

# COOPs

International Cooperative Experiences and  
Lessons for the Eastern Cape Cooperative  
Development Strategy:  
A Literature Review

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## **FOREWORD**

In 2008 the Eastern Cape Socio Economic Consultative Council (ECSECC) assisted the Department of Economic Development and Environmental Affairs with the drafting of a Cooperative Development Strategy for the Eastern Cape. It was important for ECSECC that this strategy was informed by the myriad of international experiences of cooperative development - both positive and negative. The concern of ECSECC in developing a strategy for the province, was that an environment for cooperatives should be created and supported by provincial government, without undue government intervention and interference in the affairs of cooperatives themselves. We also wanted to guard against the mushrooming of entities masquerading as cooperatives only in order to access state funds.

It was hoped that the provincial strategy would be informed by an understanding of the critical factors for success or failure of cooperatives in specific socio-economic circumstances. It was thus decided to commission the Cooperative and Policy Alternative Centre (COPAC) to write a working paper that provided ECSECC, DEDEA and other institutions involved in the strategy drafting process, with a snapshot of international experiences, case studies and lessons the Eastern Cape provincial government should learn from these, when developing and implementing its cooperative development programme.

This paper thus has two parts. Part one first presents the current state of the South African cooperatives movement. It then sets out some broad international experiences from Africa and Latin America as well as more detailed case studies from Ethiopia, Kenya, Brazil and South Africa. Part two discusses lessons for the Eastern Cape, and indeed for any government or non-governmental institution involved in support to cooperatives. There is a particular emphasis on the role of the state.

## 1. INTRODUCTION

This working paper concerns itself with what the Eastern Cape Province and South Africa as a whole can learn from global cooperative experiences and thereby avoid policy and implementation pitfalls. The working paper seeks to draw appropriate lessons from global cooperative experiences as a contribution to local discussions and policy processes. The paper extracts relevant experiences from the many and varied experiences of cooperatives across the world. This will help provide, and analyse, relevant lessons from global experiences on the development of cooperatives. Important is a discussion of the role of the state in cooperative development, including the question of the relationship between the state and cooperatives. For the Eastern Cape in particular, how is democratic control of the potential institutions, funds and agencies, to be ensured, as they are promoted by the state?

This working paper draws from experiences with cooperatives in post-colonial Africa and South America. Where necessary, the paper also refers to relevant experiences from elsewhere. The paper focuses on the role of the state in supporting cooperative development in general and with specific reference to challenges facing the nascent cooperative movements in South Africa. It considers critical factors for success or failure in specific socio-economic circumstances. as, Given the unemployment crisis in South Africa, it also looks at worker cooperatives. It then looks at issues in the mobilisation of finance for the development of cooperatives. This discussion concludes with a focus on appropriate lessons from the global and national experiences for cooperatives in the Eastern Cape.

The need for successful case studies cannot be over-emphasised. Many cooperatives are survivalist and many fail for a variety of reasons discussed below. This may create a negative attitude to, and perceptions of, cooperatives which may defeat the cooperative strategy in the long-term. There is thus a need to focus on building models of cooperatives as successful and efficient enterprises.

The working paper was developed through desk-top research. The main sources of information for the desk-top study were available literature, relevant legislation and policy documents. In this regard, COPAC has done extensive research and support work in South Africa from which this working paper draws extensively.

## PART 1:

# INTERNATIONAL COOPERATIVE EXPERIENCES AND CASE STUDIES

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## 2. COOPERATIVES IN SOUTH AFRICA: AN OVERVIEW

### *2.1 Historical overview*

The history of the cooperative development in South Africa is linked to, and was shaped by the history of colonial and apartheid planning and organisation in society and the economy. The 1886 discovery of the biggest gold deposits in the world on the Rand led to a quickly growing urban population. This created a huge market for agricultural produce. The first cooperative formally established was the Pietermaritzburg Consumers Cooperative, registered in 1892 under the then Companies Act. Then followed the National Cooperative Dairies Limited in the early 1900s (Van Niekerk, 1998). There was no legal framework at this stage dedicated to cooperatives (NEDLAC, 2008).

During the apartheid era, white farmer cooperatives were used as important instruments of agricultural commercialisation and successful rural development. Amin and Bernstein (1995) show that at their peak (in the 1980s), the 250 or so white agricultural cooperatives had a membership of 142,000, total assets of some R12.7 billion, total turnover of some R22.5 billion, and annual pre-tax profits of more than R500 million. In addition, agricultural cooperatives handled all exports of citrus and deciduous fruit, handled and processed the entire wool clip, and marketed 90% of the dried fruit. On the input side, they provided and financed 90% of the fertiliser, 85% of the fuel, 65% of the chemicals, and a significant proportion of the machinery and implements used by white farmers. They also provided 25% of credit used by white farmers (Amin and Bernstein, 1995).

The success of today's commercial agriculture was built on a century of state support, state-controlled and regulated marketing, subsidies and incentives which went together with land dispossession and the exploitation of, and social control over, cheap black labour. Cooperatives were central in this system. Notwithstanding the problems and inefficiencies of apartheid-era agricultural policy and its related systems, the relatively successful experience of white agricultural cooperatives testifies to the importance of the state in creating an environment conducive for the development of cooperatives. This system ended with the demise of apartheid in 1994 and the new legal framework which liberalised and deregulated agricultural marketing, land reform and other aspects of agricultural policy.

Other forms of cooperative survival activity have long been a feature among pre-colonial Southern African societies. Organised development of modern cooperatives also took root in black communities in the aftermath of mining-led industrialisation and urbanisation. The urban and rural poor have sustained various hybrids of cooperative-type savings entities: stokvels, burial societies and savings clubs. It is possible that their savings amount to billions of rands each year, but the strategic control and use of these resources is not in the hands of the members of these cooperative initiatives.

In response to widespread retrenchments as the crisis of the apartheid economy deepened, the trade union movement, after 1980, played a key role in promoting the concept of producer cooperatives as part of the anti-apartheid struggle. Such cooperatives were often established without much critical examination of the success or failure record of cooperatives in developing countries, or of the real capacity of cooperatives to deliver fundamental changes in the lives of members (Philip, 1997). A few NGOs emerged to provide support services, an example of which was the National Union of Mineworkers (NUM) which assisted in the establishment, between 1988 and 1992, of 30 cooperatives in the Eastern Cape, Lesotho, Swaziland, Northern Province and Mpumalanga. Amongst these were agricultural production cooperatives, a t-shirt printing cooperative, a diamond mining cooperative, an artisan stone cutting cooperative and block production and building construction cooperatives. By 1997, only five of these cooperatives still survived with most of them self-financing, viable economic entities, fully self-managed, and with financial reserves that boded well for their long-term sustainability (Philip, 1997). Philip further maintains that the success of these survivors was built on a base of significant initial input in terms of both capital and technical support services mobilised with the support of the NUM. (Philip, 1997)

Cooperatives had been regulated by a single Act since 1922 (Theron, 2005). The Act was amended on several occasions in line with the needs and demands of commercial agriculture which partly depended on marketing and supply cooperatives for its growth and development. The 1981 Act provided for three kinds of cooperatives to be formed and incorporated under the Act; agricultural cooperatives, special farmers' cooperatives and trading cooperatives. All operated only in the agricultural sector and the Act was administered by the Department of Agriculture. The definitions of this Act also made it clear that the kinds of cooperatives envisaged were those engaged in the marketing of agricultural products or the provision of inputs to farmers rather than diverse cooperative forms. Agricultural cooperatives were comprehensively defined in the Act and any cooperative that did not qualify in terms of this definition was regarded as a trading cooperative (Theron, 2005). According to Theron the 1981 Act was not underpinned by any formal policy.

## **2.2 The post-apartheid policy and legislative framework**

The review of the Cooperatives Act of 1981 began in 2000 and resulted in the new Cooperatives Act of 2005 which incorporated lessons learned from cooperative development during the apartheid era and the much more diverse needs of the growing number of post-apartheid cooperatives. Drafted in consultation with the ILO, the new Act conformed to the ILO Recommendation 193 adopted in 2002 (Theron, 2005). The new Act broke from the narrow agricultural and marketing focus of the 1981 Act. It was also informed by international standards and universal principles defining cooperatives as adopted by the International Cooperative Alliance (ICA) "Statement of Identity" and the ILO Recommendation 193 (NEDLAC, 2008)<sup>1</sup>.

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<sup>1</sup> The ICA is the international federation representing cooperatives. It comprises national cooperative movements and sectoral bodies, e.g. worker, savings and credit, housing, etc. The ICA membership counts upwards of more than a billion people globally. This is reflected in the 227 member organisations from 91 countries constituting the ICA.

In its early versions, the new Act contained problems and lacked a policy framework: It provided for a hybrid model of cooperatives and companies. There was lack of clarity about the financing mechanism for cooperatives, while the Act was also biased towards promoting cooperatives to other legal entities (NEDLAC, 2008). Meanwhile, many voices in the cooperative sector argued for a conceptual and policy separation between cooperatives and SMMEs and for the establishment of a Ministry of Cooperatives (NEDLAC, 2008).

The Cooperative Development Policy adopted in 2003 by government provides a much clearer framework for the new Cooperatives Act. The policy sets out government's vision on the development of cooperatives, defines the role of cooperatives in development, affirms the international identity of cooperatives and defines the policy approach, roles and responsibilities of government to achieve the objectives of the Policy.

Flowing from this policy, the new Cooperatives Act provided for definitions, scope, registration, membership, general meetings, management, capital structure, audits, restructuring, winding up, judicial management, administration, miscellaneous matters and transitional arrangements. The Act contained special provisions for housing cooperatives, worker cooperatives, financial services cooperatives and agricultural cooperatives. The social dialogue process agreed that financial cooperatives would also have to register in terms of, and comply with, separate legislation dedicated to financial cooperatives (Theron, 2005) The Cooperative Banks Act was finally passed in 2007.

The new policy and legislative framework has been criticised for not going far enough in creating the conditions for cooperatives to emerge as a distinct 'third sector' in the South African economy. There are queries relating to resources and the policy support capacity needed to address the structural imbalances that could hinder and undermine the emergence of cooperative based production and consumption (COPAC, 2008a).

–There are gaps at the level of policy, strategy, capacity and implementation of systems to support cooperatives. Furthermore, if the cooperative movement starts building systematically from below on a sectoral basis then the evolving legal framework will have to be guided by these voices. For instance, it is becoming increasingly important to develop dedicated worker cooperative legislation to prevent abuse and also to encourage the movement to organise itself more systematically. Abuse of the worker cooperatives relates to anecdotes about how groups come together and declare to be a worker cooperative without following basic values and principles of such a structure and then often practise self-exploitation and undemocratic control. There have also been reports of labour brokers misleading their contract workers by allowing them to believe that they are joining a cooperative for the purposes of securing preferential contracts.

### **2.3 The state of the cooperative sector in South Africa**

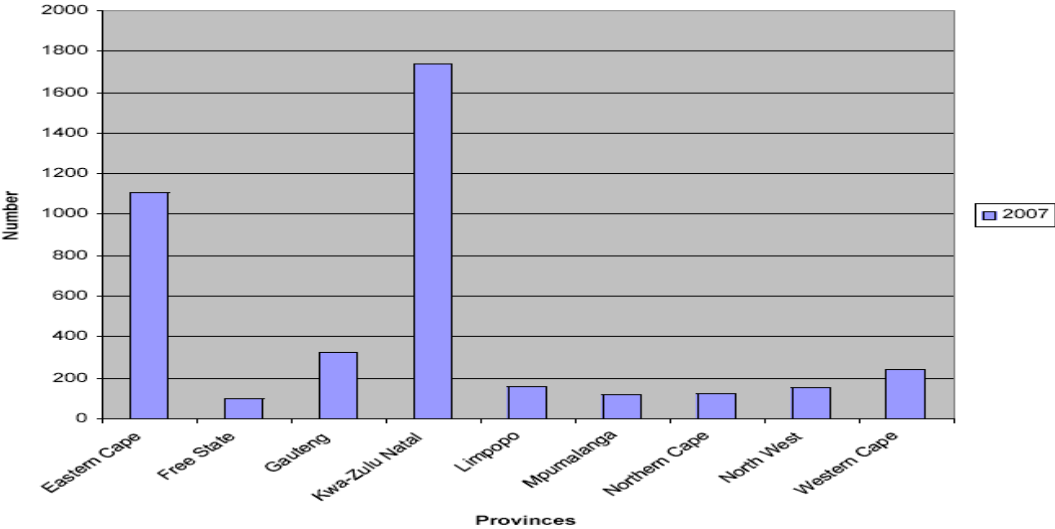
A baseline study surveying 684 South African cooperatives and published in 2001 by the National Cooperative Association of South Africa (NCASA) estimates a total of 60 000 participants in South African cooperative enterprises. Economically, the cooperative movement is still small. Mayson & Wetlhi (2004) noted that about 90% of members of NCASA are agricultural cooperatives. It is



estimated the aggregate turnover of the 654 cooperatives is R1,3 billion. However, if the largely white agricultural marketing and supply cooperatives are excluded, this figure falls to a R84 million. Even though more than 5 years old, the NCASA study's conclusion that in comparative economic terms (volumes and financial flows) the cooperative movement is still small is still valid. There has been no other baseline study of South African cooperatives since this 2001 NCASA study. As such, there is no reliable data and information available about the impact that cooperatives have on local economic development, job creation, skills development, and other indices of human development. Even more difficult to collate, ascertain and analyse is both quantitative and qualitative evidence and information on the identity, cultures, systems, languages and the image of cooperatives, their structures and movements.

Official statistical data on South African cooperatives is no longer kept by the Department of Agriculture but by the Registrar of Cooperatives, located in the Department of Trade and Industry. There are two sets of data available to the public depicting the state of the cooperative sector in South Africa. The first is a national list of cooperatives, including the names, contact details, names of executive officers, and a classification based on the type and location of registered cooperative (NEDLAC, 2008). Figure 1 provides a breakdown of cooperatives per province in 2007.

**Figure1: Provincial Breakdown of SA cooperatives**



(Source: Cooperative List, Registrar of Cooperatives, 2007.)

As indicated in Table 1 below, the majority of cooperatives are the fast emerging worker and multi-purpose sector (59%), attributed probably to emerging opportunities where all spheres of government seek to procure various services from cooperatives. This is followed by cooperatives in the agricultural sector (27%). The large number of agricultural cooperatives could be attributed to both the historical stereotype about cooperatives being in the agricultural sector and the fact that in most rural economies the only opportunities available are in the agricultural sector. Although at a lower base, there are many other new sectors emerging such as trading, manufacturing, mining, construction, development, fishing, bakeries, arts and culture, and timber.

**Table 1: provincial sub-sectoral breakdown of cooperative statistics**

Sub-sector	EC	FS	GP	KZN	LP	MP	NC	NW	WC	TOTALS
<b>Agriculture &amp; Farming</b>	435	36	38	337	40	55	41	38	114	1134
<b>Consumer co-ops</b>	2	-	2	11	1	1	5	1	6	29
<b>Marketing &amp; Supply Co-operatives</b>	1	-	-	6	-	-	-	-	-	7
<b>Financial co-ops</b>	15	3	17	24	3	13	7	6	4	92
<b>Housing co-ops</b>	10	-	15	6	-	-	-	1	2	34
<b>Worker &amp; Multi-Purpose co-ops</b>	541	57	201	1215	102	36	69	100	92	2413
<b>Service co-ops</b>	74	2	14	74	5	1	1	3	3	177
<b>Transport co-ops</b>	3	1	24	29	1	7	2	-	16	83
<b>Construction co-ops</b>	26	-	9	34	4	-	-	2	-	75
<b>Medical co-ops</b>	-	1	8	-	4	3	-	-	-	16
<b>Union cooperatives</b>	-	-	-	1	-	-	-	-	-	1
<b>TOTALS</b>	<b>1107</b>	<b>100</b>	<b>328</b>	<b>1737</b>	<b>160</b>	<b>116</b>	<b>125</b>	<b>151</b>	<b>237</b>	<b>4061</b>

(Source: Cooperative List, Registrar of Cooperatives, 2007.)

In the absence of any official statistics on membership, Theron estimated that in 2005 the total membership of cooperatives in South Africa amounted to at least 75,000 people, assuming an average of 15 members per each of the 2,500 cooperatives which were registered in 2005. A second set of data available from the Registrar of Cooperatives entitled *Statistics of Cooperatives* in South Africa is more credible as it is based on financial reports submitted by cooperatives. This consolidated data shows the financials of only some of those cooperatives engaged in economic activity. However, this data still fails to verify actual cooperative practices and patterns of cooperation (COPAC, 2008b).

This analysis of financial data done by the Registrar essentially represents the overall financial position of the registered cooperatives and is based on an analysis of the annual financial statements submitted by cooperatives. However this data is aggregated for agricultural cooperatives as a whole and for the different sub-sectors in agriculture, for trading cooperatives as a whole, and for 'buying aids' which are essentially bulk-buying cooperative-like systems (Theron, 2005).

However, this information is evidently not reliable, since most trading cooperatives do not submit returns and audited financial statements<sup>2</sup>. These problems point to the possible incapacity of the Registrar's office to provide comprehensive data.

**Table 2: Cooperatives per sub-sector (from submitted financial statements)**

SUB-SECTOR	2002	2003	2004	2005
Farming	5	9	3	5
Farming requisites	4	4	9	6
Fruit & vegetables	11	12	21	9
General products	6	6	10	5
Grain & oil seeds	7	5	7	7
Meat	9	10	11	8
Timber	5	6	5	4
Tobacco	3	3	0	0
Wine	32	29	46	0
Buying Aid	3	3	3	3
Financial	3	4	8	5
Fishing	2	1	13	0
General	7	7	0	0
Home industry	56	54	0	0
Medical	3	1	0	0
Mutual benefits	9	10	18	0
Shops	6	6	6	0
Insurance	0	0	3	0
<b>TOTAL</b>	<b>171</b>	<b>170</b>	<b>163</b>	<b>78</b>

The data in Table 2 reveals that the number of cooperatives complying with the financial reporting requirements of the Cooperatives Act of 2005 were fewer than 200 in 2002 and only 78 in 2005. While this might seem a small number, the figures above strongly suggest that many of these cooperatives whose financial data is synthesised in *Statistics of Cooperatives in South Africa* are involved in high value-adding activities with a significant number of members, turnovers and asset values (COPAC, 2008b).

<sup>2</sup> Theron (2005) notes that figures produced by the Registrar's office in 2001 indicate the active membership of all trading cooperatives was an incredible 225, 300. However the registrar's office informed Theron that this figure was not correct, and that the current active membership of trading cooperatives was only 3,751 in 2005.

### **3. INTERNATIONAL COOPERATIVE EXPERIENCES: AN OVERVIEW<sup>3</sup>**

The above analysis underlines the need to learn from the diverse local experiences and use such knowledge to create conditions conducive for the development of cooperatives. Also, the international cooperative movements have over the last century and a half and in many diverse contexts, developed a set of principles, values, systems, cultures and critical factors for success. This section highlights the significance of cooperatives across the globe. It discusses how globalisation affected cooperatives in Africa and concludes with reference to recent cooperative efforts in Cuba and Venezuela where experiences seem to defy the dominant logic of globalisation.

#### **3.1 Some global snapshots of the cooperative movement**

Today close to a billion people are affiliated with cooperatives reflected in the 227 member organisations, from 91 countries, that make up the International Cooperative Alliance (ICA) – the global apex body representing cooperatives in the world. Many countries that have achieved economic development have a vibrant and a dynamic cooperative sector which contributes substantially to the growth of those economies. For example, in Kenya cooperatives contribute 45% of the Gross Domestic Product (GDP) and 31% of the total national savings and deposits. Cooperatives control 70% of the coffee market, 76% of the dairy market and 95% of the cotton market (ICA Report, 2006). Most successful cooperatives in the world have not evolved in isolation but as part of a cooperative movement (Satgar, 2008).

In New Zealand, 22% of the GDP is generated by cooperative enterprises. In addition, cooperatives are responsible for 95% of the dairy market and 95% of the export dairy market. They hold 70% of the meat market, 50% of the farm supply market, 70% of the fertilizer market, 75% of the wholesale pharmaceuticals and 62% of the grocery market (ICA Report, 2006). In Spain, the cooperative movement has more than E70 billion in turnover (NEDLAC Study Tour Report, 2004). The figures above suggest that in contrast to other forms of businesses, cooperatives tend to mobilise and integrate many people and communities into the productive economy. According to the ICA Report, international cooperative movements have more than 800 million members.

The ICA recently identified the top 300 cooperatives and mutual associations in the world and showed that globally these span a range of sectors including agriculture, financial institutions (e.g. insurance, banking, credit unions plus diversified financial organisations), retailing, wholesaling, manufacturing and services (e.g. health, education and electricity supply). Many are over 100 years old, although approximately 80 per cent have formed since the 1980s. As member-based and needs-driven institutions, cooperatives stand in contrast to the ever-changing and short lifespan of the Fortune 500 companies. For the ICA Global 300 research project, this is an important distinction between cooperatives/mutual societies and privately owned business enterprises which are mainly privately capitalised and not really concerned with employment creation nor the long-term imperative of employment maintenance (Satgar, 2008).

In modern China, cooperatives and village enterprises are the backbone for agricultural production

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<sup>3</sup> This section draws from work by Vishwas Satgar (Satgar, 2008).

and without which, food security would be seriously compromised (Satgar, 2008 citing Du, 2006). Hence, 'pure global capitalism' driven by private relations of production and transnational corporations is a myth. Contending logics based on human need and solidarity are also shaping, constituting and determining the nature of the global political economy. In this regard, cooperatives in local, national, regional and global spaces are also important. These social enterprises constitute a cooperative global economy which ranks as the tenth largest in the world (Satgar, 2008 citing ICA, 2007).

Cooperatives help people obtain goods and services that they may not otherwise be able to afford on their own by pooling together their purchasing power. They help build stronger communities. Since most cooperatives are community and regionally based, investment in, and surplus revenue from, the cooperative stays within the local community. Every rand invested in the local cooperative has a significant multiplier effect within the community. As many as 100 million people are employed in cooperatives while 3 billion people secure their livelihoods through cooperatives. Internationally, it has also been proven that cooperatives are more stable and durable than private businesses. For example, in Canada the Direction des Co-operatives, Quebec Ministry of Industry and Commerce estimates that the survival rate of cooperatives after 5 years with public and private sector support in place is 64% as compared to 36% for private firms. After 10 years, the survival rate of cooperatives is 46% compared to 20% for private firms.

### **3.2 The impact of globalisation on cooperatives**

The post-apartheid challenge of reconstruction and development coincides with an attempt, after the Cold War and in the midst of the neoliberalisation of the global political economy, to reclaim the authentic identity of cooperatives. The Fordist accumulation regime in the 1970s saw the system of inter-state political economies largely transformed from a national to a global political economy. This was a result of a paradigm shift favouring neoliberal market relations. Emerging from this global neoliberal restructuring are new forms of monopoly capital operating at a transnational level, and which have fundamentally changed production and consumption patterns.

This post-Fordist regime has reproduced and deepened patterns of uneven development and world inequality. For labour, this process of neoliberal restructuring has engendered new forms of labour market control and has undermined national capacities for social reproduction in developed and developing countries. Through the deployment of neoliberal ideological perspectives, global capitalist restructuring is mystified and presented as an inevitable process devoid of agency. In a word, it is the result of 'globalisation'. Such a conception of global capitalism denies the possibility for alternative forms of development co-existing, contesting and even surviving interstitially. The key challenge rather is how in the current global political economy, and amid the development failures of the mainstream neoliberal model, cooperatives are to develop and survive. Despite the devastating effects of neoliberal development on human beings, the global expansion of capital has not diminished nor has it ceased to subordinate human needs to capital accumulation. This brings into focus the global struggle to protect the solidarity-based relations and people-centred identity of cooperatives.

Neoliberalism has attempted to subordinate cooperatives to the rules and discipline of competition and profit maximisation and through globalisation tends to limit the case for protection of cooperatives through favourable taxation and incentives. With the structural adjustment of various African and other economies in the 1980s and 1990s cooperatives bore the brunt of liberalisation. Cooperative policy was consciously attacked by the World Bank. In places such as Senegal, in which there was a large Ministry for Cooperatives, the World Bank pushed the government to shut it down. At the same time cooperative support services were privatised. Through neoliberal structural adjustment, cooperatives in many African countries were forced to abide by the discipline of the market (Satgar and Williams, 2008). As governments opened up economies and withdrew from economic activity, cooperatives were forced to confront the strong tides of global competition and their particular characteristics were denied as they were seen and treated as any other business.

Satgar and Williams argue that cooperatives have survived globalisation because of the passion of the people. Working with, and reinforcing, this passion has been a global shift inaugurated by the International Cooperative Alliance in 1995 with the adoption of its Statement on Cooperative Identity and the subsequent adoption of ILO Recommendation 193 of 2002 concerning the Promotion of Cooperatives. This shift recognises the genuine identity of cooperatives (Satgar and Williams, 2008). New national legislation for cooperatives, in keeping with the new international standards, has been passed in many African countries and gives space to autonomous, independent and dynamic member-based and -driven cooperatives to emerge on the continent. This widening of the space for genuine cooperatives and movements to emerge has also emboldened the passion of the people (Satgar and Williams, 2008).

### **3.3 Cooperatives in Africa: surviving state control and globalisation<sup>4</sup>**

Satgar and Williams (2008) assert that the cooperative movement is one of the most organised social forces on the African continent. They cite the ILO which suggests that at least 7 percent of citizens in African countries belong to cooperatives, rising in countries like Mauritius, Egypt, Ghana, Kenya and Senegal to 10 percent or more. The cooperative movement in Africa plays a crucial role in economic and social transformation and in many parts of Africa it constitutes a parallel cooperative sector and economy.

Cooperatives in Africa have a long and complicated history. Initially modern cooperatives took root through colonialism and as a result varied colonial traditions of cooperation were foisted on the continent. Colonial-era cooperatives in Africa were used as instruments to organise cash crop sectors that linked with the needs of colonial trade.

Later, during post-colonialism, the role and place of cooperatives as instruments of development continued. Many colonially defined roles for cooperatives were continued and strengthened in agriculture, for example. However, in post-colonial times the state also played a direct role in pushing for the development of cooperatives. Cooperatives were not given genuine autonomy and were tied into patronage systems while bureaucratic influence limited internal democracy. In some

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<sup>4</sup> This section draws from Satgar and Williams, 2008.

countries, such as Tanzania, the cooperative movement was destroyed during the era of African socialism because it threatened the ruling party. When African governments targeted cooperatives as a means to address poverty, there was a tendency to over-invest or seek to make the cooperatives increase their size beyond their capacity to manage the development themselves. This often resulted in failure. At the same time, donors and other agencies also reinforced this. As development instruments, cooperatives were reduced to being a means to achieve certain technical ends instead of prioritising member needs, with member control and ownership determining the character of cooperation.

Despite the colonial focus of cooperatives on particular activities, the strong state control of post-colonial cooperatives and the market appropriation of cooperatives by neoliberal restructuring, cooperatives in Africa have survived. The cooperative sector with primary, secondary, sectoral, apex, and support organisations and social movement links has continued to thrive, albeit unevenly. Cooperatives have often survived the extremes of state control and market adjustment on their own. Such survival often stems from the passion and determination of the people to thrive and survive (Satgar and Williams, 2008). In this they face massive odds when it comes to the inequality of the world trade system (see case studies below).

### **3.4 Cuba: agricultural cooperatives and a decisive state<sup>5</sup>**

In 1993, because of the crisis resulting from the fall of the Soviet Union, Cuba's main trading partner, the state decided to break up the state farms and redistribute them to producer cooperatives - the Basic Units of Cooperative Production (UBPC). The aim was to increase the efficiency of production on this land and to reduce the size of units of production. The huge state farms were split into two components - those that continued to be farmed as state farms and those that were given to the workers on the farms. Four years later, by the end of 1997, 42% of the total agricultural land of Cuba had been transferred to UBPCs - a total of 2.8m hectares. An additional 100 000 hectares were also transferred to individuals and families to farm on a small-scale, either for their own use or for export of coffee and tobacco.

In 1997, state farms comprised only 32.7% of the total agricultural area of agricultural land, UBPCs comprise 42.3 %, and agricultural producer cooperatives (CPAs) 10.2%. Individual farmers organised into Cooperatives of Credit and Service Cooperatives (CCSs) comprise 11.6% and unorganised individual farmers only 3.4%.

There are two types of land in Cuba - private land and state land. Private land is owned by individuals and by CPAs who hold land collectively in producer cooperatives and are owned by the collective. Some of the individual farmers are organised into cooperatives of the supply and marketing type (CCSs) and others are independent.

State land is used by the state, by producer cooperatives and by individuals. Producer cooperatives include the large UBPCs as well as much smaller urban farming or coffee and tobacco cooperatives.

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<sup>5</sup> This section draws from Mayson, D. 2004.

The land rights on all state land are similar - individuals of the cooperative have 'indefinite' rights or rights in perpetuity, as long as the land is being used for production. The regulations do however say that the state can take the land back if there is a good reason to do so. As with the CPAs above, individuals on UBPCs, and urban farming cooperatives generally, do not have access to individual rights to land with auto-consumo goods (goods for own consumption) mostly being provided by the cooperative.

The Cuban state is very involved in supporting farmers in ways which benefit agricultural cooperatives:

- The state plays an extremely active role in acquiring large quantities of land and establishing secure rights on that land.
- The state guarantees access to credit through the Cuban Bank. This allows access to credit with varying interest rates charged depending on whether the farmers are cooperatives or individuals.
- Extension is provided through a system of district based *Empresas*, or state enterprises. These provide access to machinery and to machine maintenance services as well as to training, management and other institutional support.
- Also provided is access to a market for the goods through production quotas.
- Research and development (R & D) is provided through an elaborate system of R & D institutes that are located in all regions of the country and which provide plant material, veterinary and plant disease defence material and advice.

In addition to this support for farmers, the success of agricultural cooperatives has also strongly benefited from the decisiveness and strong ideological support of the Cuban state seen in the role which the state played in ensuring effective institutional support, access to land, access to markets, access to credit and an enabling legislative environment for the growth of Cuban agricultural cooperatives. The Cuban case study also goes with social cohesion in that society: In Cuba, farmers produce for two very definite purposes: for food security of the nation and for their own profit.

The key lesson from the Cuban agricultural cooperative experience appears to be the provision of the 'enabling' context for cooperatives to develop themselves, rather than a more direct intervention. They were thus allowed to develop their capacity to run their own affairs at a pace that suited them.

### ***3.5 Venezuela: consciousness in worker cooperatives<sup>6</sup>***

The last decade has seen a sharp increase in the number of democratic workplaces, (particularly cooperatives) in Venezuela, largely a result of a deliberate threefold public policy going back to the pro-cooperative provisions in that country's 1999 constitution and subsequent enabling laws. The constitution recognises self-managed and co-managed enterprises as key actors in the Venezuelan economy and also mandates the state to 'promote and protect' these enterprises as forms of workplace democracy. The 1999 constitution was followed in 2001 by a Special Law of Cooperative Associations, facilitating the creation of new cooperatives and emphasising the obligation of the

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<sup>6</sup> This section draws from Harnecker, 2007.



state to protect them, and to extend their tax-exempt status. The sharp increase in numbers of cooperatives was as a result of the direct promotion by state agencies, and the implementation of training and employment programmes for cooperatives.

From 2004 to 2006, nearly 15,000 cooperatives were created by the *Vuelvan Caras* (literally 'about-face') programme. However, it is not clear at this stage whether this will result in over-investment and unsustainable growth at the expense of member needs and member control and ownership. Participation in decision-making in Venezuelan worker cooperatives is generally direct through one-person-one-vote decision-making with a simple majority formula linked to building consensus, etc. According to the 2001 Law, a members' assembly has the final decision-making power over all affairs of a cooperative. However, as Harnecker (2007) found in some cooperatives, the most important decisions—for example involving distribution of surpluses or compensation—were taken by the coordinators or even just by the president or general coordinator who behaved like the main owner of a cooperative.

The weakest component of formal workplace democracy in Venezuelan cooperatives is access to, and effective and transparent management of, information. There is insufficient bookkeeping and few established mechanisms to present information effectively. Of the more than 15,000 cooperatives that had requested a compliance certificate (required to apply for contracts from state institutions), less than 10 percent received one because most had not submitted the required information.

Venezuelan cooperatives emphasise non-hierarchical structures as well as the practice of job rotation. Despite this, traces of the social division of labour (i.e. the separation of work tasks, especially between intellectual and manual ones, that produce inequalities in social status and power) persist. In small cooperatives, most members have some responsibility. In larger cooperatives, the number of management-level positions is increased, and responsibilities are shared between multiple individuals, thus increasing the percentage of members with leadership roles. Job tasks are enlarged to include the less desirable activities such as cleaning and security by rotating them. In new cooperatives, there is stronger emphasis on the importance of equality and the recognition that 'everyone should have the opportunity to learn everything', so it is more common that members change production tasks periodically. But creating this egalitarian environment has proven very difficult, due to most members' lack of knowledge about enterprise-management. As a result, accounting and administrative tasks generally remain among those few workers with some experience or higher educational levels.

Theorists of participatory democracy explain how the practice of genuinely democratic decision-making by a community (i.e. a group of people bound by common concerns and problems) produces in participants a collective consciousness (i.e. an understanding of the interests of others in that community followed by a disposition to contribute toward their realisation). Consistent with the idea that an egalitarian experience encourages individuals to view the interests of others in the participatory community as their own, Harnecker (2007) found a very strong connection between the degree of each cooperative's workplace democracy and its members' collective consciousness.

In workplaces with the highest levels of genuine democracy, workers appeared to be more aware of the needs of co-workers. However, and especially in those cooperatives with ineffective or no collective monitoring, there was often no recognition that some members have special needs, or that there is a difference between work effort and work contribution (i.e. productivity). The more democratic workplaces were also more inclined to contribute resources towards the solution of members' individual problems. The transformative dynamics of participation are evidenced in a strong relationship between levels of cooperatives' workplace democracy and its most immediate effect—members' own sense of self-transformation. The sense of community among members—the least immediate effect of participation— was expressed in their awareness of the concerns they share (“We all have the same problems”) and in the workers' sense of equal status, rights, and obligations (“This cooperative is mine. Here we are all owners, we are all the same.” and “We are all accomplishing something together, without bosses.”, or “The cooperative is like a family—one works as hard as one can, and one's problems are better understood.”).

It is also clear that although the participatory experience has a straightforward educative or self-transformative effect on cooperative members, other factors prevent the full realisation of its integrative effect. The emergence of a sense of community among the workers' collective is undercut by internal conflicts largely stemming from members' inexperience in social relations and administrative tasks, especially when mechanisms for collective monitoring are lacking. However, these clashes are only significant in cooperatives with a large membership and where participatory practice is also considerably limited. The process of developing workers' participatory skills and attitudes, as well as collective consciousness, entails fundamental psychological and ethical changes that require time and regularity.

The effects of the political, cultural, and socio-economic environment in which these cooperatives operate is important. Venezuelan cooperatives' economic exchange largely takes place through a somewhat regulated capitalist market; a situation that undermines both the implementation of genuine workplace democracy and the development of members' collective consciousness.

#### **4. LIVED EXPERIENCES: CASE STUDIES OF SUCCESSFUL COOPERATIVES**

In this section we look at case studies from Ethiopia, Kenya, Brazil and South Africa. Each country has its own history of how cooperatives and their sectoral organisations and movements emerged over time under different country and global contexts. Taken together, these case studies provide important information on:

- The conditions and attributes vital in defining successful cooperatives
- The role members must play internally
- The role of the state
- How worker cooperatives are unique in terms of ownership, control, job creation and distribution of surplus.

These case studies point to common, practical ways in which cooperators seek to interpret and live up to the principles and values of cooperatives. They define the positive aspects of the role that the state must play in contributing to the growth and sustenance of successful cooperatives. These roles played by the state have focused on enabling policy and legislation, appropriate support and facilitating access to finance, credit and markets. These positive roles emerged during a long period of 'learning by doing' which also included failures and tensions between the state and cooperatives. For example, in the case of the Cooperative College of Kenya, the state had to withdraw from direct control. This led to the cooperative movement playing a leading role in its control and ownership. In addition to the state, NGOs and institutions within the cooperative movement have also played key support roles in support of these cooperatives.

##### **4.1 Case Study 1 - Oromia Coffee Farmers Cooperative Societies Union (Ethiopia)<sup>7</sup>**

This union of cooperatives was formed in June 1999 with 35 coffee cooperative societies representing 22,691 members. By 2007 it had grown to 129 coffee cooperative societies representing 128,361 coffee farmers. The Union has just begun to gain a foothold in the coveted fair trade and organic markets of the North.

When the Union was formed it faced serious challenges. The global price of coffee collapsed in 2000, pushing many coffee farmers into crisis with many unable to repay their loans. The global price is determined on the New York and London coffee stock exchanges and not by any of the coffee producing countries, the majority of which are in the global south<sup>8</sup>. The problem was compounded by the fact that the coffee trade had been liberalised in Ethiopia in the 1990s, opening the market to fierce competition. Liberalisation also brought market failure as export licenses were given liberally to exporters, many of whom did not have adequate money. These exporters then bought the coffee on auction and issued bad cheques to the individual coffee cooperative societies. As a result, the farmers bore the brunt of this market failure. The Union was formed partly in response to this

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<sup>7</sup> This section draws from Satgar and Williams, 2008.

<sup>8</sup> See [www.blackgoldmovie.com](http://www.blackgoldmovie.com), a documentary film on how this coffee stock exchange works.

situation.

The Union's primary role is to assist the cooperatives navigate difficult market conditions with responsibilities ranging from establishing market linkages, ensuring certification standards, packaging and distribution, and farmer development programmes. One of the main roles is its marketing and distribution centre. It has also been crucial in getting cooperative societies certified as fair trade and organic to both the European and US standards.

While the 129 cooperative societies have the capacity to produce 142,992 tons of coffee, they have had difficulties in accessing international markets and only two percent of their coffee is sold for export. The local coffee market is also fiercely competitive and Oromia sells approximately 50 percent of its coffee locally with the remainder sold at auction.

Because of the difficulty in accessing international markets, the Union has targeted the Fair Trade<sup>9</sup> and overseas organic markets where it has been successful. With the fair trade labelling organisation's (FLO) premiums, the cooperatives get an extra 10 US cents per kilogram. The FLO premiums go directly to the cooperative societies for grassroots social services (e.g. clinics, schools, electrification, potable water). The rest of the profit is divided according to a transparent formula with 70 percent going to the cooperative societies. The cooperative societies pay the individual farmers 70 percent of the money received based on the amount of coffee delivered. A few of the more successful cooperatives have also been able to pay their members dividends. However, most of the cooperatives reinvest the surplus into the cooperative. Clearly, most of the net profits are being used for the development and strengthening of the coffee cooperatives at various levels. Most importantly, the process is entirely transparent and the Union accounts annually to the cooperative societies. By taking over the marketing and distribution processes, the Union has eliminated two to three middlemen. Coffee goes from the farmers' cooperatives to the Union to the markets. As a result, a greater percentage of the profits go directly to the coffee farmers and their cooperatives. The Union is expanding its role and is currently building a processing plant.

One of the most important factors accounting for the Union's success is the high calibre of leadership in both the board and the management. The Union is a democratically organised member-based secondary cooperative. It has taken the further step of internal audits on a regular basis to ensure proper management. At the Annual General Meeting the membership ratifies the audit report, which is done yearly by a certified chartered accountant who is appointed by government. In addition, the AGM approves the year's business plan. Another important contributing factor in the Union's success was the way it was formed. There were four important aspects to its formation:

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<sup>9</sup> Fair trade is an organised social movement and market-based approach to alleviating global poverty and promoting sustainability. The movement advocates the payment of a fair price as well as social and environmental standards in areas related to the production of a wide variety of goods. It focuses in particular on exports from developing countries to developed countries, most notably handicrafts, coffee, cocoa, sugar, tea, bananas, honey, cotton, wine, fresh fruit, and flowers. Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair Trade Organisations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. Fair Trade products are produced and traded in accordance with these principles — wherever possible verified by credible, independent assurance systems

- Key people were sent on study tours to learn about successful experiences in other places. This helped them understand the strengths and weaknesses of different models and what might best work for their conditions.
- The individual cooperative societies spent a great deal of effort in talking to cooperative members at the grassroots level. This gave farmers a chance to express their needs and interests, and also provided the societies a chance to discuss the options and educate farmers about the importance of establishing such a union.
- The societies ensured government officials bought into the idea. One of the ways in which they did this was to take key government officials to other countries to learn about the experiences elsewhere.
- The Union made sure that all its paper work was in order. It went through the proper, though laborious, route of formally being established.

Thus, the union was based on the best models in the world while securing support from the farmers all the way up to government officials. This has ensured that the Union has credibility and is organically connected to its membership.

Among the most important impacts of the Union is the successful engagement with the international fair trade and organic markets. This has led to increased training of farmers, better organising of the production, sustainable ecological farming, and higher quality coffee. The Union has also positively affected the environment, employment, health, and safety.

One of the most serious challenges for Oromia Union is the shortage of capital. The farmers in it are poor. This means that the societies are also poor. The mainstream financial institutions are inaccessible to many coffee societies. When coffee prices crashed in the late 1990s and when the fraudulent suppliers (discussed above) entered the market, many coffee societies defaulted on loans from commercial banks. In 2007, many societies had not repaid their loans and were, therefore, unable to access loans from commercial institutions. The Union has thus had to provide financing to many of its societies as a short-term measure. In an effort to overcome this problem, the Union has been instrumental in initiating the Oromia Cooperative Bank, which started in 2005.

A second serious challenge is the general lack of awareness and education around cooperatives. Not only do cooperative members require capacity building and training, but leaders, government officials and other stakeholders require this too. However, there is a lack of resources for such training.

#### **4.3 Case Study 3 – the ASMARE waste cooperative<sup>10</sup>**

The ASMARE cooperative is based in Belo Horizonte in the Minas Gerais Province of Brazil where it has a warehouse/depot which receives waste material from individual collectors (catadores) who are members of the cooperative. ASMARE collectors have distinctive yellow carts (which distinguish them from individual own-account catadores who sell their materials to private intermediaries) and

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<sup>10</sup> This section draws from Horn, 2008. See bibliography

each collector has her/his own space for sorting at the depot. Sorted materials are compressed and weighed. ASMARE has its own compressing machines and bulk weighing scale in a centre managed by catadores and former street-dwellers. After weighing, a receipt is issued and each person is paid according to the recyclable materials produced from the waste collected by them.

The warehouse is built on land which was initially occupied by catadores, and eventually given to them to develop their ASMARE. They then built the structures for shelter, storage, etc. Initially all the products were sold to intermediaries but paper, glass, metal, etc. are now sold to aparistas who are further up the recycling chain than the intermediaries who buy from the autonomous catadores. This shows how a cooperative can cut out middlemen thereby ensuring maximum returns for members and more control by those who do the work. Plastic is sold to a plastics recycling plant which is a joint venture between ASMARE and 8 different municipalities. If cooperatives can be thought of as different from private companies, then this joint venture is different from public-private partnerships in which the profit motive predominates.

The manager is a veteran who started collecting waste at the age of 8 years. Altogether about 100 members (approximately 50/50 women and men) work at the cooperative, sorting, shredding, compressing, and weighing. Another 50 would like to be members, but there is not enough sorting space to take on more catadores.

Previously, many collectors had to sleep with the waste they had collected, and many of them lived in the streets. Now, as a result of a joint project between ASMARE and the Pastoral da Rua (street-dwellers' organisation) many of the catadores have managed to secure housing. Through this joint project they also train street-dwellers to sort waste and become integrated into recycling work. As soon as they come in, they become members of the cooperative. Previously, there were many conflicts between cooperative members and autonomous catadores, but now there is an informal understanding about space allocation for the collection of waste. This shows how cooperatives, unlike private businesses, can have a wider social and community development impact.

The management of this cooperative is an interesting practical realisation of the universal values and principles of cooperatives. There is a Steering Committee of 11 people, all active catadores, elected every three to four years. Active Committee members receive a daily allowance to compensate for the time they lose from their work while undertaking Committee responsibilities. The administration consists of cooperative members and technical people hired on the basis that they train the cooperative members in administration skills. This is a demonstration of how members of the cooperative want to ensure rotation of labour and skills thus enabling development and effective democratic control on the basis of in-built capacity.

The cooperative's second site is a large warehouse rented from the municipality and managed by ASMARE. Waste collected by the municipality, including house-to-house collection of segregated materials, is brought here by municipal trucks where it is further sorted by approximately 60 readores (sorters) who used to earn a diario (daily wage) for which they had to reach a daily quota of sorted materials. Now they are paid according to the market price of batches of the materials they have produced after sorting. The emergence of the cooperative has improved working conditions by giving members food and income security, in addition to a pension as autonomous workers.

The cooperative has helped members with access to social services. It worked with the municipality to provide a crèche for the children of catadores. Alone, it opened a carpentry workshop for the older children of catadores where ASMARE collectors' carts, furniture and other objects to sell to other clients are made. The cooperative also runs a bar and cultural centre which includes an internet café, a sewing skills workshop and an administrative centre. At the second warehouse there is a space reserved for pregnant and older workers. Here the work-load is lighter.

The cooperative has also used cultural activities to integrate its members into society. In the 1990s the cooperative encountered prejudice against catadores renting the second warehouse. To improve their public image, they organised festivals of waste, exhibiting art objects made from recycled materials. They organised cultural events and music concerts, with big-name performers who sympathised with the objectives of the movement. The economic logic of this cooperative underlines the difference between cooperatives and private businesses. In privatised waste collection systems, mechanisation has resulted in 40% of waste being rejected – while only 5% of hand-collected waste is rejected in the cooperative system. Labour-intensive methods used by the cooperative not only result in more employment, but also more efficiency as catadores engage directly with households and sensitise them on the separation of waste, etc.

The cooperative has a wider social impact beyond its membership by influencing municipal standards for decent work and the environment and thus how others do their work. The integration of catadores into municipal solid waste management systems first started in Belo Horizonte and Porto Alegre but now these processes are regressing. In Belo Horizonte, the municipality caused problems by proposing to regulate the working hours of catadores. It offered a certain guaranteed quantity of waste material to ASMARE to secure their agreement. ASMARE declined, in solidarity with autonomous catadores whose employment would have been rendered illegal and then taken over by mechanised waste collection services. An agreement on mechanisation is now being sought between autonomous waste collectors, cooperatives and the municipality. ASMARE knows leaders of the autonomous waste collectors (who often approach ASMARE when they have problems, and rely on ASMARE to present problems which they are not able to do because of lack of recognition by the municipality). Even some of the middlemen – who generally have no labour standards, rules or obligations – at times try to meet ASMARE standards in order to avoid being excluded through social pressures.

#### **4.4 Case study 4 – The Heiveld Rooibos Cooperative**

The Heiveld Rooibos Cooperative is located in Niewoudtville in the Hantam Karoo region of the Northern Cape. The unique climatic and soil conditions in this area combine in the right proportions for the natural growth of the rare and health-improving rooibos plant. Through rooibos, this isolated and deprived region has utilised a rare opportunity to achieve socio-economic upliftment.

Before the cooperative was formed, many of the members were individual small-scale rooibos farmers who faced a range of systemic and structural problems that also informed the move to form the cooperative. Such problems were common to many small-scale farmers and in particular to the

approximately 300 small-scale farmers who produce rooibos in South Africa.

The mainstream rooibos market is dominated by a few large-scale commercial farmers. This suggests the organic route for small farmers given also the growing local and international organic and Fair Trade markets. However, Arendse (2001) found that many small-scale farmers do not fully understand organic rooibos production. This undermines their potential niche markets as a basis to challenge big farmer dominance of the mainstream rooibos market. This area could have been addressed by more effective agricultural extension services provided by the state. However, Arendse (2001) found that such services were inadequate for the knowledge and training needs of small rooibos farmers. This went together with extremely limited access to government policies and procedures by small rooibos farmers. The story of the Heiveld cooperative is also about how these systemic and structural problems were mitigated.

In 2001, the Heiveld Rooibos Cooperative was formalised as a cooperative of 14 small scale rooibos farmers (rising to 26 in 2003) in order to address low prices received from middlemen and poor market access (even though as organic small farmers they produced fine tea). It has its headquarters in the village of Nieuwoudtville (Heiveld Small Farmers Cooperative, 2005). The emergence, growth and development of the cooperative goes back to when the Environmental Monitoring Group (EMG'), a Cape Town based NGO, started to work in the Nieuwoudtville area in 1999, following a request from the Northern Cape provincial government to initiate a bottom-up development process (Nel, et al, 2007).

Visits were organised to various community projects and the Wupperthal Rooibos Cooperative in 2000. The success of the latter clearly inspired Heiveld members, who saw the potential for generating economic returns from the detailed indigenous knowledge base that they possessed (Nel, et al 2007, Satgar & Williams, forthcoming). The farmers recognised that their farming knowledge and skills required the necessary management and organisational skills. The EMG worked with the community to strengthen these skills through a participatory, active learning process which was strongly driven by the principle of sustainable development (Nel, et al, 2007). This attracted World Bank interest and led to the drafting of two manuals on 'community knowledge exchange' (Oettle & Kolle (2003a) and Oettle & Kolle (2003b)). A key element in this process was capturing and documenting local knowledge on rooibos tea production in a booklet entitled '*Die Juweel van die Berg*' (*The Jewel of the Mountain*) (Oettle et al., 2002). The booklet served the dual purpose of recording local knowledge and providing a practical resource for farmers.

Other steps included certification for organic production, the building up of a client network through the alternative trade networks, and the joining of the cooperative by more members. This development has resulted in the cooperative currently directly exporting packaged and some bulk tea to Europe, USA and Canada. It has an established client network. The cooperative specifically empowers women through insisting on individual and not family membership of the cooperative. Individual members receive their payments directly from the cooperative allowing the women to have control over some of the financial resources of the household. In addition to rooibos production, another community initiative in the Heiveld involves the making of cloth bags for packaging the tea by women in the associated Melkraal Women's League. (Nel, et al, 2007)



The Heiveld cooperative is open to small-scale farmers who own or rent land in the region and who must adhere to the rules and regulations of cooperative. They should get certification that organic farming has been practised on the land for the past three years. They pay a R100 subscription fee and sign a production contract that guarantees the sale of their rooibos tea solely to the cooperative. The cooperative tightly controls the fair-trade organic farming standards of its members to ensure it maintains its high quality tea. The rooibos is exclusively processed and sold through the cooperative.

The farmers produce the rooibos on their farms, absorbing all the costs for the production and harvesting of the rooibos plants. Payments to members are based on the quantity and grade of the rooibos contributed. The role of supporting NGOs has been gradually reduced as the cooperative eventually took full responsibility for running the entire operation.

The Heiveld cooperative mobilised a combination of internal and external finances:

- Canada Fund grant for purchase of a tea cutter and for training
- World Bank funding of two mentor farmers
- Funds from the UN Environment Programme and the UN Convention to Combat Desertification
- Income received as a premium from the Fair Trade Labelling Organisation of which the cooperative is a member
- Annual income from tea sales
- Initial funding (a modest R1 400 per founder) from membership fees. These were a strong expression of faith in, and commitment to, the entire group. In the long time, such internal financing can reduce dependency on outside finance.

For its first five years the cooperative did not apply for credit from the Land Bank or any other local cooperative or private institution. Incredibly, this cooperative has not received financial or any other support from the government. Other means of self-financing have since developed. The cooperative gained profits in 2002 of R 104,000. These increased to R 140,000 in 2003 (Nel, et al, 2007). Earnings per kilo have doubled since 2000. During 2005/6, 42 farmer members produced 36 tonnes of organic rooibos achieving a financial turnover of R 1.5 million. Of the profits, 70% was distributed among participating farmers, in proportion to their contribution to the project, while the remaining 30% was distributed among disadvantaged members of the community (Oettle, N D, cited by Nel, et al, 2007).

By 2005, the community had invested R 100,000 from its profits into a tea processing facility with a further R 120,000 projected for investment during that year (ICRISAT, 2006, cited by Nel, et al, 2007). Cooperatives cannot grow and sustain themselves if they do not undertake internal investment in infrastructure and maintenance and which are important for the future growth of the cooperative. When the cooperative was leasing a tea court it was subject to control by a competitor but now, with these investments, it can reduce this control and gain more economic independence.

The cooperative's constitution guarantees that 30% of the profits should be utilised for community development projects (Oettle, n.d. b). This shows the potential for wider economic development in the local area on the basis of a successful local cooperative with strong local identity, roots and commitment. This differs from a privately owned or investor-owned enterprise whose interest will primarily be that of owners or shareholders.

The cooperative has also benefited immensely from various forms of external non-financial support. The most important has been from the Environmental Monitoring Group (EMG) and Indigo. Both are locally-based NGOs, which were crucial in Heiveld's formation and in establishing linkages with academic research institutions, securing financial assistance from foreign donors for crucial implements, marketing, and acquiring organic certification as well as linking with the fair trade organisations of the north. The cooperative has also fostered linkages with researchers from the University of Cape Town (UCT), encouraging students to undertake research that will assist them in their production such as research on soil conditions, environmental impacts, and rooibos farming methods.

Community empowerment and capacity building have been achieved without taking social agency away from the community. The Heiveld farmers strongly feel that they still 'own' the process and benefit directly from it. Rather than completely taking over the production process, the NGOs involved with the Heiveld farmers have sought to facilitate development initiatives, thus preserving community independence through democratically managed participatory processes (Nel, et al, 2007, Satgar & Williams, forthcoming). The Heiveld case demonstrates a strong case of the consolidation and improvement of a 'social infrastructure' linked to local engagement, voluntary support and commitment of local leadership as a basis for successful community-based development (Nel, et al, 2007). Further advisory support has been given by the Western Cape Provincial Agricultural Department (Oettle, no date,b).

### ***Lessons from the Heiveld cooperative***

The Heiveld experience is not easily replicable, since its success has been predicated on the existence of a number of time and space contingent factors, such as the pre-existence of socially cohesive communities and the easy availability of a marketable commodity (Nel, et al, 2007).

The success of the Heiveld cooperative has to be situated within the broader contexts of alternative food networks, alternate economic spaces and local/community-based development (Nel, et al, 2007). 'Alternative foods' are now appearing in increasing quantities on the shelves of South African supermarkets. Concerns for healthy lifestyles, and an increasing global desire to ensure that products are produced and traded fairly, have encouraged the development of production and marketing systems which differ from mainstream capital-intensive agribusiness-style systems (Nel, et al, 2007). In addition to the benefits of collaborating with an international Fair Trade organisation, by producing the tea organically the community has been helped to secure a defined market share. Nel, et al (2007) underlines the pre-existence of a market for the product as a crucial aspect of the Heiveld success. The extent to which a product can have a niche market is critical here – however such a niche market also makes the cooperative vulnerable as it is currently the sole marketing channel available to the cooperative.

The Heiveld experience also shows that rooibos and other small-scale farmers could address some of the problems on a cooperative basis. The cooperative model provided bargaining power, access to markets and economies of scale thus enabling them to access and set up proper business infrastructure, become more involved in value-adding at the local level, and to increase their capacity to respond to market trends and demands.

These strategies would not have succeeded had there not been clarification of land rights in some of the communities in Niewoudtville. The patience, commitment, growing independence and self-reliance of members of the Heiveld cooperative is also a key part of this story as was the utilisation of the diverse skills and attributes of all its members. This growing social cohesion goes together with the importance of indigenous knowledge (the rooibos plant is a product that is within indigenous local knowledge) and capacity, complemented by ongoing and wider training reaching all beneficiaries. Financial and technical training received by members of the Heiveld cooperative has benefited all members (Satgar & Williams, 2008).

## **PART 2:**

### **LESSONS FOR THE EASTERN CAPE**

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#### **5. DRAWING RELEVANT LESSONS FROM INTERNATIONAL EXPERIENCES WITH COOPERATIVES FOR AN EASTERN CAPE STRATEGY**

As the above case studies show, cooperatives are complex social organisations with many interests coalescing in one place and with a focus on inclusive decision-making. Members want more than just a financial return from cooperatives and they thus require more involvement than just attending an annual general meeting as shareholders of private companies would do. Clarity of purpose, on-going participation by members and competent leadership clearly focused on the agreed upon objectives appear to be key factors in ensuring that these complex organisations remain successful (Mayson, 2002).

From the foregoing, it is clear that there is no formula or 'blue print' for a successful cooperative. However, there are certain pre-conditions which, although insufficient in themselves to guarantee success, could be used as a basis from which to enhance the development of a cooperative. Moreover, it might be necessary to complement more general pre-conditions for success with context specific interventions deriving from the varied activities that cooperatives are involved in such as internal institutional dynamics, the state of the cooperative sector and wider external challenges.

Relevant lessons for the Eastern Cape from the above discussion point to five themes: adherence to the principles and values of cooperatives, the importance of the universal definition, the state playing an appropriate role in relation to self-identified needs of cooperatives, how worker cooperatives are important in job creation and work equity, and the importance of movement building.

#### **5.1 Working successfully with cooperative principles and values**

A cooperative cannot claim to be a successful cooperative without a firm grounding in the inherent principles and values of cooperatives as this gives its character and its advantage. A cooperative cannot claim to 'successful' while in practice it is more like a company or trust. The case studies and international experience above show the effectiveness of designing in, and working with, cooperative principles and values. From these case studies the following appear as important pre-conditions for success:

- i) *Ongoing education and training.* Cooperatives require training for their core activity, for enhancing business capacities (like management, marketing or book-keeping) and, most importantly, for functioning, at all levels, as a cooperative based on universal values and principles.

- ii) *Member economic participation.* This has been institutionalised in various ways in the cooperatives studied. From sharing resources in the cooperative, to working in the cooperative, to using its services, the cooperatives have ensured opportunities for all members to play a role in their economic life. Some cooperatives have incentivised member participation. Also, reinvestment of distributable surpluses has been critical in further evolving and sustaining economic capacity and ultimately re-enforcing members' economic participation.
- iii) Open and voluntary membership creating long-lasting commitment.
- iv) Members' democratic control institutionalised in varied and creative ways. This has spanned annual general meetings or regular general members meetings, empowerment of boards, regular audits, information sharing, communication, etc. and a clearly defined role for management. Over time, the above cooperatives eventually established the balance between ensuring members' voices are heard and effective decision-making.
- v) Autonomy and independence has been crucial for the success of the cooperatives in the case studies. All have made progress based on their own initiative and efforts but with appropriate involvement from outsiders.

Even though not covered in the case studies, cooperation between cooperatives is an important factor identified by other researchers. Satgar and Williams (2008) cite the example of the Kenya Cooperative Bank which is characterised by bottom-up relations. This kind of cooperation also relates to national traditions and practices of cooperation.

In general Satgar and Williams concluded that there are three broad lessons that serve as important pre-conditions for ensuring endurance, cohesion and an ability to overcome problems over time:

- i) As generational institutions, cooperatives must innovate by constantly adapting, rethinking and redefining their place within new socio-economic environments.
- ii) Learning by doing. Given the human-centeredness of cooperatives, mistakes are bound to be made and learning from these mistakes is crucial for the sustainable evolution of cooperatives. Therefore, a mistake should not be a disaster and signal the death of the cooperative. A cooperative should be alive to the possibility that bad decisions can be made? Rectification and rethinking is crucial when gaining experience. This ability to learn from practice can also strengthen the confidence of cooperatives.
- iii) Developing problem-solving capacity is important. Getting advice, technical support and even strategic input can be developed from within a cooperative. Also, member empowerment and effective information flows are crucial to ensure problems can be solved with constructive input from members.
- iv) Having effective management in a cooperative is crucial.
- v) Capacitating boards for good governance is crucial.
- vi) The role of the cooperative movement is crucial for capacity building and overcoming related constraints.

## 5.2 The role of the state

There is a real danger that government will adopt inappropriate measures, supposedly to support cooperatives. There are already cases where opportunists style themselves as cooperatives out of no sense of communal solidarity but in order to benefit from ill-conceived cooperative support programmes. The incentive for this is government dispersal of grants without any attempt to establish their *bona fides*, let alone whether they are economically viable or sustainable (Theron, 2007). This is not the correct role for the state in promoting cooperatives.

### 5.2.1 Cooperation as part of a wider development agenda

According to Mayson (2002), the South African state would do well to learn from the experiences elsewhere that:

- i) Cooperatives are not the solution to all development problems, but are organisations that people choose to create. They have the ability to be extremely successful in many different ways.
- ii) Cooperatives are complex social organisations of business that bring many other complexities with them.
- iii) The focus of government and other support must be on creating an environment where the capacity of the participants to build their organisations themselves to operate in the normal business environment is the key to their success.

Generally, state interference with cooperatives is considered detrimental to their success. Mayson's study of the experiences of land-based/agricultural cooperatives in Cuba and Israel (Mayson, 2004 & 2002) shows that for cooperatives to succeed, they need an enabling legislative environment, supportive state and other institutions, access to means of production and economic assets, access to credit, interest rates, extension, access to markets, research and development and support for the expansion of production. In both Cuba and Israel, the role of the state was characterised by strong ideological and institutional support and decisive action to ensure that the success of cooperatives was based on the creation of an environment within which success was possible in spite of the constraints of access to capital, management expertise and the lack of a profile in the market within which new cooperatives particularly, operate. Other roles played by the state in the Cuban and Israeli cases were ensuring access to land, access to markets, the creation of an enabling legislative environment and ensuring access to credit.

Ideological support does not just come from government. In both Israel/Palestine and Cuba, an extensive set of other organisations exists to support and encourage cooperatives. (Mayson, 2002) In Israel, the different types of cooperatives have their linkages with the broader networks, the political parties and the labour unions. In Cuba, the agricultural cooperatives are both linked structurally into the national small-scale farmers association. Many of the members are members of the Communist Party, and furthermore, many are members of the local Defence of the Revolution committees and youth organisations. These different, connected structures assist in bolstering the

cooperative organisations at a broad level in terms of their interaction with the state, but also in terms of the internal dynamics of the cooperatives. (Mayson, 2002)

### **5.2.2 Enabling environment and a decisive state**

A key issue, in the success of cooperatives (and in fact all emerging businesses), appears to be the creation of environment within which it is possible to be successful, given the constraints mentioned by Mayson (2002) above. Mayson cites Hanel's detailing of the various components of the enabling environment that the state and other agencies can play. These include:

- Legal regulations and statutory provisions by the state
- Provision of facilities for information, education and training of members, board members, managers and staff of cooperatives.
- Provision of facilities for auditing and consulting services, especially as regards managerial assistance.
- Promotion of preferential treatment in favour of cooperatives when government is purchasing or marketing goods and services.
- Permitting tax reductions or exemptions for cooperatives.
- Provision of financial assistance to cooperatives in the form of credit, subsidies and grants in special cases.
- Promotion of anti-trust regulations to limit the ability of state or private enterprises to misuse their monopolistic market power.
- Support for institutions of self-help promotion to support and protect the establishment of efficient cooperatives.<sup>11</sup>

### **5.2.3 What roles can the South African state and its provincial arms play?**

Learning from all the above global experiences, in the South African case, state interventions have to be premised on the following:

- i) Build capacity through cooperative education, access to information, institutional development, and development of systems for the support and promotion of cooperative business skills and services.
- ii) Provide savings and loan based finance through the cooperative movement itself.
- iii) Provide financial assistance to cooperatives in the form of credit, subsidies and grants in

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<sup>11</sup> Hanel, 1992, 158-9.

special cases; all this done in a way which eliminates dependence and creates self-financing impulses within the cooperative movement.

- iv) Organise demand side opportunities with a 'sun-set' clause approach so as not to foster dependencies and to encourage diversification through procurement. More importantly will be the support for building powerful secondary cooperatives for marketing as well as consumer cooperatives.
- v) Consolidate the policy and legislative environment with a focus on the development of laws, regulations and policies for sectors of cooperatives (in particular the worker cooperative sector).
- vi) Provide effective legal regulations in keeping with the growth of the movement.
- vii) Consider appropriate tax reductions or exemptions for cooperatives.

Strategic state support needs to be precisely focused, targeted and attuned to challenges facing cooperatives and should be guided by the level of development of specific cooperatives, cooperative sectors and the cooperative movement as a whole. The state has to build capacity to be responsive without being populist or clientelist as this will allow the movement to find its way. The role of the state must be informed by the challenges facing cooperatives as defined by cooperatives themselves.

### **5.3 How the state must understand and respond to challenges facing cooperatives**

In light of these suggested roles for the state in the development of cooperatives, there are several key challenges facing South African cooperatives which require decisive state intervention without the state interfering inside cooperatives. These challenges are weak intra-governmental coordination which can frustrate potential cooperatives, lack of access to finance, failure to link land reform with the cooperative model, and the confusion brought to bear by the notion of Black Economic Empowerment (BEE).

In addition to these specific problems, cooperatives face the same problems as other small enterprises in an underdeveloped context: poor infrastructure: poor transport systems, lack of access to freight, high costs of raw materials and poor accessibility; lack of access to technical support in outlying areas; poor undeveloped local markets and external markets which seem impenetrable. These also point to an overarching challenge of how cooperatives can work alongside the state in building a movement and movement/support institutions as part of solving the very challenges discussed above.

#### **5.3.1 Access to finance**

International experience shows that no cooperative movement can survive without this. Different types of cooperatives will, of course, have different requirements with regard to finance, and indeed the promotion of cooperatives in the finance sector itself could make a significant contribution. One point that should be underscored is that cooperatives as collective enterprises should in principle be



better placed to address some of the impediments at specific enterprise level (Davies, 2000). Thus, by organising collectively, cooperatives should be able to raise more resources from their own capital than enterprises based either on individual ownership or small private companies. (Davies, 2000). The collective responsibility for repayment, albeit within the context of limited liability, should also be recognised as enhancing the credit worthiness of cooperatives vis-a-vis other forms of enterprise (Davies, 2000).

However, various research studies and public hearings in parliament have identified the major problems at the level of individual enterprises as including a lack of own start up finance and bankable collateral. Small enterprises in developed countries are often initially at least partly funded by taking out second mortgages on homes or accessing savings. In South Africa the majority of people who would form cooperatives generally lack the ability to contribute significant 'own finance' when starting enterprises. Many people also do not own assets that can put up as security to access loans. As a result, many of those that are able to overcome the significant hurdles in securing access to loan finance are 'over-gearred', i.e. saddled with huge debt repayable at high rates of interest.

According to Davies (2000), these are compounded by the structural characteristics as well as discriminatory attitudes and practices of the South African financial sector. However much the banks may deny it, there is overwhelming evidence that even in sectors where the banks themselves say they are, and should be involved, small and medium and black-owned enterprises encounter greater problems than their white counterparts because of reluctance to expand activities in this regard. It gets worse with cooperative enterprises where finance products from banks simply do not recognise the cooperative model, particularly for cooperatives owned by poor people without collateral and positive credit profiles. Commercial banks also say that they are structurally ill-equipped to service the micro-enterprise sector and can only provide loans to very small enterprises on a limited scale through specialist institutions. These structural features and practices have to do with legislation inherited from the previous order that is focused particularly on deposit-taking institutions and imposes significant fiduciary obligations on such bodies. This is seen as an impediment to the emergence of other types of securities-type institutions that might provide risk capital.

In addition, there are insufficient NGO-type retail finance service providers. Parastatals, including the Land Bank, Industrial Development Corporation, the National Empowerment Fund and Khula operate only in specific sectors or segments of the market or on too small a scale. This excludes cooperatives from their loan products. These problems are compounded by systemic features of the South African economy such as limited savings, inflation and high levels of unemployment.

The above underlines the need to build and develop self-financing mechanisms and institutions within the cooperative movement. International experience shows that members must invest in their co-operative and thereby show faith and commitment. Over time, it can also reduce dependency on outside finance. If significant, member investments can be used as a credit base when applying for a loan or asking for grant funding. The R1,400 paid by each member of the Heiveld cooperative was such an expression of faith and commitment. Successful cooperatives can use their surpluses as a means of self-financing. This can be done through reinvestment of retained profits and building of reserve funds given that profit maximisation is not the primary objective of cooperatives. In countries such as Britain and Canada, successful cooperatives divide their surplus

among reinvestment, building an internal capital pool, education and training, community development, and the allocation of additional bonus shares to members to increase their stake and commitment to the cooperative.

However, the majority of cooperative members in South Africa and the Eastern Cape do not have money to invest and potential members are generally poor. Many cooperatives have not reached a level where they can start building self-financing institutions. This is where government roles and forward-looking strategic thinking are critical. The proposed Eastern Cape Cooperative Development Programme could be one way of realising this. The challenge would be about how such a fund contributes to the development of self-financing institutions inside the cooperative movement itself. In general, South Africa does not yet have a framework conducive for public finance for the development of cooperatives. The proposed Cooperative Development Fund could, therefore, help build the financial infrastructure dedicated to the promotion of cooperatives. Existing cooperatives also need to be educated about the importance of, and encouraged to take the initial steps in, building cooperatively owned and controlled self-financing institutions. The existing savings and credit cooperatives can also be critical in laying the foundation for future self-financing institutions.

### **5.3.2 Access to markets**

Another crucial challenge for cooperative development in post-apartheid South Africa is the development of markets for cooperatives. The attempt to utilise community demand as a basis for development by many emerging cooperatives might not always be sustainable and so cooperatives have to find other channels to promote their products. In this regard, two important options can be considered. Firstly, a role for government in widening access for emerging cooperatives to the fair trade marketing system which privileges small scale producers in developing countries through its special labelling and verification system. Arts and crafts cooperatives, organic farming cooperatives, cultural cooperatives, etc. can have privileged access to this market and in this regard government and cooperatives should work closely with the international fair trade organisation to establish links with such markets. Secondly, the establishment of cooperative stores as part of consumer cooperatives in towns and city centres to support producer cooperatives.

### **5.3.3 Aligning land reform with the cooperative model**

Land redistribution and rural development are important to achieve rural development and greater equity in South Africa. However, the experience of land reform to date has not placed cooperatives at the centre. Where there have been groups of land reform beneficiaries working together, it has been primarily because of high prices of land to be acquired thus forcing potential beneficiaries to form large groups in order to pool their small state subsidy grants and thereby meet the high prices of land. Consequently, these groups have not made economic sense and the majority of them have collapsed (Mayson & Wetlihi, 2004). None of this should diminish the importance of the cooperative model for land reform particularly when it is taken into account that land reform beneficiaries face problems similar to cooperatives.

While the issues facing the post-1994 land-based/agricultural cooperatives are very specific problems of an agrarian reform nature, some of the key problems and challenges faced are similar

to issues facing other cooperatives. In many ways, this points to challenges in land and agrarian reform. However, it needs to be asked whether the promotion and support of cooperative forms of economic activities by land reform beneficiaries could not have created a more conducive basis for sustainable social and economic benefits. In terms of the history of cooperatives in white agriculture in South Africa, such a query is based on learned experience. Cooperatives could go a long way towards improving the economic opportunities of land reform beneficiaries and black farmers. However, the general neglect of post-transfer support, and the failure to integrate land reform within a wider programme of rural development, has severely limited the potential contribution of land-based cooperatives to livelihoods and to the revival of the rural economy.

In addition, Mayson & Wetlhi (2004) also identify the main problems facing land-based cooperatives as being access to secure land rights, understanding of group land holding and group dynamics, lack of support regarding group land holding and a lack of capacity and support regarding enterprise aspects of land-based cooperatives. Conflict amongst members of the group, lack of joint understanding of co-operation, mismanagement or incompetent management, highly complicated and expensive systems or no systems of group management and governance at all, are also additional problems.

#### **5.4 Worker cooperatives: potential and challenges**

The post-1994 crisis of unemployment has forced many people to look for self-employment options either in the informal part of the economy or cooperatives. This wave of worker cooperatives is not linked to the 1980s wave of trade union inspired cooperatives. It is therefore not surprising that Theron (2008) concludes that South Africa does not have a strong tradition of worker cooperatives.

##### **5.4.1 Defining a worker cooperative**

A worker cooperative is a business owned and run democratically by those who work in it. The cooperative form of organisation allows ordinary people to combine their energy, capital, and skills to gain steady employment and income, participate in the ownership and management of their business, and share the profits made from their investment and labour.

Worker cooperatives are unique both as cooperatives and businesses. They provide the worker-members with employment and income as well as ownership and control of the enterprise. Worker-members participate directly in decisions that affect them in their workplace as well as those that determine the growth and success of the business. Thus, members receive a fair share of the profits and control over the way their work is organised, performed, and managed. In this way members of a worker cooperative are both employees and decision-makers with complete control over their work environment. Profits are kept by the cooperative and there is often a strong commitment to skill sharing.

These cooperatives apply distinctive worker cooperative principles. The members take the full risks and benefits of working in, owning, and operating their cooperative business. Members are also required to equitably contribute to, and benefit from, the capital of their cooperative. They decide

how the net income, or net losses, are allocated and also have a governance and control role over the cooperative enterprise on a one-member-one-vote basis, by consensus decision-making, or other democratic structure. They work together (as opposed to being independent contractors) in a commonly owned business.

#### **5.4.2 Benefits of a worker cooperative**

When effectively organised and managed, the cooperative business structure offers worker-members the following benefits:

- i) Employment and the ability to generate income through becoming economically independent in a cooperative way.
- ii) Control over the way their work is organised, performed and managed through balancing workers' needs and concerns with the need for profits and efficiency. Worker cooperatives also emphasise the training and development of the members.
- iii) Employment security (as long as the enterprise is economically viable) through the generation of income and the provision of stable employment for members.
- iv) A financial and ownership stake through which members directly contribute to building the enterprise and sharing in its success.
- v) An opportunity to practise democracy in the workplace by participating directly in decisions that affect members and their workplace as well as those that determine the growth and success of the business.

Worker cooperatives can start in different conditions as follows:

*New starts:* The most common form in South Africa, where a group of unemployed persons organise a cooperative to achieve employment creation and retention. In many countries, government creates or helps fund special support structures to assist the unemployed in the setting up and running of small worker cooperative enterprises. In other cases, the trade unions and NGOs (with the support of the state) have also been active in supporting their formation. Other examples of *new starts* include the provision of public works programmes through the formation of labour-contracting co-operatives.

*Worker cooperative rescues:* These are formed by workers restructuring failing or bankrupt companies to save jobs. They were mostly born in the period of economic crisis, from the 1970s through to the 1990s. Countries where they have been successful include France, Italy, England and Argentina. Where successfully formed, government has played a role in providing support structures, including subsidising feasibility studies and developing turnaround strategies.

*Outsourcing of support services:* Workers take over support services outsourced or earmarked for outsourcing in the private and public sectors. This cooperative model provides alternatives to the

provision of services by private companies (who in turn exploit workers) with a model where workers can set decent standards of working and earning income.

*Organising workers in the informal sector:* Often pre-cooperative forms of enterprises in the informal sector are important 'nurseries' for entrepreneurial activities which could be transformed and formalised into worker co-operatives.

*Conversion of viable enterprise:* An existing private company converts into a worker cooperative by selling shares to its members, who then take over ownership and management.

Philip noted that in South Africa, there have been few cases of 'worker buyout' company conversions. Instead, there have been cases of Employee Share Ownership Schemes in worker buyouts, where the skills and experience are in place, but the form of the enterprise changes. The business fundamentals are already in place, and the focus has been changing the ownership and the mechanisms of control, and building a model of democracy in production. This has been a mechanism for building worker participation and ownership that has been pursued in many developed countries (Philip, 1997).

### **5.4.3 Problems facing worker cooperatives**

Commentators like Philip (2007) go as far as to strongly caution against a naïve belief that worker cooperatives provide a model for job-creation. Her main arguments are summarised here.

- i) There is a tendency for cooperatives to be the economic option of last resort, formed by people without alternatives, and without prior business experience and in economically marginal areas. Members often don't even have the necessary production skills for the enterprise they are setting up.
- ii) Economic viability is often questionable with feasibility studies either not done or unrealistic in their assumptions, among others, about available skills, available markets, and available supplies of raw materials. Typical cooperatives tend to be significantly over-supplied with labour, making it difficult to meet the wage requirements through suitable levels of production, and/or the capacity of the market to absorb the product produced. This emphasis on job creation has meant that potentially viable projects end up collapsing under the weight of excess labour.
- iii) Besides surviving economically as businesses, cooperatives have to deal with the complexities of democratic participation in production and management decisions. Philip argues that scant attention is paid to the economic fundamentals or to practical issues of production organisation and financial planning and management. Even where funds are available and it is agreed that management skills should be 'bought in' to the project, such skills are hard to find at almost any price in the local area. The cost of management thus affects the viability/sustainability of projects, and can exacerbate dependency on external technical assistance. The skills base for cooperatives is normally limited. This shows not only

in terms of problems of management, but also in terms of practical skills, where the cooperative may be producing a product without sufficient technical support to allow production of a quality product. Low levels of literacy in cooperatives also create problems.

- iv) The lack of any clear (or accepted) framework of policy and procedures for cooperatives as institutions in SA leads to a tendency for idealism in the structures of decision-making with democratic participation often taking precedence over the effective implementation of policy decisions and business plans. This lack of any real local producer cooperative tradition leads many cooperatives to put so much emphasis on participation that they are little short of anarchic, with very little clarity as to levels of authority for decision-making, and resistance to delegating such authority. In some circumstances, particularly in cooperatives with few members, pressure can be acute for even the most basic practical day-to-day decisions to be taken in full membership meetings.
- v) In many instances, the formation of a cooperative often signifies the arrival of external resources in an impoverished community. Control of those resources can become a battle, fought through the mechanisms of 'democratic participation'. Such resources need protection from misappropriation, as do those contributed by members. Struggles over the allocation of resources is acute when resources in the cooperative are scarce; but can be equally so when the cooperative starts to build up significant reserves.

Phillips believes that all of the above problems can impact negatively on productivity, which in turn can exacerbate all of the selfsame problems and send the cooperative into a downward spiral, with returns to members becoming unacceptably low.

#### **5.4.4 How worker cooperatives work out solutions**

However, Phillips' objections to worker cooperatives are contested in theory and practice (DTCC, 2003; Satgar, 2008 and Theron, 2008). In countries with strong worker cooperative traditions the management of labour in cooperatives has developed into highly evolved practices and cultures. Bennett (1984) argues "that cooperatives have not failed because of their inefficiency. Rather they have been squeezed out of the market because their potential outlets have been acquired by competitors, and because they are unable to grow to a sufficient size (being unable to acquire other firms), either to: (1) set up their own outlets, (2) have the strength to obtain a decent bargain with monopolistic buyers, (3) provide the range and flexibility of production available from large competitors".

There are a few local successful worker cooperative case studies which show that the management of labour in a worker cooperative is not an insuperable problem. The Nomzamo Cleaning Cooperative (sub-contracted by the Alice campus of the University of Fort Hare) dealt with the question of discipline by summoning an ill-disciplined worker to appear before a disciplinary committee of fellow workers. If the ill-discipline persists, the worker is summoned before a general meeting. This is obviously a cumbersome procedure, and has only happened four times in the five years since the cooperative was established (Theron, 2008).

Theron argues that discipline in a workers' cooperative cannot be as tight as in a hierarchical, for-profit enterprise yet workers must know that if they deliver a sub-standard service, they may lose the contract. This eventually happened when the University did not renew its contract with the cooperative. Theron (2008) concludes that in the case of the Nomzamo cooperative, whatever the workers may have felt about the university's decision to retrench them in 1997, they now clearly relate to their labour as members of a cooperative, rather than employees. Over the seven years of its existence, members of the cooperative developed a strong, and still growing, sense of owning the cooperative (Personal interviews, 2008). This is even more so now as the cancellation of the university contract has forced the cooperative to review its business plan, structures and systems as it looks to secure new business and open new production lines. Without a strong sense of ownership, the Nomzamo cooperative could not have survived providing services to the university for as long as it did (Theron, 2008).

Theron concludes his argument with a strong stand in favour of worker cooperatives as promoters of decent work in South Africa. The development of a vibrant cooperative movement holds at least as much potential for fulfilling a decent work agenda as do endeavours to organise and regulate the employment of workers in the formal workplace.

### **5.5 Movement building and support institutions**

Another extremely important challenge facing the South African cooperative sector at primary, secondary and sectoral levels is to engage in a patient and painstaking process of movement building from below. Furthermore, rebuilding the cooperative movement also means ensuring financial sustainability from within cooperatives with the movement anchored in its own capacity to finance its existence and thereby ensure its independence to a large extent. Simply throwing money at groups who call themselves cooperatives does not encourage building a movement from below.

It is also important to enhance the multi-class appeal of cooperatives and to ensure cooperatives are able to attract people with different kinds of skills. In this regard, tertiary academic institutions have to consider developing special degrees for cooperative managers, encouraging research and journals on cooperatives, developing text books and promoting the cooperative idea as part of development education. The curriculum in schools also needs to provide for an understanding of the cooperative model and its role in development and empowerment. Most importantly, in terms of skills development, there is a need for a national cooperatives college in South Africa which should be set up to train cooperators, government officials, NGO personnel and so on in cooperative practice. Such a college could also run specialised and advanced training courses for cooperative members who might want to specialise in particular areas of cooperative work.

Meanwhile, more evidence is needed on the efficacy of the government's institutional support systems for cooperative development as well as its coordinating mechanisms to synergise cooperative initiatives undertaken by different departments of government. The challenge for government is to find a balance between ensuring it provides strategic enabling support and opportunities for cooperators who are committed to collective effort and solidarity. Fostering a culture of self-reliance is crucial for asserting the independence of the cooperative movement.

Sometimes cooperatives can flourish with a minimum of institutional support. This could depend on many internal and external factors such as when there is a good economic opportunity or a limited economic purpose. However, the absence of institutional support can make a cooperative vulnerable and isolated from the broader cooperative movement and networks. Such institutional isolation can hinder the development of a cooperative's full potential (Theron, 2005).

South Africa needs to debate and rethink how the cooperative movements can be renewed and built. This debate must recognise what Satgar (2007) refers to as "two phases of failed movement building in the post-apartheid context" and learn from these experiences for a third phase, i.e. a bottom-up phase of movement building. Satgar also notes that the cooperative movement is emerging in a very difficult context in which the market is reorganising society and state intervention has generally contributed to the demobilisation of civil society in post-apartheid South Africa.

Satgar (2007) argues for a cooperative movement's approach to this debate and wider social transformation. At the core he places the challenge of how cooperatives express and constitute power. He believes that this power can enable cooperatives to transform how development happens and how class, race and gender work. They can confront ecological crisis and even define how the state should play its role. For this latent power to be realised, Satgar (2008) analyses the main attributes of cooperative movement power as being:

- i) *Structural Power:* Cooperatives have the potential to reorganise production and consumption in a society and thereby redistribute power away from the state and from capital by capturing markets, sectors and even constitute a parallel economy.
- ii) *Movement Power:* Cooperatives are not islands. A cooperative movement can be transformative and can shift power in society through using collective strength. Through alliances with other social forces and movements such power can affect progressive change.
- iii) *Direct Power:* Buttressed by structural and movement power the cooperative movement can also utilise its direct power. Grounded in its independence and autonomy, various direct forms of power and tactics can be utilised by the cooperative movement to shape society.

Satgar's perspectives are important reference points in the debate about efforts to rebuild the cooperative movement in South Africa. The state is an interested party but it must allow the cooperative movement to rise to the challenge without undue interference or the carrot of government resources which can introduce problematic dynamics in the emergence of the cooperative movement.

### **5.6 BEE and non-racial cooperatives**

With South Africa's history of racial oppression, it is important for the cooperative movements to confront and avoid the duality of 'black cooperatives' and 'white cooperatives'. It is crucial at a



policy level for government to think about the deracialising challenge for historically white cooperatives. While these cooperatives have a particular history, they have developed very successful cooperative practices in many instances and many in the farming sector have chosen to remain as cooperatives rather than convert to companies despite the challenges of liberalisation. In this regard, tax reform has a crucial role to play in possibly incentivising and hastening the process of deracialising 'white cooperatives' and fostering cooperation between black and white cooperatives.

The individualising nature of BEE does not work well with the cooperative model. The failure of the Masibambane 2000 (a construction cooperative) is a case in point. The cooperative's team leaders were sent on training courses designed for 'emergent contractors' as part of government's extensive and continuous government support provided to the so-called emergent contractors (Theron, 2005). This training was based on private sector enterprise models. The effect of this training, and the financial incentives that were on offer for 'emergent contractors' as opposed to team leaders, resulted in certain of the team leaders defecting and becoming emergent contractors (Theron, 2005). The cooperative was ultimately dissolved when the last of the team leaders to remain loyal to the cooperative found it was facing debts it could not pay (Theron, 2005).

While the new Cooperatives Act provides explicitly for cooperatives to be part of socio-economic strategies to empower black people (generically defined) it has thrown up numerous contradictions that constrain cooperative development in post-apartheid South Africa (Satgar, 2007). Firstly, the deracialising of companies, the procurement policies at most levels of government and the numerous BEE charters in various sectors have not benefited cooperatives directly. Hence, broad based BEE particularly, has not worked for cooperatives and has merely been about class formation at the upper ends of society. Secondly, and as corollary, the get-rich-quick logic of BEE in general does not assist with institutionalising cooperatives in a sustainable way on the ground. Expectations are high, as part of the populist nature of BEE, and hence short-term rent seeking behaviour is plaguing cooperative development. The corruption that flows from this has made it extremely difficult to build trust amongst groups in cooperative development processes.

Thirdly, the racially exclusive nature of BEE in general stands in direct contradiction to the international principles enshrined in the new Cooperatives Development Policy and Act. The 1st principle of the International Cooperative Alliance Statement of Identity on Cooperatives refers to 'voluntary and open membership' and in that regard membership cannot be restricted based on gender, social, racial, political or religious discrimination. Hence, the BEE approach in general is inconsistent with the essence of what a genuine cooperative is all about. The implication of a racially exclusive approach to cooperative development maintains a racialised duality in the South African cooperative sector which, in economic terms, is dominated by mainly white farming cooperatives. Put differently, a BEE approach does not foster solidarity and cooperation links between these historically white cooperatives and emerging black cooperatives. It also does not give impetus to deracialising these historically white cooperatives but instead reproduces the racial divide. Despite this, non-racial practices are taking root, based on an understanding of cooperative principles, and this needs to be encouraged. Thus a policy rethink is needed such that BEE in general does not undermine cooperative development in post-apartheid South Africa. It is time that serious consideration be given to uncoupling cooperatives from a BEE approach to development. Instead, a cooperative based approach and model of empowerment needs to prevail in the cooperative sector;

taking into account the fact that by definition, and inherently, cooperatives are empowerment based institutions.

## 6. CONCLUSION

In the case of political economies characterised by serious inequality, such as South Africa, a strong case can be made for government bias for cooperatives as preferred providers. Thus, it is not morally or economically unsound to relax rigidities demanded in an equal-competition environment. In fact, for the 'equal-competition' assumption to hold, it has to be matched by an equal capability to compete, which does not exist in our situation. Hence the need for an approach emphasising 'equitable' instead of 'equal'. Such an approach is warranted in this context in particular whereby government considers investments in infrastructure and other capital facilities for cooperatives. Such 'capability-equalising' investments can be considered a public good, which could then justify a later resort by government to 'equal competition', i.e. when the playing field has been somewhat levelled. This is the general approach that must inform what the South African state and its provincial forms do as they promote cooperatives.

Satgar (1999) argues that the main development potential of primary cooperatives resides in the following attributes:

- i) Internal capital formation when members pool fees and share purchases into an internal capital pool. This is further enlarged if cooperatives re-invest a portion of their surplus or borrow from member surpluses.
- ii) Locally based asset formation and control whereby the cooperative invests its capital in equipment and land or even inventory and thus contributes to local asset formation that would be controlled by member owners in the cooperative rather than an outside stakeholder. Through ownership member owners would be responsible for these assets and would also have the prerogative to dispose of them and even replenish them after depreciation sets in.
- iii) Link land redistribution to productive economic activity, especially in the case of rural development. Land reform policy can be implemented in a more sustainable manner and contribute to micro-economic activity and the efficacy of development strategy.
- iv) Employment through worker cooperatives providing for self-employment of members. However, this can be limited to survivalist jobs where members earn an income far less than a living wage and amounting to self exploitation.
- v) The building of cooperative movement networks, particularly when the demand and supply side of the market are organised through co-operatives. To this extent the market is socialised and controlled and co-ordinated by decisions made jointly by producers and consumers.

All these development potentials of cooperatives are important for the Eastern Cape given its socio-economic challenges and current efforts to overcome these. These efforts include the Provincial

Growth and Development Programme which places the question of structural transformation of the economy at the core of debates and policies. What development and accumulation path the Eastern Cape economy follows will also impact on the growth and development potential of cooperatives. In the Eastern Cape, structural transformation of the economy must also take into account agrarian reform, the development of new industries, skills development and social development.

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