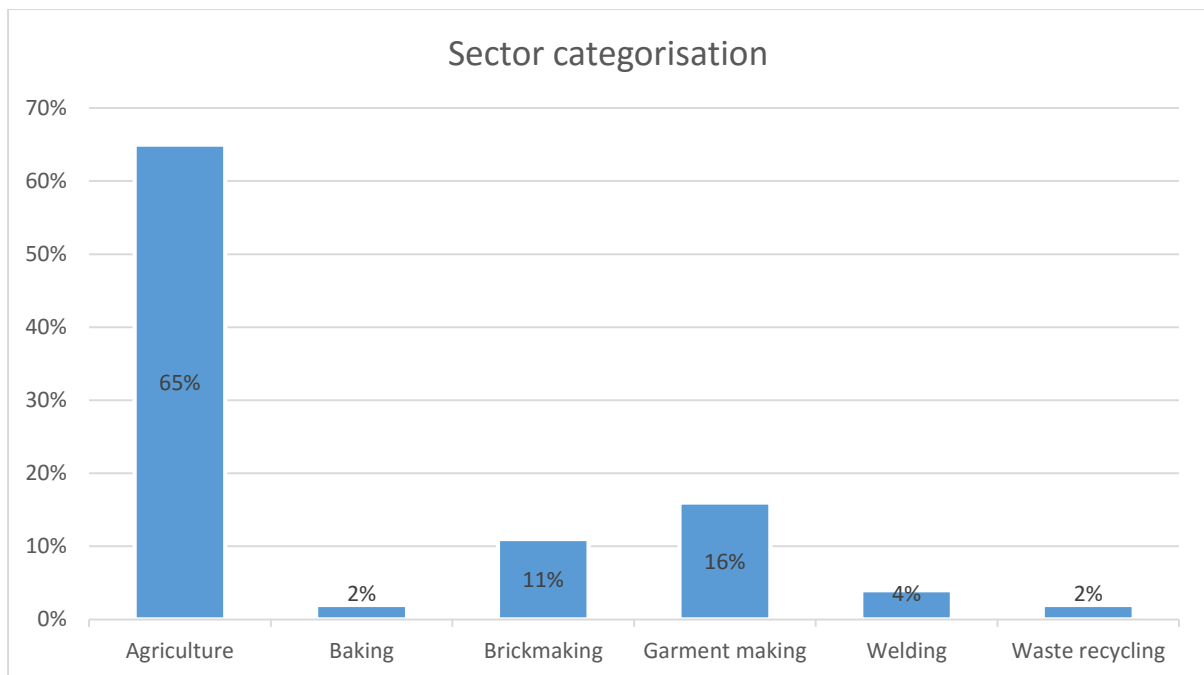
**Figure 6.4: Composition of focus groups**

### 6.3.3 Sector categorisation

The majority of cooperatives in the focus groups were agricultural and were largely located in rural communities, while most manufacturing cooperatives were from urban areas (see Table 6.5 and Figure 6.5).

**Table 6.5: Sector categorisation of subjects**

Subjects	Number	Percentage
Agriculture	58	65
Baking	2	2
Brickmaking	10	11
Garment making	14	16
Welding	3	4
Waste recycling	2	2
<b>TOTAL</b>	<b>89</b>	<b>100</b>



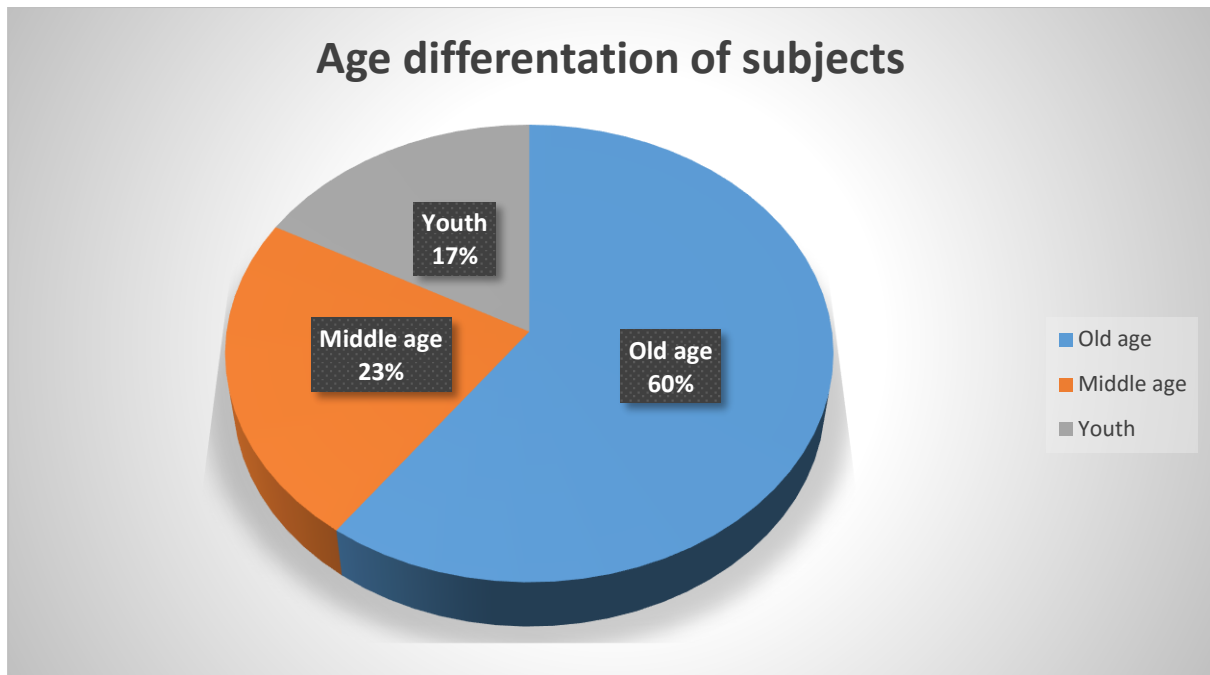
**Figure 6.5: Sector categorisation of subjects in focus groups**

#### 6.3.4 Age differentiation

Most cooperatives were owned and operated by older people. Of the subjects, 60% were old-aged people, while only 17% were youths (see Table 6.6 and Figure 6.6). The variance demonstrated that youths were less interested in this form of business. Cooperatives have apparently failed to attract youths and more efforts need to be explored to induce their interest.

**Table 6.6: Age differentiation of subjects**

Subjects	Number	Percentage
Youth (less than 35 years)	15	17
Middle aged (between 35 and 60 years)	21	23
Old aged (above 60 years)	53	60
<b>TOTAL</b>	<b>89</b>	<b>100</b>



**Figure 6.6: Age differentiation of subjects**

### **6.3.5 Analysis of the focus groups**

Focus groups were specifically conducted to corroborate the findings of the interviews. Almost all the findings from the interviews were validated by the results from the focus groups as there was no instance where the findings contradicted one another, but rather supplemented one another. In cases where the interviews fell short, the focus groups covered the ground. For the analysis, the audio-recorded contents of the focus groups were first transcribed and collated with the notes the researcher made during the sessions. Thereafter, the transcribed data were subjected to thematic content analysis, which resulted in the identification of the following themes in accordance with the research questions.

#### ***6.3.5.1 To what extent do cooperatives enhance the socio-economic development of communities in the CHDM?***

As in the interviews, this section focused on the role played by cooperatives in improving the socio-economic conditions in the communities in the district. Almost all the issues pointed out by the subjects in the focus groups were exactly the same as those mentioned in the interviews.

Even though they were formed by a different cohort of subjects, the focus groups validated nearly every finding the individual interviews established.

(a) *Income generation*

All the focus groups concurred that cooperatives generate income for their members.

*“Our cooperative is a primary cooperative that was formed as means to generate income for the people on retirement”* (Focus Group 3).

Since the district is largely rural and the main source of income for most people is government grants, cooperatives provide an alternative source of income for the members.

(b) *Job creation*

As in the interviews, the focus groups perceived cooperatives as creators of job opportunities in local communities. Despite the majority of these jobs being seasonal, mainly during the planting and harvesting seasons, they nevertheless significantly contribute to job creation in the district. In that way, cooperatives provide communities with employment opportunities.

(c) *Food security*

According to the subjects, the communities in the district have formed cooperatives to provide food security to their families. Agricultural cooperatives produce food for the members, their families, and the community at large. This was exactly the same perception that the subjects in the interviews held.

(d) *Poverty alleviation*

As in the interviews, the subjects in the focus groups believed that cooperatives were the means to reduce the levels of poverty in their families and in the community.

*“Our cooperative was started as means to reduce poverty and crime in the community”* (Focus Group 2).

*“Our cooperative was started as part of government projects that were meant for poverty alleviation and the reduction of crime in the community”* (Focus Group 4).

Both quotations indicate that communities started cooperatives to extricate themselves from the poverty trap, and consequent to their participation, members were able to provide for their families and put food on the table. Both the income and food derived from the cooperatives alleviated poverty, particularly in their families and generally in the community. In this way, cooperatives contribute to improving the socio-economic conditions in the community.

(e) *Crime reduction*

Besides poverty reduction, cooperatives were started as a means to reduce the level of crime in the community.

*“The aim of forming the cooperative was to reduce the crime in the community by taking the youth off the streets and create job opportunities for them” (Focus Group 3).*

Youths were particularly recruited to cooperatives to take them off the streets and consistently engage them in productive activities that divert their attention away from crime.

**6.3.5.2 Which legislative frameworks support the development of cooperatives in the district?**

The subjects in the focus groups expressed displeasure at the slow pace by which cooperative legislation was implemented. They were particularly perturbed with the government tendering system, which is not affording any preferential treatment to cooperative businesses.

*“We have long been bidding for the various tenders the government is issuing out, but rarely do we get the business. Most tenders are awarded to established companies but when we formed cooperatives, we were promised to get government business through preferential procurement process. But now, that is not happening and the inability to win government tenders disadvantaged the profitability of our businesses, and as a result, we are struggling to stay afloat. Most cooperatives have collapsed because of the lack of government business” (Focus Group 6).*

Subjects believed that cooperatives were unfairly compelled to compete for government tenders against established business enterprises. Given their weak financial strength, they often lose out on these tenders because the government pits them against established companies that have the required capital to speedily provide the service or product. The government does not give them any assistance like advanced payment or extended time to mobilise funds. Given this unfair treatment, the subjects called for the speedy implementation of cooperative legislation as they believed that it can improve the functionality of their enterprises.

### **6.3.5.3. Which factors lead to the failure of cooperatives in the district?**

In addition to poor implementation of cooperative legislation, cooperatives were also beleaguered by a number of factors that debilitated their contribution in the socio-economic development of the local communities. The subjects in the focus groups identified several factors that are inhibitive to the functionality of the cooperatives. Most of these factors are essentially the same as those mentioned in the interviews. In this way, the focus groups corroborated the interview findings.

#### *(a) Lack of commitment*

Same as the interviews, the focus groups identified the lack of commitment from members as one of the factors that has destroyed many cooperatives. Members are often reluctant to invest in their cooperatives as they expect to receive everything from the government. They do not treat cooperatives as their own businesses, but as if they are operating them for the government. This indicates that some members joined cooperatives without knowledge of and interest in the cooperative form of business, but rather to access state funding. The misconception that cooperatives were the route to access state funds was prevalent among the communities in the district.

*“Some people thought the funds that government provided were for personal use” (Focus Group 3).*

Given the comment, it is clear that some members primarily joined the cooperatives in the belief that they would receive quick money. This mentality has effectively driven certain cooperatives into dysfunctionality or complete oblivion. Such misconceptions call for a concerted education campaign to re-orientate the members.

(b) *Lack of knowledge*

The subjects acknowledged that the lack of basic knowledge about the cooperative form of business was rife because many people joined cooperatives without understanding the concept. In some communities, the cooperative business model was never properly introduced and people were just told to form cooperatives because the government would provide the funding. In other words, cooperatives were not introduced as business ventures, but as poverty-alleviation initiatives. This incorrect introduction has resulted in communities failing to recognise them as a form of business activity.

*“The cooperative form of business was not properly understood by everyone. There was a misconception that everything should be done by government. Evidently, members had no sense of ownership for the cooperative”* (Focus Group 2).

*“Some members even behaved as if they were employees [rather] than the owners, given their unwillingness and reluctance to invest in the cooperative but always expected to get income in whatever way possible”* (Focus Group 1).

From these comments, it is clear that proper knowledge of the cooperative form of business is critically lacking among the majority of the cooperative members. This can perhaps be blamed on the fact that the government officials who introduced the concept to the communities were equally ill-informed. That members were unprepared to invest in their enterprises but wanted everything from government is a clear indication that they did not understand the concept and were oblivious that cooperatives were their own businesses.

(c) *Lack of skills*

Like in the interviews, the focus groups revealed that cooperatives generally lacked the required technical skills, and the situation was the same in both agricultural and clothing cooperatives. There was a great demand for technical skills to make agricultural cooperatives productive and profitable business enterprises. Similarly, the clothing cooperatives also complained about the shortage of skilled personnel.

*“We struggle to get qualified seamstresses ever since the local TVET college closed down their clothing department, which we normally used to recruit our seamstresses. Getting a seamstress is now a difficult exercise, and this has badly affected our business. It is now difficult for us to meet deadlines on our orders. We have orders that we cannot finish in time” (Focus Group 1).*

This comment clearly illustrates that the skills shortage seriously affects the functionality of cooperatives in the district.

*(d) Lack of finance*

The subjects claimed that the productivity of their cooperatives was adversely affected by lack of finance to build infrastructure and to buy equipment, machinery, and inputs. Although this could have been true for certain cooperatives, but it was clear that the members generally expected to receive everything from the government. Even in profitable cooperatives that could manage to capitalise and finance their operations, members were literally unwilling to invest in their enterprises but expected the government to provide them with almost everything. They behaved as if cooperatives were not their own businesses, but were government owned. With this mindset, lack of finance was generally exaggerated as a complaint. Even though the government provides low-interest loans, the cooperatives were keen on grants and not interested in loans. This was a clear indication that cooperatives perceive the government as a cash cow. Interestingly, after some probing, the subjects confessed that finance was not a major challenge because most of their cooperatives have received assistance from the government in the form of land, farm implements, machinery, equipment, stock, and/or cash. Despite the confession, cooperatives persist in demanding financial support from the government. To them, the government was duty bound to provide them with financial assistance.

*(e) Poor marketing strategies*

The cooperatives complained about their difficulty in securing markets for their products. They blamed this on their lack of marketing skills and poor marketing strategies. Essentially, the inadequacy in marketing prowess was the manifestation of their lack of education. Their illiteracy or low levels of education made them unable to exploit the opportunities presented by technological advancements and to modernise



their obsolete marketing strategies. As a result, they remained limited to local markets and unable to negotiate business deals with more sophisticated business people outside the district. It was also mentioned that it was common for cooperatives to start production even before a market was identified. The practice was more prevalent in government-initiated cooperatives, which expected the government to provide them with markets. This again pointed to the disadvantage of the initiation of cooperatives by the government, which has bred the misconception that the state will provide everything required.

(f) *Poor business management skills*

Like any other business enterprise, cooperatives are equally affected by the lack of business and financial management skills.

*“Training is certainly needed in business and financial management, as well as on record management. Poor bookkeeping has led to poor internal auditing practices”* (Focus Group 4).

Old age and low levels of education among the members emerged as the major causes for the lack of business and financial management skills in cooperatives. Although the government has made some efforts to address the challenge through provision of short-course training programmes, such initiatives have fell short in attaining the intended objectives.

(g) *Poor dissemination of information*

It transpired from the focus groups that some cooperatives were oblivious of government support programmes. Dissemination of information on government services was erratic, and this affected urban and rural cooperatives alike.

*“Although we are located right here in Queenstown, we do not know about government services. We don’t know how to apply for government funding or receive training. Ever since we started our cooperative, three years ago, we never received any assistance from government”* (Focus Group 1).

Although it is the rural areas that are commonly excluded from information distribution, cooperatives in Queenstown, the administrative centre of the region, were unexpectedly oblivious of support services provided by the local state institutions.

Ideally, cooperatives in Queenstown should have been the first to receive information on government support programmes, given their proximity to government offices. However, this was not the case. They were similarly excluded from government services like the cooperatives in remote areas. Inconceivable as it was, cooperatives at the doorstep of state institutions were deprived of information on government services in the same way as those in outlying rural areas. This insufficiency was indicative that information on government services is disproportionately distributed to rural and urban areas alike. The inconsistency of the distribution of government information is a challenge for every cooperative and is no longer a geographical disadvantage, but a manifestation of state officials' ineptitude.

*(h) Lack of cooperation*

Although the ICA (2013) strongly promotes cooperation between cooperatives, this hardly takes place in the district. There is no cooperation between cooperatives both at local and district municipal level even though some enterprises produced the same products. Cooperation would enable them to benefit from economies of scale, particularly in buying their supplies and in the transportation of their produce to the markets. This shortcoming was most conspicuous with the clothing cooperatives, who were experiencing serious difficulties in sourcing their fabric supplies. In this regard, they complained:

*“We are struggling to get our fabric supplies here in Queenstown. The local suppliers are expensive, but it is also expensive to buy fabric from the cheaper suppliers in Durban or Cape Town because of huge transportation costs”*  
(Focus Group 1).

This quotation clearly depicts the disadvantage of the lack of cooperation between the cooperatives in the district. Obviously, if there was cooperation between these cooperatives, challenges like these would have been long resolved. With some cooperatives already having made linkages with suppliers in Durban and Cape Town, cooperation could facilitate the sharing of this information for the benefit of others. Through information sharing, they would identify cheaper and reliable suppliers, which would enable them to benefit from economies of scale by buying the supplies together in bulk, which would reduce both the cost of the supplies and the transport.

(i) *Conflict*

The focus groups also identified conflict as one of the problems that besiege cooperatives in the district. Cooperatives are inherently susceptible to conflict because every member has an equal claim to the ownership of the enterprise. It is common for members to think they had the right to do as they wish, forgetting that cooperatives are legal institutions that are governed by their own constitutions. It was apparent from the focus groups that the most vulnerable enterprises were large cooperatives and those that were specifically initiated by the state. In state-initiated cooperatives, conflict is rife because there is intense competition for the control of the resources.

*“Immediately money was paid to the cooperative, conflict erupts. Members fight each for the control of the funds. Everyone want to control the money. In most instances, these fights lead to the collapse of the cooperative”* (Focus Group 5).

This practice occurred because most of these cooperatives were started by people with no passion for business, but who were only interested in accessing state funds. Their desperation to access the resources made members circumvent the policy to serve their selfish interests and to resort to conflict wherever attempts are made to reign over them.

(j) *Age of members*

The focus groups identified old age as a factor that also impede the functionality of the cooperatives.

*“We are old and we get tired easily, and, as a result, we cannot do most of the work to keep our cooperative functionally competitive. Sometimes, because of the age, we cannot attend some of the training courses government provide. When, we attended these courses, it is difficult for us to grasp and remember everything taught at these workshops. Hence, we want youth to be part of our cooperatives, but they seem not interested”* (Focus Group 6).

Cooperatives are often formed by pensioners, who within the short period of time the cooperative has been in existence, age to the extent that it becomes difficult for them to perform their duties.

Besides their sudden incapacitation to work, aged people are also difficult to educate and train, particularly in theoretical content and modern technological advancements. Collectively, these factors adversely affect the productivity of their enterprises.

(k) *Lack of education*

Since most cooperatives are formed by older people, illiteracy is common and affects the productivity of their enterprises. On this aspect, one focus group remarked:

*“We are that old group of people who never went to school and those who were fortunate enough to go to school, didn’t go far with their education. Then, high school education was a privilege and most of us went as far as primary education. Now that is a problem and it makes things difficult for us. We now find it difficult to write application letters, business plans or filling in forms to access government support”* (Focus Group 3).

The quote clearly illustrates the gravity of the lack of education. When members have difficulty in drafting a business plan or writing an application letter, business and financial management capabilities are obviously compromised. According to Muthuma (2012:178), lack of education deprives the cooperatives the required business acumen and management skills needed for self-sustenance. Likewise, cooperatives in the CHDM suffer the same fate. The lack of education of the members erodes the capacity for creativity and innovation. This inadequacy not only hinders the cooperatives’ growth potential and restrict their marketing prowess, but also deteriorates their productivity.

(l) *Lack of training*

Low levels of education often open up the opportunity for training. Similarly, there is a desperate need for comprehensive training for cooperatives in the CHDM. In all six focus groups, the subjects indicated the need for training.

*“Our members need proper training as they are currently using their raw skills”* (Focus Group 4).

*“Government has been giving funding to cooperatives without training and mentoring them on financial management. This has led to mismanagement of funds by cooperatives”* (Focus Group 3).

*“Although the business has the market, it struggled to produce enough products for the market. Seemingly, the business was overwhelmed by the market demand. I guess we need training on business management”* (Focus Group 1).

The comments clearly indicate that cooperatives are in need of technical, financial, and business management training. Although the subjects expressed an intense desire for training, they were unimpressed with the off-site and once-off short courses of one or two weeks provided to cooperatives. They complained that these training interventions were inadequate and failed to address their needs since private service providers were more focused on making profit than on imparting knowledge. Within few days, a large amount of content is quickly delivered to minimise costs and to maximise profit. Essentially, the one- or two-week training courses are much too short and too theoretically packed for the members to master the content, given their age and education levels.

*(m) Lack of equipment, facilities, and machinery*

During the focus groups, some cooperatives, particularly the newly formed organisations, complained about their lack of infrastructure, equipment, and machinery. Some bemoaned the lack of storage facilities, warehouses, workshops, and fencing. Although they were in need of these facilities, bizarrely, the cooperatives were not prepared to invest in the construction of their own infrastructure and wanted the government to provide it to them. As indicated earlier, there is a strange mentality in the cooperatives that make them expect the state to provide everything to them. Interestingly, the cooperatives in the focus groups displayed a lack of basic understanding about the cooperative business model as they all thought that the government was compelled to provide them with some form of assistance. In fact, every cooperative had a wish list they wanted the government to fulfil. This attitude again brought to the fore the urgent necessity for education and training on the cooperative business model for all the cooperatives in the district.

*(n) Lack of transport*

Some cooperatives complained about the lack of transport to reach the markets. Although they were productive, the lack of transport made it difficult for their produce to reach the markets, which hinders the profitability of their enterprises.

Strangely, all the cooperatives in the focus groups expected the government to provide them with transport. While this indicated a dependency mentality, it was equally a manifestation of the lack of cooperation between the cooperatives. Had they cooperated among themselves, problems of this nature would have long been resolved because there were cooperatives in the district that the government had provided with transport, which they could have shared among themselves. However, there was visible resistance from those who benefited from the state to share their resources. This again points to a need for education and training on the cooperative business model.

*(o) Youth apathy*

The lack of youth participation in cooperatives was a concern raised in all the focus groups.

*“We want youth to be part of cooperatives. We have tried to recruit them to join our cooperatives, but very few are interested. Perhaps they regard cooperatives as low-status jobs” (Focus Group 2).*

Apart from the subjects' comments, youth apathy was conspicuous even in the focus groups, as out of the total of 89 subjects, only 15 were youths. Given the poor representation, it was evident that on their own, cooperatives have failed to attract the youth. Even though the majority of youths in the district are unemployed, they showed little interest in joining cooperatives, and those who had joined, were mainly interested in money. Like other people, youths perceived cooperatives as “get-rich-quick schemes”, and, as a result, some of the enterprises they established quickly became dysfunctional or went out of business.

*(p) Access to state resources*

Exactly as the interviews indicated, the focus groups revealed that most cooperatives were used as the means to access state largesse. Most of these cooperatives were established through government initiatives. The state has directly instigated the communities to establish cooperatives and provided them with start-up capital in the form of machinery and equipment. Most of these cooperatives started as projects that were initiated by various government departments.

The involvement of the state in the initiation of cooperatives has apparently created a misconception among the communities that the government would perpetually support these enterprises and provide them with everything. This misapprehension has led to cooperatives relying on the government for all their operational needs; to the extent that certain cooperatives in the district have been sustained by state support ever since their establishment.

#### ***6.3.5.4. What needs to be done to improve the role of cooperatives in socio-economic development?***

It was apparent from the focus groups that the subjects believed that government has to play a major role in improving the functionality of their cooperatives. There was a visible reluctance to contribute in the capitalisation of their enterprises. Most cooperatives expected the government to provide almost everything they needed. It was obvious that this attitude emanated from the fact that, some cooperatives in the district have throughout their existence, depended on the government for sustenance and when state support was terminated, they ceased to exist. In his study on cooperatives in Ethiopia, Benson (2014:74) made the same observation that in government-initiated cooperatives there is always a relationship between external support and the functionality of the enterprise, and when the external support ceases to exist, the cooperative perishes. This suggests that the government should not initiate cooperatives, but must rather provide a conducive environment so that the communities can initiate their own enterprises. The sustenance of the cooperative cannot be the sole responsibility of the state, members are equally liable.

Even though state support is indispensable for cooperatives in the CHDM given their destitution, member contributions are equally important in the capitalisation of their enterprises. As cooperatives are member-owned and not state-owned enterprises, the members cannot fold their arms and expect to receive everything from the government. It is incumbent that members are informed of that reality and compelled to take full responsibility of their enterprises. The ICA's (2013:2) principle of member economic participation directly promotes members' financial contribution towards a cooperative's capital. Members' contribution is a significant indicator of their commitment and determination in building their enterprise.

Subjects also expressed dismay at the lack of youth involvement in cooperatives. On this aspect, they expect the government to play a facilitative role in attracting youth to cooperatives. They believe that government had a responsibility to make cooperatives attractive to young people by initiating efforts to pique their interest. Given this challenge, it is perhaps time for cooperatives to be included in both basic and higher education curriculum so that the younger generation can be formally introduced to the model. The inclusion of cooperatives in the curriculum may not only increase awareness and understanding about the cooperative business model but can also build a collaborative and industrious society.

From the focus groups, it was clear that cooperatives in the district lack the understanding on cooperative business model and are in critical need of schooling on cooperative principles. There is a lot that needs to be explained to them in terms of the cooperative business model. Their belief that government has to provide everything needed by the cooperatives was a clear indication of their ignorance. Their lack of knowledge entrenched their dependence on the state. Too much state dependence has apparently muddied the reality that cooperatives belong to the members and are business enterprises that need to be managed by business management principles. Such that, the misconception has entangled cooperatives in a cyclical state of unprofitability to the extent that an expansive education campaign is needed to reorientate their mindset and to untangle them from dependency entrapment. Until the members are educated on the model and realise that cooperatives are their own businesses and do not belong to the government, lack of finance will remain a complaint forever.

It was also conspicuous in the focus groups that cooperatives in CHDM lack cooperation. There is no cooperation between the cooperatives both at local and district levels. Obviously, on this aspect, cooperatives are missing out on golden opportunity to invigorate themselves. Cooperation is critically important for the cooperatives as it provides them with the opportunity to share information, knowledge, technical expertise, equipment, and machinery. With cooperation, most of the disparities they complained about in market access, transport, equipment or machinery, implements, etc., would have already been resolved or eliminated through sharing of information and resources.



The establishment of cooperative associations both at local and district levels need to be prioritised as this will not only benefit cooperatives, but the government as well by creating an organised cooperative sector that can be conducive for the easy distribution of government information and services.

With regard to their lack of skills and capacity, the subjects expressed concern with regard to the capacity building strategies used by government. They argued that the current strategies are not effective enough. Even though government has been providing them with training interventions, skills deficit is still prevalent in cooperatives. They now prefer on-site training, coaching, and mentoring as the most appropriate strategies for their conditions since these would be largely practical and take place within their familiar environment. They believe that these forms of training would enhance the mastery of the content as they would be able to apply the theory to a practical situation at their individual paces. Preferably, the subjects wanted training programmes that would take cognisance of their age and education levels. Despite this call, the subjects still believe that the most sustainable solution to the skills problem is the attraction of youths to cooperatives, particularly in managerial positions.

#### **6.4 FOCUS GROUPS WITH COMMUNITY MEMBERS**

In addition to the previous focus groups, another set of focus groups was held with community members. These people were interviewed to specifically obtain their perceptions, views, and experiences regarding the role cooperatives play in the socio-economic development of their communities. In other words, their responses were analysed on the basis of theme. Thus, this set of focus groups was conducted to supplement and corroborate data obtained from the previous focus groups and the interviews, precisely with regard to the contribution of cooperatives to improving the conditions in local communities.

##### **6.4.1 Response rate**

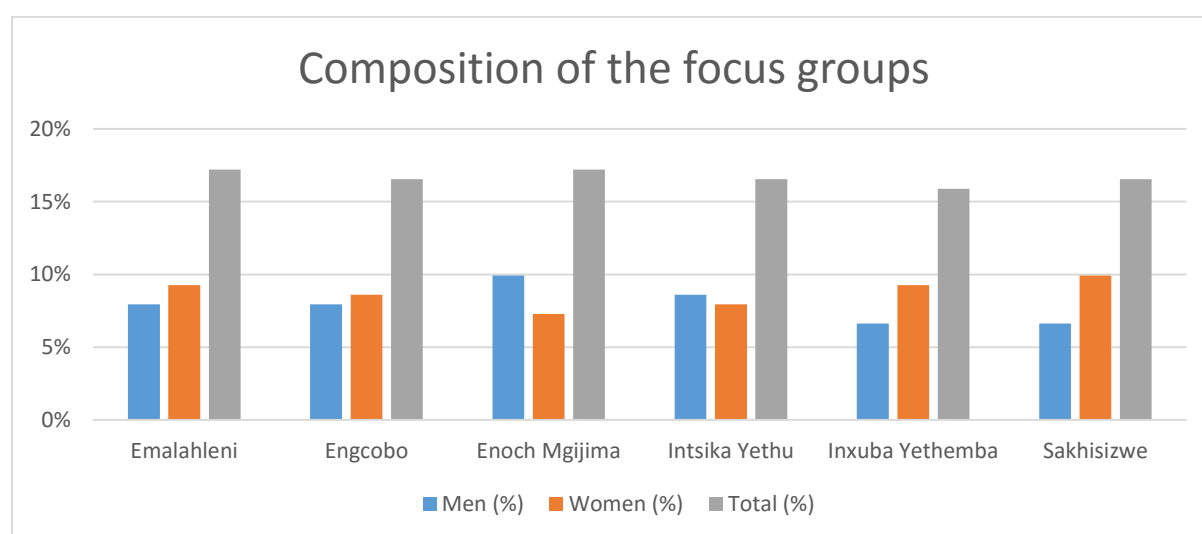
One hundred and fifty-one community members participated in the focus groups. Approximately 25 community members formed a focus group in each of the six local municipalities in the district.

### 6.4.2 Composition of the focus groups

Except for the Enoch Mgijima Local Municipality, almost all the focus groups were dominated by women in terms of the gender mix (see Table 6.7 and Figure 6.7). Women constituted 52% of the subjects. The difference in ratio is attributed to the fact that women are the majority of the population in rural areas as the men are mostly migrant workers in urban areas. This equally explains why men were the majority in Enoch Mgijima, which is largely an urban area and an economic hub of the district.

**Table 6.7: Composition of focus groups**

Number	Local municipality	Size of the focus group	Men (%)	Women (%)	Total (%)
1	Emalahleni	26	8	9	17
2	Engcobo	25	8	9	17
3	Enoch Mgijima	26	10	7	17
4	Intsika Yethu	25	9	8	17
5	Inxuba Yethemba	24	7	9	16
6	Sakhisizwe	25	7	10	17
<b>TOTAL</b>	-	<b>151</b>	<b>48</b>	<b>52</b>	<b>100</b>



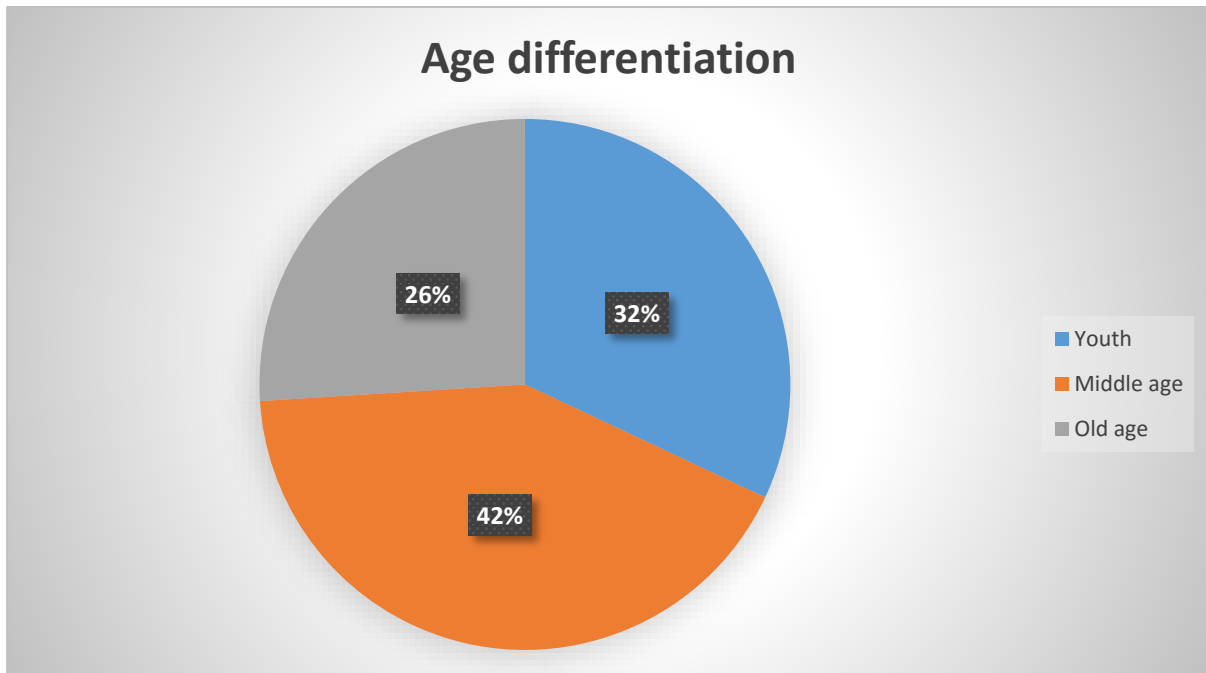
**Figure 6.7: Composition of focus groups**

### 6.4.3 Age differentiation of the subjects

The sample reflected a relatively balanced representation of age groups (see Table 6.8 and Figure 6.8). The middle aged and the youth formed the majority of the subjects as the employees of the cooperatives, while a sizeable number of old-aged people embodied the clientele.

**Table 6.8: Age differentiation of subjects**

Subjects	Number	Percentage
Youth (less than 35 years)	48	32
Middle aged (between 35 and 60 years)	63	42
Old aged (above 60 years)	40	26
<b>TOTAL</b>	<b>151</b>	<b>100</b>

**Figure 6.8: Age differentiation of subjects**

#### 6.4.4 Analysis of the focus groups

The sole purpose of conducting these focus groups was to specifically gather the views, attitudes, perceptions, and ideas of the local people with regard to the role cooperatives play in the socio-economic development of their communities. As an additional data source, community members were deliberately interviewed to corroborate the information already gathered from the state officials and cooperative members. The findings from the community focus groups indeed validated the results from the other two sources. At no stage did the findings from the three different sources contradict one another, but they rather corroborated one another in all respects. Both sets of focus groups validated the information obtained from the interviews.

#### **6.4.4.1 To what extent do cooperatives enhance the socio-economic development of communities in the CHDM?**

All six focus groups conducted in different wards were unanimous on the role cooperatives have played in improving the conditions in their local communities.

##### *(a) Income generation*

All the focus groups perceived cooperatives as the means to generate income for the members of the community.

*“Cooperatives have been the only source of income for the youth and middle aged in our communities. Otherwise, people in the communities have been relying on old age grants for survival”* (Focus Group 1).

It is clear from this comment that cooperatives provide an alternative form of income to community members who rely on state social grants for an income.

##### *(b) Job creation*

According to the subjects, cooperatives have created job opportunities in their communities. Despite the fact that the majority of jobs in agricultural cooperatives were seasonal, they have nevertheless made a great difference in changing the employment profile in these communities.

*“We live in communities where there are no industries, then cooperatives have been our firms, which have been providing us with job opportunities”* (Focus Group 4).

The district is largely rural and most of its industries are located in Queenstown. Cooperatives are therefore useful in providing job opportunities to rural community members, who do not want to relocate to urban areas.

##### *(c) Food security*

Besides being a source of income and the creator of job opportunities, cooperatives also act as providers of food security to the communities in the district. For most of the communities, cooperatives serve as a source of food.

*“We no longer travel to town to buy maize, vegetables, and meat because we now find these products cheaper here at our village or in neighbouring villages. This is also saving us money we used for transport”* (Focus Group 2).

From this remark, it is clear that the cooperatives are not only providing the local communities with fresh food but at cheaper prices as well. Since food is produced at community level, trips to town to buy groceries have been curtailed. This not only saves money for the communities but also retains the money within the community. Besides, it also saves community members time they spend travelling to town. Community members now have more time to spend at home doing their daily chores.

*(d) Poverty alleviation*

All the focus groups believed that cooperatives have reduced the levels of poverty in their communities.

*“Since cooperatives were started in our villages, poverty has been reduced in our families. Cooperatives have been the source of both income and food. Even if one is not a member of the cooperative, one is able to get food cheaper from the cooperative. Since we had cooperatives in our villages, no household goes to bed without food”* (Focus Group 5).

Besides generating income for the members and employees, cooperatives also produce fresh and cheap food, and all these contribute to alleviating the levels of poverty in the community.

*(e) Crime reduction*

The focus groups also mentioned that cooperatives in their communities contribute to reducing the levels of crime by engaging youths in productive activities.

*“In our community, cooperatives have assisted us by engaging the youth in productive activities and taking them off the streets; as a result, the level of crime in the community has decreased”* (Focus Group 6).

Through their involvement in cooperatives, youths are taken off the streets away from criminal activities. The youth has been kept busy with cooperative work, with no time to think about criminal activities.

Their participation in cooperatives has reduced their interest in crime and focused their energy on productive activities. In this way, cooperatives have not only provided youths with job opportunities, but also produce responsible citizens.

(f) *Community empowerment*

The focus groups believe that cooperatives endowed community members with skills they could not have possibly obtained in their villages. The subjects boasted about the variety of skills they acquired from the cooperatives.

*“Even though I never went that far with my education, through my involvement with the cooperative as an employee, I have been taken to a number of training programmes. These have bestowed me with lot of knowledge. I now have agricultural skills that I never thought I would I have. There are very few crops that I don’t know how to grow. I am now a successful farmer because of the knowledge and the skills I obtained when I worked for the cooperative”* (Focus Group 3).

*“Before, I didn’t know how to raise broilers, but from my experience of working in the cooperative I now have my own broiler business. The knowledge and skills I acquired from the cooperative have helped me start and grow my own business”* (Focus Group 5).

*“I also have a successful sewing business, which I established from the skills I developed from a dress-making cooperative we have in our village”* (Focus Group 6).

Through the skills they obtained from the cooperatives, community members were able to start their own private businesses. From their engagement with cooperatives, many community members acquired skills they would not have necessarily obtained had they not been involved in cooperative activities. The training programmes that the cooperatives offered exposed them to a variety of personal development skills such as business management, communication, and technical skills. In this way, the cooperatives empowered community members with skills, which on their own they would not have managed to acquire. Generally, cooperatives have an inherent ability to impart skills to their members, which they can use beyond the cooperative (Mbanza & Thamaga-Chitja, 2014:258).

The skills they acquired enabled them to independently live a better life beyond the cooperatives. In line with the observation by Phillip (2003:6) on cooperatives in South Africa, cooperatives in the CHDM have indeed improved the quality of life and enhanced the economic opportunities of the local communities. Like in the study Dogarawa (2005:8) conducted in West Africa, cooperatives certainly contribute to the human and socio-economic development of the communities in the district.

## **6.5 ALIGNMENT OF THE FINDINGS WITH THE THEORETICAL FRAMEWORK**

This section aligns the findings of the study with the theoretical framework. As reflected in Chapter 1, the study was premised on the systems theory. The systems theory was thus used as the framework by which the role of cooperatives in enhancing the socio-economic development of the CHDM has been analysed. Throughout the study, cooperatives were viewed as a system and, as such, their role and contribution to communities in the district were analysed in recognition of the influence the environment exerts on them. As a system, cooperatives are not immune to the influences of the internal and external environments. In accordance with the systems theory, the cooperatives in the CHDM strive to function as a set of interconnected elements that continually interact with their environment.

However, given the variations and inconsistencies in the external environment, cooperatives were at times unable to maintain a balance, hence some of them collapsed and became dysfunctional or even extinct. During the data analysis, it was evident that the success of the cooperatives in the CHDM depended on their ability to adapt to the variations in their external environment. For their survival and productivity, the cooperatives must be aware of the changes in their immediate environment, and react and adapt accordingly. Their adaptability to environmental factors is important for their functionality, to the extent that most of the factors identified in the findings that adversely affect them are the consequence of their inability to control and balance the influence of the environment. Therefore, the success of the cooperatives in the CHDM depends on their ability to maintain a balance between various environmental components, such as the quality of the membership, the availability of resources, logistics, and the markets.

Their inability to synchronise these factors led to their dysfunctionality; hence they became less profitable and more reliant on the state for support. Their continued reliance on state support perpetuates the imbalance between them and their environment.

In fact, the influence of the government on the formation of cooperatives is a major cause for the disequilibrium in the system. By initiating cooperatives, the state exerts undue influence on the cooperatives. Given their lack of education, knowledge, and resources, the cooperatives could not resist and succumbed to the influence, and this was the beginning of the systemic disequilibrium. The perpetual inability of cooperatives to resist and control this influence, but instead relying on it, maintains the imbalance within the system. This arrangement indicates a system that has lost its balance because one of the system's components, in this case the state, dominates the relationship. As is always the case, the domination of the relationship by one component adversely affects the functioning of the whole system, to the extent that the reliance of cooperatives on the state is beneficial to none of them. It slows the growth of the cooperatives and haemorrhages the state's limited resources.

Normally, a malfunctioning system cannot achieve its objectives, and this is exactly the case with cooperatives in the CHDM. The influence of the state in the formation of cooperatives compromises their functionality. It results in cooperatives developing a poor sense of commitment and responsibility. As they became totally dependent on the environment (state), they persistently maintain the state of disequilibrium. Subsequently, the imbalance led to cooperatives losing their autonomy and independence, which compromises their ability to self-actualise. Instead of maintaining a cyclical and mutual relationship, cooperatives developed a parasitic relationship with their environment (the state).

The inadequate and uneven distribution of information to cooperatives is another indication of a systemic imbalance. Regarding access to information, the external environment (the state) censor the information provided to cooperatives. It determines the type of information and which cooperatives must receive it. This results in cooperatives receiving inadequate information to effectively manage themselves. Consequently, most cooperatives experience dysfunctionality and are unable to deliver the outcomes their communities expect of them.



Throughout the dissertation, a narrative has been maintained that there is always a relationship between the state and the cooperatives. The state must always provide support to cooperatives, given their conditions. It is therefore important to consider how this support is provided. In other words, the management of the relationship between the two is important because it creates a balance or imbalance in the system. From the findings, it is clear that the major problem facing cooperatives in the CHDM is how state support is provided. Most of the other factors that debilitate cooperatives appear to emanate from inefficient state support. Lack of commitment, lack of youth participation, conflict, poor monitoring and evaluation, lack of collaboration between state agencies, lack of cooperation between cooperatives, government procurement inadequacies, politicians and funders' interference, poor business and financial management, lack of government financial support, lack of capacity building, poor marketing strategies, and lack of infrastructure are all associated with poor state support. It is the inadequacy of state support that has created a dissonance between the cooperatives and their environment, which has resulted in the debilitated general wellbeing of cooperatives in the CHDM. In this state, cooperatives in the district are unable to meaningfully contribute to the socio-economic development.

Although both the interviews and focus groups expressively revealed the contribution cooperatives make to job creation, income generation, poverty alleviation, food security, and community empowerment, their impact was not extensive as expected. However, this insufficiency is not inherent to their nature as development instruments, but to the disequilibrium created largely by ineffective state support. There is no doubt that the direct involvement of the government in the initiation of cooperatives has created more disadvantages than advantages for the sector. Also, the uncoordinated and unintegrated support services provided by the government have hindered the functionality of cooperatives. Clearly, state support is a major challenge that all stakeholders must decisively address in order to enable cooperatives to effectively discharge their socio-economic development role. Unless this problem is addressed, cooperatives in the CHDM will remain confined to a state of underdevelopment and underperformance, which will continue to compromise their role in the socio-economic development of local communities.

## 6.6 CONCLUSION

This chapter outlined the analysis of data obtained from the interviews and focus groups. All three sets of data were subjected to thematic content analysis in order to categorise the data into various themes based on the research questions, which enabled qualitative description. During data analysis, extensive verbatim quotations were used to contextualise the findings and to accurately reflect the subjects' perspectives. It was not the repetition or frequency of the responses that made them important, but the quality of the information they revealed. Solitary responses were equally important as those repeatedly expressed by a number of subjects as long as they enhanced the diversity and originality of the research. Most importantly, all three different sets of data corroborated one another, and in so doing, they validated the findings of the study. At the same time, the analysis and assessment of the empirical research findings were consistent with both the theoretical framework and the literature review. The summary of the findings and the recommendations of the study are provided in the next chapter.

## CHAPTER 7: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

### 7.1 INTRODUCTION

This chapter concludes the research. It starts by summarising the previous chapters and then after, it highlights the research objectives that guided the study. This exercise is aimed at integrating the entire study with the research findings. After this section, the summary of the research findings, the key conclusion on the findings, and the proposed framework by which the role of cooperatives in the socio-economic development of poor communities can be improved are given. At the end, the chapter provides a conclusion on the entire study.

### 7.2 SUMMARY OF THE STUDY

This research can be summarised as follows:

**Chapter 1:** The chapter introduces the research topic and the location on which the research was undertaken. The choice of Chris Hani District Municipality as the site of the investigation is justified. Besides that, the chapter also outlines the problem statement, the research objectives and the corresponding research questions that guided the investigation on the role of cooperatives in socio-economic development. In an effort to justify the necessity of the study, the chapter identifies the potential impact the study's proposed framework may have on cooperatives and also lists the various state institutions that may benefit from the research findings. As means to restrict and confine the scope of the research within the realm of the study's objectives, the types of cooperatives and the issues to be considered in the investigation are also specified in the chapter. More importantly, the chapter give details on the Systems theory, the theoretical framework by which the role of cooperatives in socio-economic development was analysed. In addition to the theoretical framework, the chapter also reveals the study's conceptual framework by defining the cooperatives and socio-economic development, the key concepts that underpinned the research.

**Chapter 2:** This chapter is purely a literature review, which analyses the related literature to link the research topic with the existing body of knowledge and situate the study within the larger knowledge pool.

The chapter provides a background on the historical development of cooperatives in South Africa. A brief history on the development of white and black cooperatives in the country is given. Apart from that, the chapter provides a general perspective on cooperatives by identifying their advantages as well as their disadvantages. Factors that impede the functionality of cooperatives in socio-economic developed are identified. The chapter also highlights the role of government in the development of cooperatives. This narrative was essential to guide the research and to influence the formulation of the proposed framework. At the end, the chapter sheds light on the future role of cooperatives in the development agenda. Cooperatives as a business model are still perceived as relevant in the socio-economic development of communities faced with poverty and unemployment.

**Chapter 3:** This chapter is also a literature review, but specifically focussed on cooperative development at international level. Experiences from countries in Europe, Americas, Asia, and Africa are explored. Countries from Europe were included in the discussion given the important role the continent played in the evolution of cooperatives worldwide. Given that cooperatives originated in that continent, the study could therefore not ignore the contribution made by Europe in cooperative development. The inclusion of Americas was motivated by the significant role they played in cooperative development, particularly in the evolution of New Generation Cooperatives. China and India were included in the study because the two countries, similar to South Africa, are the members to the BRICS, and also, both countries are predominantly rural just like South Africa. Because of these characteristic similarities, experiences from these two Asian countries were considered relevant for the South African rural development. Three countries from Africa, Kenya, Uganda and Ethiopia were also included in the discussion given the successful cooperative development in these countries. It was believed that lessons from these countries could be illuminating for the South African situation and would therefore accordingly contribute in the formulation of the framework this study proposed. The chapter made it clear that new forms of cooperation are emerging worldwide and cooperatives continue to be recognised as useful tools in the development of rural communities.

**Chapter 4:** This chapter also forms part of the literature review but it is dedicated for the analysis of the legislations the different governments in South Africa enacted in their efforts to develop cooperatives in the country.

The discussion analyses the legislation from the colonial era up to the present dispensation particularly that had an impact and contribution in cooperative development in the country. Although the post-apartheid legislation is regarded as widely inclusive and progressive compared to the colonial and apartheid laws, however, its implementation is still a challenge. Lethargic attitude and ineptitude from government officials has resulted in a number of relevant legislations remain unimplemented. This compromised the purpose and usefulness of the democratic laws. Effectively, there is not much change these laws have effected in the development and functionality of cooperatives in the country. There is still a much that the government has to do to ensure that the laws are implemented for the benefit of poor communities.

**Chapter 5:** The chapter precisely discusses the research methodology by which the research was conducted. It outlines the qualitative research approach and the interpretivist paradigm used to conduct the investigation. The choice of CHDM as the research site is explained and justified as well as the methods by which the sample of the study was assembled. The choice and use of both the interviews and focus groups as data collection methods is explained and motivated. In other words, the chapter explains why triangulation as a research method was used in the study. Besides that, the chapter describes and justifies the use of thematic content analysis as the method by which the collected data was analysed. At the end, the chapter narrates the ethical issues observed when the empirical investigation was conducted.

**Chapter 6:** The chapter specifically analyses the data and synthesise it with both the theoretical framework and the literature review. The thematic content analysis, the method by which data was sorted, arranged and packaged is explained. Data from the interviews and the focus groups is analysed and synchronised with relevant literature. Extensive verbatim quotations extracted from the data are provided in the text to contextualise the analysis. Four main themes, which are derived from the research objectives are used as a guiding framework by which the qualitative data was analysed. The analysis and the synthesis of data with literature review enabled the summation of the research findings and the formulation of the framework espoused in this last chapter.

However, before the summation of the findings, it is necessary that the research objectives of the study are highlighted to form a linkage with the research findings.

### **7.3 OBJECTIVES OF THE STUDY**

This study had been driven by the following four objectives:

- i. To establish the role played by cooperatives in the socio-economic development of poor communities in the CHDM;
- ii. To analyse the role of legislation in supporting the development of cooperatives;
- iii. To identify factors that inhibit the functionality of cooperatives in the district;
- iv. To propose recommendations that can improve the functionality and sustainability of cooperatives in the district.

### **7.4 SUMMARY OF THE FINDINGS**

In line with the objectives, the study primarily established that cooperatives indeed contribute to the socio-economic development of poor communities. Throughout the district, cooperatives are popularly used for job creation, income generation, food security, poverty reduction, crime prevention, and community empowerment. The socio-economic conditions of many households in the district improved ever since people participated in cooperative endeavours.

Apart from this positive finding, the study also established that the legislation that the government enacted to support cooperative development is poorly implemented. There is reluctance and limited commitment by state institutions to implement the legislation. None of the cooperative laws have been completely implemented. A number of relevant policies that are meant to support cooperative development have remained unimplemented despite the desperation of the cooperatives. The failure to implement legislation has largely contributed to their poor development and functionality. The practice has confined a number of cooperatives to destitution, particularly those that rely on government support for survival. Cooperatives are still faced with the same hardships these laws were meant to eradicate.

Furthermore, the study established that cooperatives in the district are debilitated by a number of factors that decreased their role in socio-economic development, to the extent that there is not a single cooperative in the district that emerged as the epitome of success. In other words, no success factors could be identified from the cooperatives in the district. Almost all the cooperatives in the district are faced with one or more of the following challenges, which hindered their profitability:

#### **7.4.1 Involuntary participation**

The study found that, contrary to the ICA (2013) cooperative principle that advocates the establishment of cooperatives by communities, the majority of cooperatives in the district were initiated by the government. The initiation of cooperatives by the state proved to be the most prominent cause of their poor performance. It resulted in the formation of cooperatives by people who had no passion or commitment for a business enterprise, but who were only interested in accessing state funds. The state's involvement in the initiation of cooperatives took away cooperative autonomy and obliterated the sense of ownership, innovation, and commitment from the members. People simply formed cooperatives to siphon state funds, and due to intense competition for the control of state resources, cooperatives were overwhelmed by conflict that aggravated their incapacitation. While the involvement of the state was meant to assist poor cooperatives to get off the ground, it is instead exploited by the communities for selfish interests and subsequently, it inadvertently generated a dependency syndrome within the sector. Every established cooperative expects to be provided with perennial state support. Members are unjustifiably hesitant to invest in their own cooperatives even when some of them are financially able to do so. Cooperatives are not operated as business enterprises, but as vehicles to access state funding. Effectively, the initiation of cooperatives by the state has entrenched a sense of entitlement. Members are unwilling to do anything for themselves and expect to receive everything from the government. This attitude adversely affects the functionality and effectiveness of cooperatives in socio-economic development to the extent that even though cooperatives are found in almost every community, their effect is not as phenomenal and robust as their numbers.

### **7.4.2 Lack of knowledge**

When the government initiates cooperatives, communities are not educated on the type of business they are introduced to. The government simply advises them to form and register cooperatives and thereafter provides them with funding. No basic education on the cooperative business model is offered to communities. In fact, when the concept was introduced, government officials were equally ill-informed about the model and therefore could not provide any effective education. The failure to educate communities led to cooperatives being characterised by ignorant members who do not understand the very business they operate. Members are oblivious that cooperatives are their own business enterprises and must be supported by their own capital. The lack of knowledge leads to the unwillingness of the members to invest in their own cooperatives as they incorrectly believe that the government is the provider for the needs of their enterprises.

### **7.4.3 Conflict**

Cooperatives are characterised by conflict because every member has an equal claim to ownership. This often leads to intense competition for the control of cooperative resources. This practice is rife in government-initiated cooperatives where members are less passionate about the cooperative endeavour and more interested in accessing state funds. Given the destructive nature of conflict, a number of cooperatives in the district were incapacitated and even those that initially looked viable were eventually overwhelmed.

### **7.4.4 Poor dissemination of information**

Certain cooperatives in the district have failed because they did not know about government support programmes. Poor distribution of government information has deprived these enterprises of services that could have improved their performance. This inefficiency has resulted in stunted and underdeveloped cooperatives that hardly play an effective role in socio-economic development. The practice equally affects cooperatives in both urban and remote rural areas.



#### **7.4.5 Lack of education**

Cooperative members' lack of education also contributes to their poor performance. The majority of cooperative members are old and illiterate, which has led to the dearth of critical skills needed to drive and sustain these enterprises. The lack of skills in the sector leads to poor business planning. Certain cooperatives in the district were established without a proper business plan and, as a result, they started with production even though they had not identified a market. Overall, the lack of education deprives the cooperatives of the necessary skills to operate as profitable and sustainable business enterprises, thus limiting their role in socio-economic development.

#### **7.4.6 Ineffective capacity building**

Most capacity-building programmes offered to cooperatives are ineffective. The training programmes are often inconsiderate of the old age and the low levels of education of the cooperative members. As a result, the training programmes offered are not necessarily effective in improving the performance of the cooperatives. Some training programmes usually require the members to have some form of basic education to comprehend the content. On its own, this requirement technically excludes illiterate members from attending the programmes, which then deprives them of the knowledge and skills that could benefit and improve the performance of their enterprises. Without educated and properly trained members, cooperatives are destined for underperformance. The off-site short training programmes that are offered to cooperatives are also hardly effective in improving their performance. The one- or two-week training programmes are too short and tightly packed in content for the old and illiterate members to comprehend. Members mostly emerge from these training programmes inadequately capacitated. Although cooperatives have been in numerous training workshops, there is little marked improvement in their performance. The incapacity is still rife even though training programmes continue to be provided.

#### **7.4.7 Youth apathy**

Youths are less interested in cooperatives as only a few of them are involved in cooperative activities. Their apathy worsens the lack of capacity and innovation in the sector. It is generally believed that their participation could assist in bringing in much-needed managerial, financial, and technical skills. Their involvement would presumably lessen the shortage of skilled personnel in the sector. Apart from providing the new knowledge required to revolutionise cooperatives, youth involvement would surely contribute to reducing the escalating unemployment.

#### **7.4.8 State grant system**

The state grants provided to cooperatives have not entirely achieved the intended objectives, but have instead created more problems than solutions. They inadvertently inculcate a dependency syndrome within the sector and make the cooperatives totally reliant on the government for everything. Cooperatives are unwilling to do anything on their own without assistance from the government. The tendency is so pervasive that it appears that members no longer treat cooperatives as their own businesses but as state enterprises. The grant system has virtually taken away the sense of ownership and commitment from the members.

Besides generating a dependency syndrome, the state grants are abused. Some government departments give funding directly to cooperatives without first establishing effective monitoring systems, and this omission has created leeway for the misappropriation of funds. After misappropriating the funds, the cooperative usually dissolves and re-emerges under a different name, perhaps with one or two new members to disguise itself. In the disguised form, it would again successfully apply for funding from another government department without being recognised that it was a repeat recipient. The repeat funding of the same enterprises deprives other deserving cooperatives the necessary resources. This effectively dooms unfunded cooperatives to a state of underperformance.

#### **7.4.9 Lack of monitoring and evaluation**

Lack of effective monitoring and evaluation of government programmes also contributes to the underdevelopment and the incapacity of cooperatives in the district. The government does not provide any significant monitoring and evaluation of the programmes offered to cooperatives. Monitoring is mainly performed for compliance purposes, and not the capacitation of the cooperatives. Funds disbursed to cooperatives are not properly monitored and training programmes offered are not subsequently evaluated to ensure effective implementation. Cooperatives are often left to their own devices without any form of guidance from the government. Monitoring is mainly provided to comply with budgetary obligations, which has not only contributed to the wastage and misuse of government resources, but also hindered the systematic nurturing of the cooperatives. Proper monitoring will ensure that cooperatives are meticulously supervised and guided to attain functional independence. Without monitoring and evaluation, cooperatives are condemned to a state of underperformance and denied the opportunity to progressively graduate into sustainable business enterprises.

#### **7.4.10 Government procurement processes**

Similarly, the lack of supportive government procurement processes contributes to the failure of cooperatives in the district. Procurement processes in state institutions are not supportive of cooperative enterprises. No preferential treatment is provided to cooperatives when government tenders are awarded. Cooperatives are forced to compete with established business enterprises, which disadvantages them given their limited capacity and weak financial muscle. Their predicament has also been worsened by the delay in the release of funds by state financing institutions after the cooperatives' applications for funding have been approved. It usually takes months for these institutions to release funds.

Given their precarious financial position, the delay in most cases prolongs cooperatives' destitution and negatively affects their functionality. Apart from the delay in the release of funds, financing institutions have a tendency to control cooperatives' procurement processes. This creates problems for the cooperatives because at times the products procured by the funders are of poor quality or incorrect specification.

Also, incompetent service providers are sometimes procured. This manipulation adversely affects the performance of cooperatives because it is often difficult to replace incorrect and poor-quality products or repair poor workmanship from inept service providers. While these products or equipment were initially procured to improve the functionality of cooperatives, at the end these enterprises are left worse off with a debt to service and unusable products or useless equipment for some time.

#### **7.4.11 Lack of collaboration**

There is no collaboration between state institutions that provide support to cooperatives. Although servicing the same clientele, various government institutions independently work in isolation from one another. This lack of collaboration results in the service provided being disintegrated, uncoordinated, and ineffective. The dispersion of support into various points creates inconvenience in service accessibility because cooperative members are compelled to move from one institution to another, usually distanced from each other. Services that are supposed to be easily accessible to cooperatives are difficult to access, which deprives them of the assistance that could improve their functionality.

#### **7.4.12 Lack of cooperation**

Lack of cooperation among cooperatives is another factor that contributes to their failure. There is no cooperation among the cooperatives and no cooperative movement has been established in the district. Most cooperatives are not affiliated with any secondary or tertiary cooperative organisation and operate as individual entities. Cooperatives in the district are not organised into unions or associations at district and local level. Their non-affiliation deprives them of the opportunity to learn from one another and to share experiences, knowledge, and skills. It also denies them the opportunity to benefit from economies of scale by buying together supplies, machinery, and equipment and transporting their produce to the markets. It also deprives them of the opportunity for skills transfer through mentoring and coaching. As a result, no effective mentoring or coaching takes place in the district. In other words, there is no other source of assistance for the cooperatives in the district except the government. Underperforming cooperatives will remain in that state until the government intervenes.

Lack of cooperation perpetuates the status quo of underperforming cooperatives and stunts growth in developing cooperatives as it denies them the opportunity of learning from one another.

#### **7.4.13 Lack of partnerships**

The lack of partnerships between cooperatives, the private sector, and NGOs also weakens the cooperatives in the district. The inability to form these linkages is the manifestation of the lack of cooperation and integration between cooperatives in the district. Given their inability to establish linkages among themselves, it is not easy for cooperatives to establish partnerships with other stakeholders. This shortcoming deprives them of the opportunity to learn and benefit from experienced, knowledgeable, and skilled private businesses that offer similar products or related services. Due to the lack of partnerships, cooperatives miss out on opportunities for information sharing, skills transfer, training, coaching, and mentoring, which could contribute to nurturing a vibrant cooperative sector in the district. Partnerships could obviously assist in building capacity and invigorating the sector with profitability.

#### **7.4.14 Lack of markets**

Lack of markets is one of the factors that generally distresses cooperatives in the district. Securing markets for their products is not only difficult, but hectic and erratic as well. The majority of cooperatives find it hard to secure regular markets for their produce and are therefore confined to local markets. Given their lack of business management skills and poor business planning, some cooperatives started with production even before they secured a market. This recklessness often results in wasteful expenditure as the produce would perish without ever reaching the market. Seemingly, cooperatives in the CHDM use ineffective marketing strategies and are in need of innovative, sophisticated, and revolutionary marketing strategies to explore and penetrate markets beyond their district.

#### **7.4.15 Political interference**

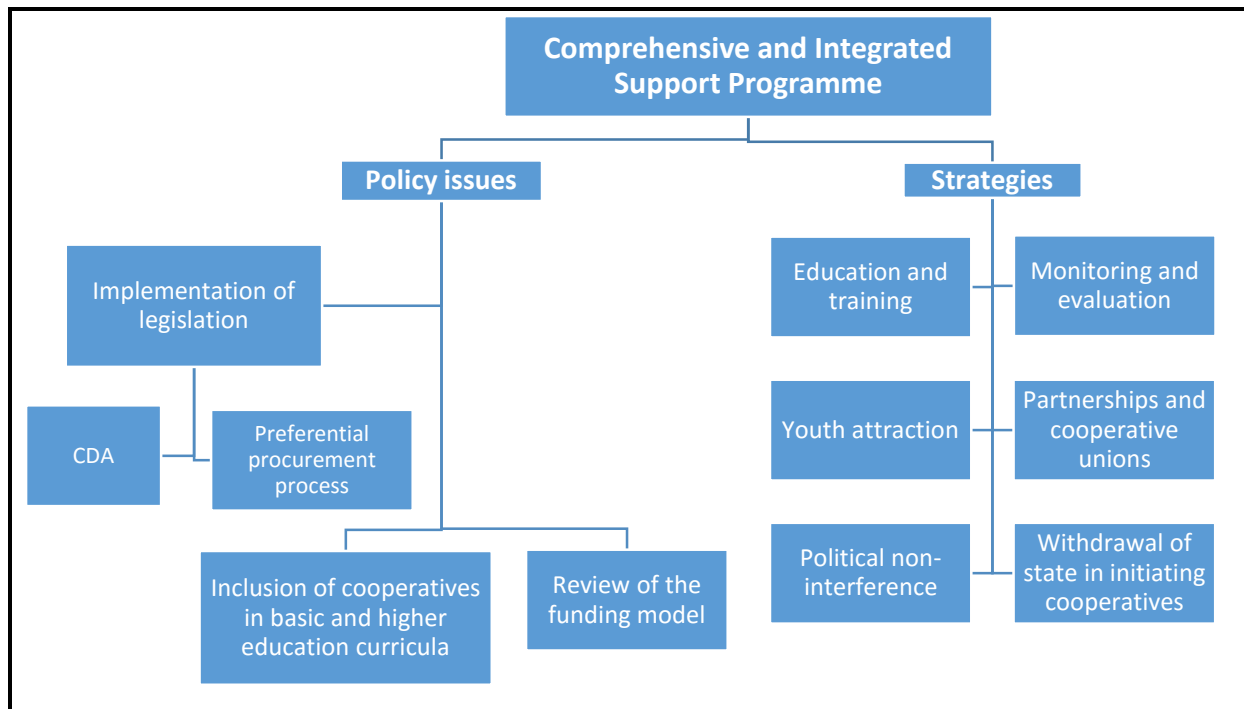
The interference of politicians in the operation of cooperatives is another factor that leads to their poor performance. Politicians, particularly municipal councillors, interfere with the management of cooperatives for political gain. Councillors often portray cooperatives as part of service delivery initiatives in their zeal for political expediency. This abuse negatively affects cooperatives as it creates tension between the members and the community. Ideally, cooperatives must remain apolitical given their diverse membership. The involvement of politicians turns cooperatives into political enterprises divided along political affiliations. Subsequently, cooperatives lose their identity, vision, and purpose and effectively become irrelevant to socio-economic development.

### **7.5 KEY CONCLUSION ON THE FINDINGS**

State support is key to enhance the role of cooperatives in the socio-economic development of poor communities. Cooperatives play an important role in the socio-economic development of communities in the district, but their effectiveness is weakened by poor state support. Poor implementation of cooperative legislation and uncoordinated state support have hindered their productivity. The direct involvement of the state in the initiation of cooperatives is equally unhelpful as it creates parasitic cooperatives that depend on the state for everything. Overall, the supportive role played by the government in developing cooperatives is not effective.

### **7.6 PROPOSED CONCEPTUAL FRAMEWORK**

Based on these findings, this study proposes a comprehensive and integrated support programme as the framework by which the support the states provides to cooperatives is improved to enhance their role in socio-economic development. The framework advocates a two-pronged approach in the provision of cooperative support. On one hand, the framework advances the policy changes that should be explored, while on the other hand, it suggests practical actions that can be implemented by state institutions to promote the functionality of cooperatives. Figure 7.1 on the next page depicts the proposed framework.



**Figure 7.1: Comprehensive and Integrated Support Programme Framework**

### 7.6.1 Policy Issues

The framework identifies three policy-related issues that must be addressed to enhance the functionality of cooperatives, namely implementation of cooperative legislation, review of the cooperative funding model, and the inclusion of cooperatives in basic and higher education curricula.

#### 7.6.1.1 *Implementation of cooperative legislation*

State support should be spearheaded by the implementation of cooperative legislation, particularly the Cooperative Amendment Act (No. 6 of 2013) and the Preferential Procurement Policy Framework Act (No. 5 of 2000). Proper implementation of these acts would eliminate many of the challenges besetting the sector and improve the profitability of the cooperatives as they provide for almost everything that is needed to develop them into a productive and sustainable business sector. Most importantly, the implementation of the Cooperative Amendment Act will drive the establishment of the CDA, while the Preferential Procurement Policy Framework Act will facilitate the marketing of cooperative products.

(a) *Establishment of Cooperative Development Agency (CDA) in the district*

Even though government provides a number of support services to cooperatives, their impact is ineffective because of disintegration and poor coordination between the state institutions that provide them. There is a clear and urgent need for a Cooperative Development Agency to coordinate and integrate the various state support programmes offered to cooperatives in the district. The research findings have established that there is no coordination and integration in the way state support is provided to cooperatives. Government institutions work in isolation from one another, with no collaboration between them. Cooperative support at the district level is dispersed to a number of government institutions, which results in ineffectiveness. This fragmented support provisioning is not only ineffective but uneconomical and unsustainable as well. It has led to the duplication of services and the wastage of resources, and created most of the inept cooperatives found in the district. The concentration of disparate government services and the pooling of resources under one roof would not only be frugal, but would also accelerate service delivery, improve the dissemination of information, eliminate the duplication of services, and prevent the wastage of resources.

Most importantly, CDA will also ensure that the services rendered are responsive and convenient to the needs of the cooperatives. Better-serviced cooperatives will presumably culminate in better performance. Lessons learned from China, Ethiopia, and Kenya have proved that the integration and coordination of cooperative support services at local government level have been instrumental in the success of cooperatives in these countries. Therefore, the establishment of a CDA in the district can extricate cooperatives from the state of ineffectiveness and eliminate some of the challenges that incapacitate them. In other words, a CDA can be the solution to many of the tribulations faced by cooperatives. To develop a functional cooperative sector, the government must establish a CDA in the district. This could not be a difficult task for CHDM given the existence of the CHCDC, which already provides some of the services a CDA should provide. Therefore, the CHCDC can simply be capacitated and strengthened into a fully-fledged CDA.



(b) *Implement preferential procurement processes*

The implementation of preferential procurement processes in favour of cooperatives by state institutions will not only alleviate the challenge of market access, but will also provide cooperatives with a platform to grow. There are a number of cooperatives that can do well if they can be provided with the opportunity to prove their worth. Giving business to these cooperatives will therefore contribute to their growth.

**7.6.1.2 *Review the funding model***

State financial support is indispensable to cooperative development, given that these organisations are largely formed by poor people, who effectively need financial assistance to get their enterprises off the ground. However, the research findings have revealed that the state grant system has been problematic. It failed to achieve its intended objectives, but instead inadvertently created a dependency syndrome within the cooperative sector. It breeds state-dependent cooperatives that completely rely on the government for everything and are unwilling to do anything on their own. Communities regard the grant system as a cash cow. Besides generating a dependency syndrome, the state grants are abused by cooperatives that have repeatedly accessed the grants while others have not benefited at all. This abuse has been assisted by government departments that directly give funding to cooperatives without first establishing effective monitoring systems. To eliminate these challenges, it is recommended that the funding model be reviewed and low-cost or zero-interest loans be introduced instead of grants. In the meantime, while the system is not yet overhauled, vigilant screening of grant applicants must be done to ensure that only viable enterprises with proper business plans are granted financial assistance. Physical site visits and other means of verification must be undertaken by funding institutions to establish the viability of the enterprises.

**7.6.1.3 *Incorporate cooperatives in basic and higher education curriculum***

The research findings indicate that the lack of knowledge on the purpose, basic principles, and values of cooperatives is rife in the district. The majority of members do not understand the cooperative business model, they think cooperatives are instruments to access state largesse, and this has resulted in the failure of these enterprises.

To eliminate this challenge and to promote the understanding of the cooperative business model by the majority of the population, it is recommended that the model is taught as a subject at schools and tertiary institutions. Cooperatives must therefore be incorporated into the country's education curricula for basic and higher education. Experiences from Kenya indicate that the provision of training programmes on cooperative business model at tertiary institutions have contributed to the success of the cooperatives in that country. Then, the inclusion of cooperatives in the curriculum will not only enhance community awareness about the model and promote a wider understanding of the concept by local communities, but will also eliminate misconceptions about the model and stimulate interest among the youth.

## **7.6.2 Strategies**

The framework suggests that the following practical strategies must be implemented to improve the productivity of cooperatives in socio-economic development.

### ***7.6.2.1 Discontinue the initiation of cooperatives by the state***

Most importantly, the involvement of the government in the initiation of cooperatives must be discouraged. The government should refrain from initiating cooperatives for the communities as this has created a dependency syndrome. Communities must be given the space to initiate their own cooperatives in their own ways. The government should rather focus on educating and training communities on how to initiate and operate their own cooperatives, and give them the necessary support to explore. The government must ensure that communities are informed of various government support programmes and are educated on how to access these programmes. The state institutions meant to provide state support such as SEFA, SEDA, ECDC, ECDRA, and others must go out to communities and educate them about the services they provide. As long as their services are unknown to the communities they serve, their existence is of no value to the socio-economic development of poor communities.

### **7.6.2.2 Improve capacity-building programmes**

Given the lack of skills and knowledge in most cooperatives, there is a desperate and urgent need for education and training. Cooperatives are characterised by a critical shortage in the business management and marketing skills needed to drive their enterprises to sustainable profitability. Existing cooperatives must therefore primarily be educated and trained on cooperative principles and business management, particularly in bookkeeping, record management, and marketing as the profitability of cooperatives largely hinge on these skills. The notion that cooperatives are business enterprises, not instruments to access state largesse, needs to be rigorously inculcated in the minds of cooperative members.

Capacity building must be central in the support programmes the government provides so that cooperatives are developed into functional business enterprises. The government institutions, such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA, must prioritise the capacitation of the cooperatives. Equally important, these organisations must move away from the habit of working in isolation from one another as it has resulted in insignificant and ineffective capacity-building programmes. Collaboration between these entities is critical and would yield greater impact. It would not only promote the pooling and integration of resources, but enhance the frugal and effective utilisation of resources as well. It is therefore important that collaboration between state entities and integration of services are urgently addressed through the establishment of a CDA.

The current approach to training and development has also allowed some cooperatives to be repetitively provided with training by different state entities a number of times, while others are neglected. The integration of training programmes under one roof will eliminate these duplications and ensure that all cooperatives receive the same treatment. Also, the theory-laden training programmes that are traditionally provided to cooperatives have not made much difference to the skills shortage. Even though members have been attending these programmes for some time, the lack of skills is still prevalent in cooperatives.

The off-site and away-from-home one- or two-week training programmes should be used sparingly, given the members' age and education levels. Preferably, on-site and practical-based training should be provided to afford members adequate time to master the content and to ensure the transfer of skills. Coaching and mentoring should constitute the larger part of the capacity-building programmes provided. A comprehensive and integrated training programme is urgently needed to address cooperatives' skills shortage.

#### ***7.6.2.3 Improve the monitoring and evaluation of support programmes***

The government must improve the monitoring and evaluation of the support programmes provided to cooperatives. The main challenge with the monitoring and evaluation of cooperative support is the tendency of state institutions to work in isolation. Collaboration between them could improve monitoring and evaluation as the resources would be pooled together for better utilisation. The establishment of a functional and well-funded CDA at district level could enhance effective monitoring and evaluation of support programmes.

#### ***7.6.2.4 Attract youths to cooperatives***

It is also critically important that youths are actively attracted to cooperatives to rejuvenate and modernise these enterprises. The government must explore strategies to entice youths to participate in cooperatives. To stimulate interest among the youth, government must explore the incorporation of cooperatives in the curriculum for basic and higher education. The introduction of courses or programmes at tertiary institutions particularly at the TVET colleges could generate interest in youth on the cooperative business model.

#### ***7.6.2.5 Promote cooperation between cooperatives***

To enhance their functionality, cooperatives must be encouraged and given the necessary support to form cooperative unions and associations both at local and district level. Government institutions that support cooperative development in the district such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA must assist in driving this initiative.

The formation of linkages among cooperatives will not only promote economies of scale, but will also enhance the sharing of information, knowledge, and resources within the sector. Most importantly, cooperation among cooperatives will also assist in the transfer of skills.

#### ***7.6.2.6 Establish partnerships with stakeholders***

The state must also facilitate the formation of partnerships between cooperatives, the private sector, and NGOs. Given the lack of capacity and skills within the cooperative sector, the formation of partnerships with other entities is critically important. These partnerships will assist in establishing market linkages and will contribute to skills transfer. There are already local and national organisations that are assisting cooperatives in the district with skills transfer, and these initiatives are already yielding significant benefits for the sector. The government must facilitate the exploration and initiation of similar partnerships with other stakeholders.

#### ***7.6.2.7 Discourage the interference of politicians in cooperatives***

The involvement of politicians in the operations of cooperatives must be discouraged. As long as the state is involved in the initiation of cooperatives, it will be difficult to discourage their involvement. Politicians will continue to obfuscate cooperatives with service delivery imperatives. Therefore, to discourage their interference, the state must first desist in its own involvement in the initiation of cooperatives. Once that is established, it will be difficult for politicians to intrude into the affairs of autonomous and community-initiated cooperatives.

### **7.7 LIMITATIONS OF THE STUDY**

During the empirical investigation, the following limitations were encountered:

#### **7.7.1 Re-demarcation of municipal boundaries**

The re-demarcation of municipal boundaries in 2016, a year after the study started, directly affected the research. The exercise reduced the number of local municipalities in the CHDM from eight to six, which had implications for the sample of the study.

Initially, the sample of the study was projected on the eight local municipalities that existed in the district in 2015. After re-demarcation, the sample had to be changed in accordance with the number of existing local municipalities. Subsequently, the sample was reduced from 335 to 254 as it was no longer based on eight local municipalities but six. One hundred and twenty cooperatives were to be recruited from the eight local municipalities, but 89 were finally recruited. Similarly, 200 community members were targeted for focus groups but only 151 participated. The interviews were the least affected. Almost all 15 state officials who were targeted for individual interviews participated, except for one who could not be interviewed because of political instability at her municipality.

### **7.7.2 Review of data collection methods**

The study initially intended to use interviews, questionnaires, and document analysis for data collection, but eventually only the interviews and focus groups were used. The questionnaires were abandoned after it was realised that they were unsuitable for the targeted sample and would not effectively provide the required information given the illiteracy of the subjects. Since it would have been difficult to administer the questionnaire to such an audience, focus groups emerged as the most appropriate method. The abandonment of the questionnaires negated the necessity of a pilot study since the interviews and focus groups were primarily in-depth interviews that used open-ended questions. Equally, no document analysis was performed due to poor record keeping and the reluctance of organisations to release information to strangers. No relevant documentation could be secured from the cooperatives and government institutions. Nevertheless, this inadequacy did not have any significant bearing on the quality of the findings since document analysis was only meant to be additional and supplementary to the other data-collection methods. The data obtained from the interviews and focus groups were sufficient to make meaningful findings.

### **7.7.3 Erratic public transport, poor roads, and the remoteness of the district**

The poor road network in the district and the remoteness of some rural areas in the district slightly affected the study. They prevented the researcher from accessing some of the communities that were targeted for inclusion in the study. Only cooperatives in areas that were accessible by ordinary vehicle were included in the investigation.

The erratic public transport system in the rural areas also made it impossible for certain cooperatives to attend focus group sessions, which were all conducted in municipal offices in town. Generally, these factors technically excluded the cooperatives in remotest areas from participating in the study. However, an attempt was made to cover the entire district and the cooperatives that failed to attend the focus groups were replaced with those from areas that were accessible. Their exclusion therefore did not in any way compromise the quality of the findings.

#### **7.7.4 Political and labour unrest in one research site**

Political and labour unrest at one local municipality in the district led to its exclusion from data collection. Interviews that were scheduled with officials from this municipality could not take place. This subsequently reduced the number of state officials who were interviewed from 15 to 14. However, this omission did not have a bearing on the quality of the findings as all other five local municipalities in the district participated in the data collection.

### **7.8 RECOMMENDATIONS FOR FURTHER RESEARCH**

During the empirical investigation, the following issues emerged, but could not be included in the findings given their inconclusiveness:

#### **7.8.1 Formalisation of informal traders**

The interviews revealed that informal traders in various towns in the district have disingenuously used cooperatives as a way to formalise their businesses. The traders deceptively registered their informal businesses as cooperatives in order to access government services. This deceit conveniently enabled them to access services and benefits they were not entitled to. This is an opportunistic act and a fraudulent way to access state support by local business people. In registering their businesses in this manner, the informal traders avoid paying the costs and taxes expected from conventional business enterprises. In this way, they abuse the state resources and exploit the services the government reserves for poor communities. Given the limited time and resources, the researcher was unable to establish the veracity of this claim.

It is therefore recommended that an investigation is conducted to establish the prevalence of the practice in the district and its effect on cooperative development.

### **7.8.2 Establishment of household cooperatives**

During the empirical investigation, it was noticed that there was a prevalence of household cooperatives in the district. Cooperatives should ideally be formed by people from different households, but it was noticed that people from the same household have formed cooperatives. The researcher was unable to determine the reasons behind this practice. The prevalence of this phenomenon in the district could also not be ascertained. More importantly, its effect on cooperative development could not be established. A proper investigation is recommended to shed light on this phenomenon.

### **7.8.3 Inadequate knowledge of state officials**

During the interviews, it was claimed that some government officials lacked proper understanding and knowledge of the cooperative form of business. This claim was associated with the poor performance of cooperatives in the district. The researcher was unable to determine the veracity and extent of this claim. An investigation in this regard would shed more light on the assertion.

### **7.8.4 Size of cooperatives**

The Cooperative Act (No. 14 of 2005) only stipulates the minimum number of people who can form a cooperative, but does not specify the maximum size of a cooperative (RSA, 2005:16). During the interviews, the huge sizes of cooperatives were blamed as one cause of their dysfunctionality. It was claimed that the huge sizes were making it difficult for cooperatives to be effectively managed. Although this argument sounded cogent, it could not be ascertained whether the sizes of the cooperatives were actually the problem. The literature is inundated with stories of large and successful cooperatives that dispel the notion that size is a problem.



Given that many cooperatives in the district were initiated by the government, huge sizes are likely to be problematic because the majority of members may not have a passion for the cooperative, but are only interested in pillaging state resources. In that case, contestations for looting would be more intense in huge cooperatives than in small enterprises. Ideally, huge numbers can be an advantage and a source of strength for a cooperative as it could increase the bargaining power and economies of scale. Given the lack of clarity on the advantage or disadvantage of huge cooperative sizes, further research is recommended to verify whether this aspect is indeed the cause of poor performance in cooperatives.

## **7.9 CONCLUSION**

Despite the challenges faced by the cooperatives, they remain a relevant tool in facilitating the socio-economic development of poor communities. Experiences from other countries have shown that, with proper state support, cooperatives can be useful in improving the conditions in poor communities. Although the South African government has incorporated cooperatives in major development frameworks, but paradoxically, the state has been lethargic in implementing the laws meant to support cooperative development. Poor implementation of cooperative legislation by state institutions has worsened the situation for most cooperatives in poor communities.

Whilst the study was conducted in Chris Hani District Municipality, its findings may be equally relevant to other regions in the country. The framework that the study proposes could be useful to other municipalities in the country. In fact, all the different spheres of government involved in cooperative development irrespective of their location, could benefit from these findings. Clearly, state support is the most critical aspect in the development and sustainability of cooperatives. Most of the factors identified in the study that debilitated the functionality of cooperatives are associated with the inadequacy of state support. Therefore, if government is committed in utilising cooperatives as the driver in stimulating rural development, they must address the inefficiencies in state support. The disintegrated state support and the direct involvement of state officials in the initiation and operation of cooperatives remain the major culprits in the poor state of many cooperatives.

Although it is not a panacea, the framework proposed by this research can go a long way in alleviating some of the challenges faced by the cooperatives, and therefore contributes in the revival of the sector. In that way, the proposed conceptual framework contributes in the generation of knowledge and possibly influences practice in the field of public and development management.

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## **APPENDICES**

### **Appendix 1: Interview Schedule**

#### **RESEARCH TOPIC: A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT MUNICIPALITY**

##### **SECTION A: ESTABLISHMENT OF COOPERATIVES**

1. Do you have a database of cooperatives in the district? If yes, how was it formed?
2. In your own view, what are the reasons leading to the establishment of cooperatives in the district?
3. Is your organisation involved in the initiation of cooperatives?
4. Do you think the government should be involved in the initiation of cooperatives by communities?

##### **SECTION B: FUNCTIONALITY AND SUSTAINABILITY OF COOPERATIVES**

1. Which cooperatives are most successful in the area?
2. What factors do you think account for this success?
3. Are the cooperatives making an impact on reducing poverty and unemployment in the district?
4. How would you improve the performance and sustainability of cooperatives in the district?
5. What is your overall opinion on the role of cooperatives in improving the conditions of poor communities?

##### **SECTION C: CHALLENGES FACING COOPERATIVES**

1. Which factors generally impede the performance of cooperatives in the district?
2. How can the impact of these factors be lessened?
3. What other issues relating to cooperatives do you think need attention?

## **SECTION D: SUPPORT TO COOPERATIVES**

1. Which cooperatives do you support?
2. What kind of support do you provide to cooperatives?
3. How do you monitor and evaluate the support given?
4. What criteria do you use in granting support to cooperatives?
5. How effective is your support in developing the cooperatives?
6. What challenges have you encountered with regard to the provision of support to cooperatives?
7. Do you have a policy that drives the provision of support to cooperatives?
8. Does your procurement processes support local cooperatives? If yes, how?
9. Do you collaborate with other departments, entities, or organisations that support the development of cooperatives in the district?
10. What else could be done to improve the support to cooperatives?

**END**

## **Appendix 2: Cooperative Focus Group Guide**

### **RESEARCH TOPIC: A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT MUNICIPALITY**

#### **SECTION A: ESTABLISHMENT OF COOPERATIVES**

1. What are the reasons that led you to establish cooperatives?
2. Why do you think cooperatives are important?
3. Is the government involved in the initiation of cooperatives?

#### **SECTION B: FUNCTIONALITY AND SUSTAINABILITY OF COOPERATIVES**

1. Which factors do you think account for the success of cooperatives?
2. Which factors are affecting the performance of cooperatives?
3. How can these challenges be reduced?
4. Do cooperatives make an impact on reducing poverty and unemployment in your community?
5. What could be done to improve the performance and sustainability of the cooperatives?

#### **SECTION C: SUPPORT TO COOPERATIVES**

1. What kind of support do you receive from the government?
2. How does the government monitor the support they provide to you?
3. How effective is this support in developing your cooperatives?
4. What challenges have you encountered with the support the government provides to your cooperatives?
5. Do you collaborate with other cooperatives in your area or district?
6. How can the support provided to cooperatives be improved?
7. Are the youth part of the cooperatives?

**END**

### **Appendix 3: Community Focus Group Guide**

#### **RESEARCH TOPIC: A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT MUNICIPALITY**

1. Do you belong to or participate in a cooperative?
2. What products or services do cooperatives provide to the community?
3. How effective are the cooperatives in providing the service or products?
4. How do you benefit from the cooperatives in the community?
5. How long have you benefitted from the cooperatives?
6. What challenges have you encountered with the services provided by the cooperatives?
7. How can these challenges be resolved?

**END**

## Appendix 4: Letter Requesting Permission to Conduct Research



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38 Makinana Road  
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20 June 2017

The Municipal Manager  
Chris Hani District Municipality  
P.O. Box 7121  
Queenstown  
5320

**Dear Sir**

### **REQUEST FOR PERMISSION TO CONDUCT RESEARCH AT YOUR INSTITUTION**

I am a registered PhD student in the Faculty of Military Science in the School for Defence Organisation and Resource Management at the University of Stellenbosch. My supervisor is Dr Ishmael Theletsane and the topic for my study is: “**A Critical Analysis of the Role of Cooperatives in Enhancing Socio-Economic Development in Chris Hani District Municipality**”. The main objective of the study is to establish the role that cooperatives play in the socio-economic development of poor communities in the Chris Hani District Municipality.

The study entails interviewing officials in your organisation, and holding focus group sessions with cooperatives in the area and the surrounding communities. I therefore request your consent to conduct such interviews with some of your officials particularly those that are working with cooperatives, and a permission to access your database of cooperatives in the district. Moreover, I wish to seek your organisation’s assistance in accessing, contacting and interacting with cooperative enterprises and communities



in your area of jurisdiction. To assist you in reaching a decision, I have attached a letter from my supervisor, Dr K.I. Theletsane.

Should you require any further information, please do not hesitate to contact me at 0734908438 or [gotyi69@gmail.com](mailto:gotyi69@gmail.com) or my supervisor at 083 704 4824 or [Ishmael@ma2.sun.ac.za](mailto:Ishmael@ma2.sun.ac.za). Upon completion of the study, I undertake to provide you with a bound copy of the dissertation.

Your permission to conduct this study will be greatly appreciated.

Yours sincerely,

**Zamikhaya Gladwell Gotyi**

## Appendix 5: Supporting Letter from the Supervisor



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7395

11 June 2017

**TO WHOM IT MAY CONCERN**

**RE: REQUEST FOR PERMISSION FOR MR ZAMIKHAYA GLADWELL GOTYI TO CONDUCT RESEARCH AT YOUR INSTITUTION**

1. Mr. Z.G. Gotyi is a registered student in the Faculty of Military Science of Stellenbosch University for a PhD in Public and Development Management. As part of his studies, the candidate is expected to conduct empirical research at your institution as his unit of analysis. The research will be conducted within the ethical principles of the Stellenbosch University.
2. This research will be beneficial to your organisation and the candidate will make the results available to your organisation on request.
3. As his supervisor, I therefore request permission for Mr Gotyi to conduct research within your organisation.
4. Hoping that my request will receive your favourable consideration. For any query, please do not hesitate to contact me.

Yours Faithfully

**(K.I. THELETSANE)**

**CHAIR SCHOOL FOR DEFENCE ORGANISATION AND RESOURCE  
MANAGEMENT: CDR (DR)**

## Appendix 6: Permission Letter from the CHCDC



The Co-operative House  
22 Cathcart Road  
Queenstown, 5320  
Tel. 045 838 8086  
Facsimile 086 6116718  
[www.chrishanicdc.org/za](http://www.chrishanicdc.org/za)  
Reg. No. 2012/039885/08  
Vat No. 4890263322  
PBO No. 930049759

13 July 2017

Mr Z G Gotyi  
38 Makinana Street  
BISHO

Dear Sir

### RE- REQUEST FOR PERMISSION TO CONDUCT RESEARCH AT OUR INSTITUTION

We acknowledge receipt of your letter dated 20 June 2017, and wish to advise that your request for permission to conduct research for your topic of study "A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING SOCIO-ECONOMIC DEVELOPMENT IN CHRIS HANI DISTRICT MUNICIPALITY "at our institution is hereby granted as requested.

We are also willing to assist you in contacting the cooperatives in the Chris Hani District that are in our database.

Hope you will find the above in order

Yours Sincerely

A A Hala

EXECUTIVE DIRECTOR

Board of Directors | Luthando Jack-Chairperson | Abongile Hala-Executive Director and Head |  
Siyabulela Tsholo | Mphuthumi Manqina | Funeka Shumani | Mbulelo Hanjana

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## Appendix 7: Permission Letter from the CHDM



**CHRIS HANI**  
DISTRICT MUNICIPALITY  
SUSTAINING GROWTH  
THROUGH OUR PEOPLE

*Municipal Managers Office*

TEL: 045- 808 4621  
FAX: 045 -838 3346  
Email: [rhall@chrishanidm.gov.za](mailto:rhall@chrishanidm.gov.za)

PRIVATE BAG X 7121  
QUEENSTOWN, 5320

Enq: R. Hall

24 July 2017

Zamikhaya Gladwell Gotyi  
c/o Stellenbosch University  
Faculty of Military Science  
Private Bag X2  
Saldanha  
7395

Dear Sir/Madam,

**Re: REQUEST FOR PERMISSION TO CONDUCT RESEARCH**

I refer to the abovementioned subject and your request dated 01 July 2017.

Please be advised that your request to conduct research in the field of Public and Development Management has been approved.

You may contact our Human Resources Section for any assistance that you may require. We wish you the best of luck in your endeavour.

Kind regards,

Mr M.A. Mene  
Municipal Manager



## Appendix 8: Ethical Clearance



### NOTICE OF APPROVAL

#### REC Humanities New Application Form

27 October 2017

Project number: REC-2017-0180

Project Title: A Critical Analysis of the Role of Cooperatives in enhancing the Socio-Economic Development of Chris Hani District Municipality

Dear Mr Zamikhaya Gotyi

Your REC Humanities New Application Form submitted on 1 September 2017 was reviewed and approved by the REC: Humanities.

Please note the following about your approved submission:

**Ethics approval period: 27 October 2017 - 26 October 2020**

Please take note of the General Investigator Responsibilities attached to this letter. You may commence with your research after complying fully with these guidelines.

**If the researcher deviates in any way from the proposal approved by the REC: Humanities, the researcher must notify the REC of these changes.**

Please use your SU project number (REC-2017-0180) on any documents or correspondence with the REC concerning your project.

Please note that the REC has the prerogative and authority to ask further questions, seek additional information, require further modifications, or monitor the conduct of your research and the consent process.

#### FOR CONTINUATION OF PROJECTS AFTER REC APPROVAL PERIOD

Please note that a progress report should be submitted to the Research Ethics Committee: Humanities before the approval period has expired if a continuation of ethics approval is required. The Committee will then consider the continuation of the project for a further year (if necessary)

#### Included Documents:

Document Type	File Name	Date	Version
Informed Consent Form	Consent Form 2	08/06/2017	Word document
Data collection tool	INTERVIEW SCHEDULE (Ethics Clearance)	08/06/2017	Word document
Research Protocol/Proposal	Research Proposal for Ethics Clearance	08/06/2017	Word document
Data collection tool	FOCUS GROUP GUIDE	29/08/2017	PDF
Request for permission	ACCESS-LETTER- Chris Hani DM	29/08/2017	PDF
Request for permission	Chris Hani DM	29/08/2017	
Request for permission	DEDEAT	30/08/2017	
Request for permission	SEDA	30/08/2017	PDF
Request for permission	Emabblersi	30/08/2017	PDF
Request for permission	Engrobo LM	30/08/2017	
Request for permission	Intsika Yethu LM	30/08/2017	
Request for permission	Imvaba Yethemba	30/08/2017	
Request for permission	Sakhisizwe LM	30/08/2017	PDF
Default	Letter to REC	30/08/2017	
Request for permission	CHCDC letter	30/08/2017	

If you have any questions or need further help, please contact the REC office at [cgraham@sun.ac.za](mailto:cgraham@sun.ac.za).

## Appendix 9: Cover Letter and Consent Form

### STELLENBOSCH UNIVERSITY CONSENT TO PARTICIPATE IN RESEARCH

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**TITLE OF THE RESEARCH PROJECT: A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT MUNICIPALITY**

**REFERENCE NUMBER: MIL-2017-0180-122**

**RESEARCHER: ZAMIKHAYA GLADWELL GOTYI**

**ADDRESS: STELLENBOSCH UNIVERSITY  
FACULTY OF MILITARY SCIENCE  
DEPARTMENT OF PUBLIC AND DEVELOPMENT MANAGEMENT  
SALDANHA**

**CONTACT NUMBER: 0734908438**

**EMAIL ADDRESS: gotyi69@gmail.com**

Dear Sir/Madam

My name is Zamikhaya Gladwell Gotyi and I am a researcher attached to the Department of Public and Development Management in the Faculty of Military Science at Stellenbosch University. I would like to invite you to participate in a research project entitled **“A Critical Analysis of the Role of Cooperatives in Enhancing the Socio-Economic Development of Chris Hani District Municipality”**.

This study has been approved by the Humanities Research Ethics Committee (HREC) at Stellenbosch University and is conducted according to accepted and applicable national and international ethical guidelines and principles. The study is undertaken to fulfil the requirements for a **Doctor of Philosophy degree**. Your cooperative was

randomly selected as a possible participant in this study from the list of cooperatives in Chris Hani Cooperative Development Centre.

The purpose of study is to collect data that can be used in developing a framework by which cooperatives in Chris Hani District Municipality can be supported to enhance their role in improving the socio-economic conditions of poor communities. Your participation in this interview is entirely voluntary and you are free to decline to participate. If you say no, this will not affect you negatively in any way whatsoever. You are also free to withdraw from the study at any time you wish without any consequences, even if you have agreed to take part. There are no risks whatsoever that you will be exposed to during the study.

More importantly, there are no immediate benefits or financial reward that will be offered to you. You may also refuse to answer any questions you don't want to answer and still remain in the study. However, the researcher has the right to withdraw you from this research if circumstances arise that warrant doing so. Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission or as required by law. Confidentiality will be maintained by means of assigning symbols such as A, B, C, as names of the participants and the cooperatives they represent will not be mentioned in the research report or any other publication. Data from this interview will be strictly kept safe on my personal computer, which is only accessed through a security code. No unauthorised person will have access to this data except myself, my supervisor, the transcriber/translator, the data analyst, and the statistician. Besides these persons, no other party or person or institution will have an access to the collected data. No unauthorised person will have access to this information except the researcher, the transcriber, and the supervisor. If you have any questions or concerns about the research, please feel free to contact me at **0734908438** or my research supervisor, **Dr. K.I. Theletsane at (022) 702 3135.**

**RIGHTS OF RESEARCH PARTICIPANTS:** You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research study. If you have questions regarding your rights as a research subject, contact Ms Maléne Fouché [mfouche@sun.ac.za; 021 808 4622] at the Division for Research Development.

You have right to receive a copy of the Information and Consent form.

**If you are willing to participate in this interview, please sign the attached Declaration of Consent and hand it back to the principal investigator.**

Yours sincerely

Zamikhaya Gladwell Gotyi

Principal Investigator



## DECLARATION BY THE PARTICIPANT

By signing below, I .....agree to take part in a research study entitled **A CRITICAL ANALYSIS OF THE ROLE OF COOPERATIVES IN ENHANCING THE SOCIO-ECONOMIC DEVELOPMENT OF CHRIS HANI DISTRICT MUNICIPALITY** conducted by **ZAMIKHAYA GLADWELL GOTYI**.

### I declare that:

- I have read the attached information leaflet and it is written in a language in which I am fluent and comfortable.
- I have had a chance to ask questions and all my questions have been adequately answered.
- I understand that taking part in this study is **voluntary** and I have not been pressured to take part.
- I may choose to leave the study at any time and will not be penalised or prejudiced in any way.
- I may be asked to leave the study before it has finished, if the researcher feels it is in my best interest, or if I do not follow the study plan, as agreed to.
- All issues related to privacy and the confidentiality and use of the information I provide have been explained to my satisfaction.

Signed at ..... on ..... 2018.

.....  
**Signature of the participant**

**SIGNATURE OF INVESTIGATOR**

I declare that I explained the information given in this document to \_\_\_\_\_ [name of the participant]. [He/she] was encouraged and given ample time to ask me any questions. This conversation was conducted in English / Xhosa.

\_\_\_\_\_  
**Signature of Investigator**

\_\_\_\_\_  
**Date**