

2012

LMIP WORKING PAPER 13

The State of Co-Operatives in South Africa

The Need for Further Research

Thembinkosi Twalo

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LABOUR MARKET
INTELLIGENCE PARTNERSHIP

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Date: 12 April 2012

Preface

One of the gravest economic challenges facing South Africa is high unemployment, but at the same time, a skills mismatch. The market demand for skilled labour is greater than the number of individuals completing post-school education and training. Prospective employers often complain that the education system does not give individuals the necessary skills to be productive in the workplace, or to start their own enterprises.

Government acknowledges that the unemployment crisis is a systematic problem and cannot be addressed by ad hoc interventions scattered across line departments. With this 'big picture' thinking in mind, DHET aims to create broad and equitable access to a full spectrum of post-school opportunities and lifelong learning encompassing adult education and training, workplace training, the FET college system, artisan and technical training, higher education and innovation.

DHET's ability to create these learning opportunities requires a network of partners to gather and maintain a labour market intelligence system. Such a system can provide analytical insights to support policies and intervention programmes.

In February 2012, therefore, DHET commissioned a HSRC led research consortium to support its capacity to create and maintain a labour market information and intelligence system, guided by the national Delivery Agreement 5. The primary focus is the development of a 'strategic intelligence capability' towards the establishment of 'a credible institutional mechanism for skills planning'. The HSRC coordinated research project is organised in terms of six interlocking research themes, two which focus on labour market information and four which focus on labour market intelligence:

- Theme 1. Establishing a foundation for labour market information systems in South Africa
- Theme 2. Skills forecasting: the supply and demand model (*a WITS EPU project*)
- Theme 3. Studies of selected priority sectors
- Theme 4. Reconfiguring the post-schooling sector
- Theme 5. Pathways through education and training and into the workplace
- Theme 6. Understanding changing artisanal occupational milieus and identities

The consortium made a strategic decision that their research must not duplicate or repeat existing research about the challenges facing South Africa's education and training system and labour markets. Their research must address gaps, promote synergies and explore complementarities.

Hence, as a first step, working papers were commissioned to inform the research agenda for each theme. Although the working papers cover different issues, each has four common dimensions: policy challenges to institutionalise and build a post-school education and training system in South Africa, lessons from seminal national and international research, conceptual frameworks, methodological issues and data challenges raised by this research, and potential research gaps.

One of the HSRC led consortium's goals is to create a living community of practice that researches and debates education, skills and labour market issues. These working papers were presented at a conference in May 2012 to start building such a research network.

The dissemination of these working papers is intended to encourage more individuals to join the research community. We look forward to individuals' comments. They can be emailed to agoldstuck@hsrc.za.za. Welcome to the research community!

Theme 1:	Theme 3:	Theme 4:	Theme 5:	Theme 6:
Establishing a foundation for labour market information system in South Africa	Studies of selected priority sectors	Reconfiguring the post-schooling sector	Pathways through education and training into the workplace	Understanding changing artisanal occupational milieus and identities
Simon McGrath Some international reflections on developing VET indicators	Haroon Bhorat and Morne Oosthuizen Studies of Selected Priority Sectors in the South African Labour Market: A Proposed Research Programme	Andre Kraak Private post-school education in South Africa	Michael Cosser Pathways through education and training and into the labour market	Angelique Wildschut Conceptualising the study of artisans
Phil Toner Establishing a foundation for labour market information systems in South Africa	Peter Jacobs and Tim Hart A critical review of the research on skills development in rural areas	Andre Kraak Differentiation in the post-school sector	Pundy Pillay Pathways through education and training and into the workplace: a concept paper	Jeanne Gamble Models and pathways to institutionalise apprenticeships
Anthony Gewer Developing a framework for institutional planning and monitoring in FET Colleges	Shirin Motala A critical review of research on skills development and labour market demand in the early childhood development sector	Joy Papier et al Contemporary issues in public FET colleges	Sharlene Swartz Navigational capacities for youth employment: A review of research, policies, frameworks and methodologies	
Carmel Marock Developing a framework for understanding SETA performance: Monitoring and evaluating their role in skills planning, steering and enabling a supply within their sector	Thembinkosi Twalo A comparative review of skills development in cooperatives	Veronica McKay A critical review on Adult Basic Education (ABET) in South Africa	Fiona Lewis Traffic jams or trees – how are South African youth progressing through the higher education sector? And what lessons can we learn from current studies?	
Bongiwe Mncwango Towards a demand side firm level survey of labour information in South Africa	Margaret Chitiga and Stewart Development of a national skills forecasting model	Thenjiwe Meyiwa and Nolutho Diko The state of graduate teacher transitions to the labour market	Stephanie Alais Jobs? What jobs? Skills? What skills? An overview of studies examining relationships between education and training and labour markets	

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Michael Cosser and Fabian Arendse Education and labour market indicators	Imraan Valodia Conceptualising skills development in the informal sector	Felix Maringe An overview of studies exploring systemic issues related to the South African post-school sector		
Joan Roodt National database sets and research on labour market demand		Peliwe Lolwana Is post-school education adult education and training? The shape and size of post-school education		
Mariette Visser National database sets available for post school sector (supply side)		Michelle Buchler A critical review of research on skills development qualifications structures		
Michael Gastrow Innovation, skills development and South African labour market intelligence		Volker Wedekind Towards responsiveness and employability in the post-school sector		

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INTRODUCTION

Co-operatives play a significant role in the country's economic growth, job creation and poverty reduction. However, the cooperatives' success potential in South Africa has been compromised because of how they are organised and their current operational structure which makes it difficult to have a clear picture of who is doing what, where and how. Moreover, there is no clear co-operatives status quo which would make it possible to know about the required interventions for their optimum performance. The current cooperatives data is rather scant and disjointed and thereby not useful for planning purposes. Knowing the co-operatives status quo is crucial for planning and intervention purposes, hence the purpose of a study on co-operatives is to draw a clear picture of the co-operatives status quo which includes how many they are, what they do, how the market for their products is, what the operating conditions are, what capacity enhancement needs they have, the nature of existing skills, registration status, membership to a wider business network, marketing, administration and management proficiencies, commercial or subsistence status, and feasibility of the enterprises.

This paper then gives a bird's eye view of the co-operatives sector in South Africa in an effort to highlight the need for a thorough investigation of its challenges. It starts by explicating the co-operatives concept and thereafter give motivation for the study of co-operatives , overview of the state of co-operatives in South Africa and thereafter give a snapshot of co-operatives internationally and the lessons South Africa could benefit from the international experience.

1. AN EXPLICATION OF THE CO-OPERATIVES CONCEPT

The South African Co-operatives Act No.14 of 2005 (The Presidency 2005) defines a co-operative along the same lines as the International Co-operative Alliance: an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (Rheingold 2007). The Act provides:

- A clear definition of co-operatives based on the internationally recognised principles of co-operatives,
- Clear regulation for the registration process of co-operatives by defining requirements and procedures,
- Rules for the functioning and operations of co-operatives,
- Clear rules for the capital and ownership structure of co-operatives,
- Regulations to govern audits, conversions, amalgamations, transfer, division and winding up of co-operative entities,
- Clear procedures for the administration of the Act by the registrar of co-operatives and the national Minister,
- For a Co-operative Advisory Board to play the role of a policy forum at a national level to ensure the implementation and realisation of the co-operative policy, legislation and support programs,

- For transitional measures to ensure that all existing co-operatives are realigned to the new law, and
- Special schedules that relate to housing co-operatives, worker co-operatives, financial services co-operatives and agricultural co-operatives (The Presidency 2005).

The coming together of the people in pursuit of a common goal has several dynamics. Depending on the context, the joint ownership of a co-operative has a potential to be constructive and successful or unhelpful, uncooperative and unsuccessful. The same applies to the democratic-control aspect. The negative effect, however, is mitigated through the application of all the co-operative principles. The seven principles on which co-operatives are established according to the International Labour Organisation (ILO) (2002) include (1) voluntary and open membership, (2) democratic member control, (3) member economic participation, (4) autonomy and independence, (5) education, training and information, (6) co-operation among co-operatives, (7) and concern for community. In addition to these, Crankshaw *et al* (1993) add that other hallmarks of co-operatives are fair distribution of profits and limited interest rate in share capital since the fundamental role of a co-operative is to serve and not to profit in a strictly business sense.

2. TYPES OF CO-OPERATIVES

Crankshaw *et al* (1993) identify six types of co-operatives in South Africa:

1. Worker co-operatives (businesses that are owned and controlled by those who work in them),
2. Consumer co-operatives (a group of people who buy goods together in bulk in order to get a discount and other collaboration benefits like equitable distribution of labour),
3. Housing co-operatives (a group of people who build houses together for co-operative members and also benefit by receiving benefits such as equitable distribution of labour),
4. Community businesses (businesses that are owned and controlled by a community),
5. Marketing co-operatives (a group of people who sell their products together through one organisation), and
6. Credit unions (stokvels or savings societies through which people save for a specific purpose – for example, burial societies – and offer loans to members and/or non-members).

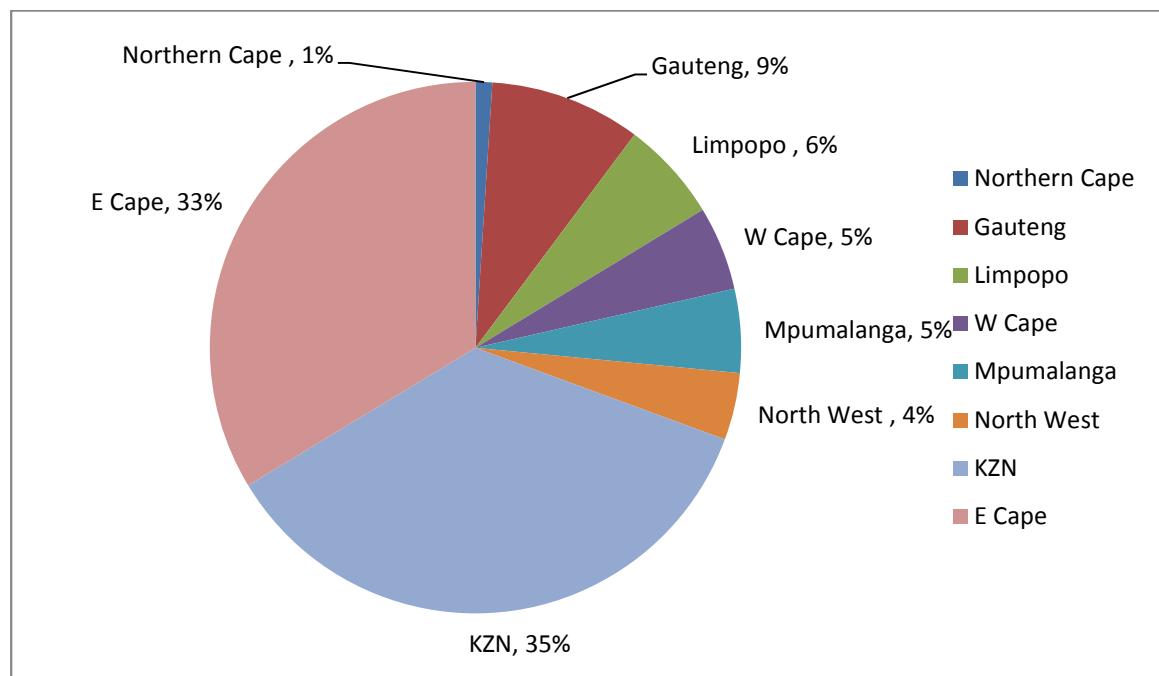
3. SIZE AND DISTRIBUTION OF THE CO-OPERATIVE SECTOR

The Department of Trade and Industry (2011) observes that despite the poor quality of statistics on co-operatives in South Africa, there are an estimated 22 030 active co-operatives according to the register of the Companies and Intellectual Property Registration Office (CIPRO). However, according to the DTI's baseline study, only 2 644 of the 22 030 'active' co-operatives could be confirmed to be operational. This 12 per cent "survival rate" is in stark contrast to the 86 per cent growth rate recorded between 2005 and 2009, when 19 550 co-operatives were registered, perhaps encouraged by the promulgation of the Co-operatives Act of 2005. The significant decline in the number of operational co-operatives could be attributed to, *inter alia*, recession and decreased support, training, capacity and resources which translated to their increased vulnerability and struggle to withstand competition from private businesses.

Theron (2008) provides a breakdown of co-operatives in Figure 1.1 which shows KwaZulu-Natal and the Eastern Cape to have the highest percentage of trading co-operatives (68%). Limpopo and the Eastern Cape are the poorest and second poorest provinces respectively, whereas Theron argues that the formation of co-operatives is a response to high poverty rates. With respect to the Eastern Cape this may be the case, but it is incongruent with Limpopo having only 6% of co-operatives. This then means that it still needs to be established as to what the exactly is responsible for the establishment of co-operatives because evidence is not enough to conclude that poverty alone causes their formation due to the inconsistencies.

Theron (2008) learns that many of the co-operatives in Limpopo, Free State, Northern Cape and North West were in survivalist mode because some of them had provided only a cell-phone number, while half of them had no telephone numbers at all. Theron concludes that such co-operatives have very limited prospects for expanding their operations. High telecommunication and transport costs and poor infrastructure are seen as major obstacles to expansion.

Figure 1 Breakdown of co-operatives by province



Source: Author's chart, based on Theron (2008)

4. CO-OPERATIVE BODIES IN SOUTH AFRICA

The South African National Apex Co-operative (SANACO) is the national representative body of co-operatives in South Africa. In line with its bottom up approach, it has provincial and municipal structures throughout the country. It is a product of the DTI (2008) initiative to establish an apex co-operative for the purpose of, inter alia, co-operatives representation and education, training and development facilitation.

Co-operative and Policy Alternative Center (COPAC) (2005, 31) reports that "the role of sectoral or apex bodies seems to be minimal as the majority of co-operatives (88.3%) are not linked to a sectoral and/or apex body". Since co-operatives that belong to such bodies benefit by receiving

training and capacity building, it is then ironic that most co-operatives do not belong to them as they reported a serious need for training. This would need to be investigated to establish the reason for this status quo. The question would be why some co-operatives are not affiliated to an apex body and the nature of benefit that members get from apex bodies. However, the quality of the training provided by these bodies also needs to be examined as most co-operatives reported receiving formation training and few received training in production and marketing. The trainers, on the whole, were “not from government, technical institutions, or SETAs [but from] ... support organizations and NGOs” (Ibid) which then raises questions about the accessibility of government support.

5. THE PURPOSE OF A STUDY ON CO-OPERATIVES

This study is part of the broader labour market intelligence study commissioned by the Department of Higher Education and Training (DHET). One of its goals is to bring together all researchers and data around skills development so that there could be a common repository, that is easily accessible and whose data speak to each other, thus avoid duplicating research and having data that is not comparable to other related data sets. Therefore, this study seeks to find out who is doing research on co-operatives, where they are, what methodologies and frameworks they use, what their limitations are, what kind of data challenges exist, and how these can be resolved.

A lesson learnt from the national skills survey conducted by the Human Sciences Research Council (HSRC, 2010) is that the current co-operatives data is inadequate and unreliable. For this reason, a new study on co-operatives was proposed which would form part of the the DHET’s project on labour market intelligence. Such a study would then seek to establish a clear state of affairs that would reveal the gaps in the data and the South African co-operatives system in general. The unveiling of the gaps will then inform planning and intervention strategies as well as future research needs as they will depict areas with challenges relating to data and/ business operations such as the need for appropriate data collection methods, means for accessing local and international markets, and challenges with accessing support in the form of funds, technical advice and infrastructure.

The support that co-operatives have received has been compromised because of how they are organised, perceived and managed. This is exacerbated by how data relating to their operations is disseminated as there is very little said about them in relation to conventional businesses. If less is known about them, then chances are that less will be done about them as the stakeholders would not be aware of their challenges. The Department of Economic Development and Environmental Affairs (DEDEA) and the Eastern Cape Socio-Economic Consultative Council (ECSECC) (2009) report that 36% of the Eastern Cape co-operatives that participated in the co-operatives baseline study reported they have no market for their products and they also need marketing support from the government as only 3.9% received such support. This lack of support is the opposite of that which commercial agriculture received as it “was built on a century of state support, state-controlled and regulated marketing, subsidies and incentives” (DEDEA and ECSECC 2009, 4).

In drawing a picture of the skills development status quo among co-operatives, this study will draw a global picture based on international literature on co-operatives for the purpose of seeing international best practices. This will also show what may be customised for the South African context with its economic, political and social dynamics. A lot could be learnt from countries with successful co-operatives like India and New Zealand and also countries whose co-operatives’ success

has diminished like Tanzania and Zimbabwe. Furthermore, the participation of young people in co-operatives could help in making a marked improvement on the plight of the millions of NEETs (those who are Not in Education, Employment, or Training).

6. OVERVIEW OF SIMILAR CO-OPERATIVE STUDIES BY OTHER STAKEHOLDERS

In 2005, COPAC(2005) conducted a survey of co-operatives in Gauteng for the purpose of gaining better understanding of the co-operatives' environment and practices. In working with Gauteng co-operatives since 1999, COPAC experienced planning and intervention difficulties as there was no reliable, accurate and up to date data on the state of co-operatives in the province. Consequently the survey's focus was on the formation of co-operatives, structure and membership, type of activities, capacity, support and assets, and finances of co-operatives. Quantitative methods of data collection were used which included sending a detailed questionnaire to all co-operatives in Gauteng. The questionnaire was a product of a close collaboration between COPAC field workers and co-operatives members and this was helpful in formulating appropriate questions and simplifying the language.

The national skills survey (NSS, 2010) report alludes to challenges encountered with inaccuracy of the companies' data from SARS and Department of Labour databases as many of the contact details were incorrect. It is interesting that COPAC (2005) also reported encountering similar challenges with the Registrar of Co-operatives' contact list because only few of the 266 Gauteng co-operatives had correct contact details. This meant COPAC had to recreate an updated contact list through phoning all the co-operatives with incorrect contact details using the telephone directory.

The challenges with data means that more creative ways of data collection need to be used as the COPAC (2005) and NSS 2010 experiences show that it is difficult to get responses to mail and email questionnaires. Telephonic interviews may be cheaper, but the people's fatigue with many companies' telesales and telemarketing may be a deterrent. The growth of the call center industry, through which telephonic interviews are made, has been helpful for job creation and cutting sales and marketing expenses as many sales people no longer have to move from one place to the other selling products or doing interviews. Conversely, it has also created irritation and lethargy with 'Private Calls'¹. In light of this, the telemarketing strategy is unlikely to be successful especially because many co-operative members have low levels of formal education and limited communication infrastructure. A more costly but more efficacious strategy seems to be the sending of fieldworkers to those co-operatives that have not mailed or emailed the completed questionnaires even after telephonic follow ups. Despite its efficacy, it is not sustainable as a regular data collection mechanism to keep the register of co-operatives information up to date. A tracking system that will inform about the co-operatives' state of business has to be established so that, for supporting purposes, it may be clear who needs help before it is too late. Such a tracking system could be linked to the respective sector education and training authorities (SETAs) as they are more in touch with the enterprises through, inter alia, mechanisms like Education Training and Quality Assurance.

¹ Private call is usually how the caller information is displayed on the screen. Such callers include sales, marketing and other promotional work staff.

7. THE CO-OPERATIVES ROLE IN IMPROVING THE QUALITY OF LIFE

The president of the International Co-operative Alliance, Dame Pauline Green (2011), observes that co-operatives have significantly contributed in “improving the standards of living of half the world’s population ... as they lifted millions out of poverty ... [since] nearly 1 billion people owned shares in co-operatives worldwide”. This attests to the observation that co-operatives play a significant role in the country’s economic growth, job creation and poverty reduction.

The U.S. Overseas Co-operative Development Council (OCDC) emphasises that “a co-operative is first and foremost a business organization” (Mellor 2009). Where possible, it thus simultaneously responds to humanitarian concerns and business imperatives. The OCDC further observed that in various parts of the world, urbanisation created housing problems – a burden too heavy for low-income families. Housing co-operatives respond to this challenge by bringing people with this challenge together to share the workload. Credit co-operatives may focus on this market as many of the members may not qualify for bank loans since they may either be unemployed or have no collateral. It is for this reason that in South Africa there are several mechanisms used for bridging the formal and informal economies wherein some are unemployed and to add salt to the wound they also have no collateral for making loans and others are employed and in addition to such leverage they also have the required collateral for making loans. Co-operatives are just some of the mechanisms for bridging this divide.

8. BRIDGING THE FORMAL AND INFORMAL ECONOMIES DIVIDE THROUGH CO-OPERATIVES

In South Africa, Theron (2008: 313) lauds the Department of Trade and Industry’s (DTI’s) co-operatives policy which acknowledges “the role co-operatives can play in bridging the divide between the formal and informal economies and in creating employment for disadvantaged groups such as women and the youth”. However, the increasing gap between the rich and the poor as well as the soaring poverty and unemployment levels clearly indicate that the co-operatives have not succeeded in closing the divide. It is rather concerning that the strategic positioning of co-operatives is not optimally utilised. Most of them are community based and operate at local municipality level which means they operate at grassroots level where they can be easily accessed by those who need them most. Had they been successfully playing their role, they could have been useful in speeding up the delivery of basic services, employment creation and poverty reduction. Bale (2011) argues that this proximity advantage is not fully capitalised on because co-operatives are subjected to stringent bureaucratic processes, which have a tendency to slow down service delivery. This could be one of the reasons why the co-operatives have not functioned optimally and it needs to be investigated further to ascertain how bureaucratic processes impede co-operative development and success.

Contemplating the bridging of the divide between the formal and informal economies, Mbeki (2003) argued that a stronger first-world economy would enable the tackling of the problems posed by the third world economy. However, he admitted the challenge with people in the third-world economy is that they are structurally disconnected from the first-world economy because the skills profile of many of the unemployed is very low in a knowledge economy context that requires higher skills levels. Consequently, this “renders many of the unskilled both unemployable and incapable of starting any small business that requires one skill or another” (p. 2). If most co-operative members have low education levels and the failure rate of co-operatives is very high, it stands to reason that

Mbeki's assertion that members of the third world economy are incapable of starting small businesses due to skills shortage could be true. The fact that although it is only about 20 percent, but the Limpopo province has the highest survival rate of co-operatives buttresses the observation that the failure rate of co-operatives is very high (Mtshizana 2011). However, further evidence is required with regard to the issue of the ability of members of the third world economy to create successful businesses so as to enable decision makers and policy makers to decide:

- if it is worth investing in co-operatives if most members have low skills levels, therefore, their businesses are most likely to fail or
- how best to invest in co-operatives – up-skill the members through various skills development initiatives or pump in resources in an effort to kick start them.

Although in reality, most co-operatives operate in the second economy, their unproblematic placement in this tier as if they should be there and not in the first economy could be contributing to their high failure rate. COPAC (2005), for instance, assumes that they are not capable of operating in the first economy because they “are empowerment and developmental enterprises that need to be nurtured and supported in the ‘second economy’”, thus they cannot cope with the private sector competitive pressures².

Similarly, the unproblematic placement of co-operatives in the second economy locks them in that tier as it does not provide exit points. For feasibility purposes, co-operatives should serve their immediate environment but opportunities for their expansion should also be enhanced hence Shexane argues that the “government needs to inform communities about economic opportunities in their own areas, facilitate access to markets with industry players, link these with targeted skills programmes and most importantly drive these initiatives through the Provincial Industrial Strategy,” (Shexane 2011) This allocates only a subsistence role to co-operatives yet there are many thriving co-operatives especially those that were formed under the auspices of the Afrikaner economic empowerment. Few examples include co-operatives such as the Cape Wine Growers or *Ko-operatiewe Wynbouers Vereniging* (KWV) which was started as a marketing co-operative for farmers who came together to market their wine and buy seed and machinery together; Volkskas which started as a co-operative bank and later merged with United Bank, Allied Bank and Trust Bank to form Amalgamated Banks of South Africa (ABSA); *Afrikaner Verbond Begrafnis Ondernemings Beperk* (Avbob), that is, the Covenant Funeral Enterprises Limited which is currently “South Africa's biggest funeral parlour” (Bauer 2011); *Suid-Afrikanse Nasionale Trust Maatskappy* (Santam) which is one of South Africa's leading short term insurance. This underscores the fact that co-operatives have a potential to transcend the informal economy into the mainstream if they are properly organised and supported. However, it needs to be established as to why co-operatives operating in the black economic empowerment (BEE) era are not as productive as those formed under the auspices of the afrikaner economic empowerment (AEE).

² This mentality is akin to the use of the term ‘emerging farmers’ to refer to Black farmers and commercial farmers to refer to White farmers. The use of ‘emerging farmers’ encapsulates Black farmers who have long been practicing farmers which then suggests that one does not graduate from being an emerging farmer.

9. SKILLS DEVELOPMENT IN THE CO-OPERATIVES SECTOR

The lack of skills has been identified as one of the reasons why some co-operatives have not been able to operate in the formal economy. Therefore, the low skills profile of many co-operatives members requires immediate attention. One way of addressing this could be the introduction of minimum education requirements for co-operative membership if government perceives that materially supporting co-operatives whose members have low education qualifications as a poor investment. This, however, could be a catch twenty-two situation, as it would work against the co-operative principles of open and voluntary membership, autonomy and independence.

If policy makers decide that the best route to take is to up-skill co-operative members prior material support, then that would mean there has to be urgent, concerted and focused training interventions for co-operatives in their geographical and sectoral locations. In addition to the co-operative members low technical skills, Kanyane (2011: 46) adds that they also have no prior business experience and operate in economically marginal areas, “hence their chances of success are reduced to an absolute minimum”.

However, some co-operatives have shot themselves in the foot by up-skilling their members. Theron (2008) discusses the Masibambane 2000 co-operative experience wherein the leadership was sent on emerging contractors training and upon completion, they defected to form their private contractors as that had better financial incentives. In many such cases, the investor (mostly government or donors) and the loyal members usually have no recourse as there is nothing to bind members who wish to defect.

According to COPAC (2005), the strength of co-operatives and the difference between them and private businesses is their reliance on bonds of solidarity between members. This, at times, has proven to be their weakness as things fall apart when these bonds are compromised due to pursuit of personal interests at the expense of the group interests like the several reported cases of maladministration, abuse of co-operative funds and theft of the co-operatives’ intellectual property.

The lack of appropriate skills is a fertile ground for poor financial management which then compromises the success potential of the co-operatives and therefore making co-operatives successful businesses is a challenge when the appropriate skills are lacking.

10. CO-OPERATIVES AS BUSINESSES

In light of his international observation, the President of the UN General Assembly Joseph Deiss (2011) pleaded that “people in decision-making positions ... should know about the size, scale and scope” of co-operatives and these businesses should be given equal promotion alongside the other conventional business models. The perception of co-operatives as subsistence institutions has also contributed to diminishing their status below that of conventional businesses. Prudent investigation into obstacles like these then needs to be undertaken, so as to unleash the co-operatives’ potential by pointing out what is working and what is not working in the South African co-operatives system. This is crucial because co-operatives play a significant role in the country’s economic growth, job creation and poverty reduction although what they could potentially achieve gets compromised due to lack of skills, challenge with accessing markets and other internal co-operatives dynamics that include poor work ethic.

To efficiently contribute towards economic growth without internal hurdles, it is crucial for the co-operatives principles to be specified as much as possible in the co-operatives constitution. The terms and conditions for each principle need to be spelled out and the same applies to the roles and responsibilities of each member. For instance, the voluntary and open membership principle needs to specify if right of admission is reserved and if so under what conditions will admission be declined. In light of the varying capacities of the members, the issue of member economic participation is another principle with a potential for conflict if not clarified. Since Crankshaw *et al* (1993) argues that the hallmarks of co-operatives are fair distribution of profits and limited interest in share capital, the meaning of fairness in this context needs to be unpacked.

In private business, a finance officer with a bachelors degree and a cleaner with no formal education may contribute the same amount of hours, but be remunerated differently with the cleaner earning less. Such labour market variations are sometimes difficult to justify in a co-operative context whose motto is 'we are in this together'. According to Kaufmann and Hotchkiss (2006), private businesses apply the marginal productivity theory of demand which suggests that the determinant of employing additional labour depends on the worker's marginal revenue product (MRP), because firms do not demand labour for its own sake, but for the sake of products and services derived from human capital. MRP is the additional increase in the firm's total revenue as a result of employing an additional worker. This principle suggests that if a co-operative needs to increase its total revenue, and there are two people to choose from, one being a finance officer and another one being a cleaner, chances are that the finance officer would get the job on the assumption that s/he will add positively to revenue more than the cleaner. Caveat is in order in this regard because employability chances depend on the needs of the enterprise at a given moment in addition to the positive contribution to its revenue. For fairness sake, this then needs to be determined by the co-operatives and would then be helpful for determining the remuneration structure. Therefore, the remuneration structure in co-operatives needs to be investigated to establish what informs it and also see if it is determined along the lines of private businesses or along the spirit of co-operatives and the implications thereof.

11. PROVINCIAL AND MUNICIPAL STUDIES ON THE STATE OF CO-OPERATIVES IN SOUTH AFRICA

There are some national and provincial policy documents like the Co-Operatives Development Strategy of South Africa 2004 – 2014, Gauteng Co-operative's Development Policy and Implementation Strategy and Strategy and Implementation Plan for Support and Development of Co-operatives in the Eastern Cape Province. However, there is very little research done on the Provincial and Municipal state of co-operatives in South Africa. The few studies done include those by the Co-operative and Policy Alternative Center (COPAC) which conducted research in the Gauteng province.

COPAC (2005) reports that most of the Ekurhuleni Municipality co-operatives that were established between 2001 and 2005 were due to the Ekurhuleni Local Economic Development department initiatives. In fact, in Gauteng 54.2% of the co-operatives reported that the local, provincial, or national government had initiated their startup, while 24.1% were self-initiated (*Ibid*). In light of the assumption that enterprises that are a result of the top-down approach are not as resilient to failure as those that are self-initiated, it would be helpful to have this corroborated with facts and statistics.

This may also help to unpack the ownership aspect of the co-operative establishment because ownership of the vision is likely to translate to more resiliency in the face of difficulty than mere ownership of the business. Such information could better prepare the decision makers and enable them to know which co-operative model is viable and therefore allocate resources accordingly.

Since most co-operatives in Gauteng are in a fledgling state and were formed through some government intervention requires that they be analysed to ascertain their state (failing, succeeding or just existing) which would either question or justify the investment made by the government, and whether the government needs to continue or discontinue with such investments. Although government supported the establishment of many co-operatives, the extent and nature of government support also needs to be analysed as one school of thought holds that such support is mostly for initiating the co-operatives into legal entities, but without sufficient support for ensuring their development into self-sustaining institutions through provision of, *inter alia*, aftercare and production-related training, finance and marketing (Department of Economic Development and Environmental Affairs and the Eastern Cape Socio-Economic Consultative Council, 2009).

The fact that some of the Gauteng co-operatives were formed as far back as the 70s and are still operational when most have a short life span raises important questions about what keeps them going. This is worth establishing in light of the assertion that “9 of 10 new businesses fail within their first year” and this is attributable to the lack of “business knowledge, market awareness, hands on management, sufficient capital and hard work” (Gardner Business Solutions 2011). It is also important to know the hallmarks of sustainable co-operatives – self initiated or government initiated, few members or many members, rural or urban, male dominated or female dominated, youth dominated or elders dominated, members with high education levels or members with low education levels.

Moreover, with operational co-operatives, it would be useful to know their state to see if they are income generating and have full-scale economic activity. For the failing or failed ones, it would be useful to analyse the cause(s) for such. Analyzing the Gauteng co-operatives loss of membership, COPAC (2005) learned that the reasons included members who stopped coming to the co-operative (36.5%), members who were not happy with the co-operative (28.5%) and dismissals (7.9%). Such reasons, however, are not sufficient for formulating a strategy for addressing the attrition challenges in co-operatives as they do not explain why some members stopped coming, why were others not happy and why were others dismissed. If this information is lacking, one, therefore, cannot formulate a strategy for preventing unhappiness, dismissals and attrition within co-operatives.

12. CHALLENGES FACED BY CO-OPERATIVES IN SOUTH AFRICA

The co-operatives’ success potential in South Africa has been compromised because of how they are organised and their current operational structure which makes it difficult to have a clear picture of who is doing what, where and how. Therefore, there is no clear status quo which would make it possible to know about the required interventions for their optimum performance. Consequently, data for co-operatives planning is rather scant as the current one is disjointed and held by various institutions which include the DTI, provincial governments, Departments of Agriculture (national and provincial), Department of Social Development (national and provincial), SANACO, COPAC, UNISA and the German Co-operative and Raiffeisen Confederation (DGRV). This makes it difficult to draw a clear picture of where the co-operatives are located, how many they are, what they do, how the

market for their products perform, what the operating conditions in which they operate are like, what capacity enhancement needs they have, the nature of existing skills, registration status, membership to a wider business network, marketing, administration and management proficiencies, commercial or subsistence status and feasibility of the enterprises.

A study conducted by the National Co-operative Association of South Africa (NCASA), (2004, 4) revealed that “like SMMEs, co-operatives face a number of major constraints including a lack of capacity (including skills and training) to operate co-operative enterprises efficiently, limited availability of start-up and expansion capital, and limited access to markets and information on business opportunities”.

Theron (2008) reports that co-operatives often experience cash flow problems partly due to their difficulty in accessing equity capital from the members (most of them usually have no stable source of income, thus too poor to afford it) and commercial banks (banks perceive most co-operatives as high-risk clients due to their lack of collateral). Currently, there are no effective mechanisms for forcing co-operatives who are defaulting with their loan repayments to make the repayments. The conventional practice is that if one defaults on a house mortgage or a vehicle loan, there should be a tangible asset the lender can repossess and sell to recover losses. Since co-operatives generally do not have enough assets that could serve as collateral, the banks then get reluctant to finance them. Moreover, to qualify for a bank loan, the banks need to get and assess one’s proof of income such as a payslip or bank statements, which many co-operatives do not have.

Moreover, COPAC (2005) reports that the challenges experienced by some co-operatives include internal problems which are administrative and management related as well as lack of accountability, lack of commitment, absenteeism, and theft. . It is important to know the recourse co-operatives have in such cases, although one would assume that such aspect should be covered in the respective co-operatives constitution. The contents, power and application of the co-operatives’ constitutions need to be analysed in order to determine if these are efficacious documents for supporting the enterprise. Similarly, COPAC (2005) revealed that although many co-operatives in Gauteng reported to be having business plans, some reported that they did not know how to use them and others did not have any business plans.

The lack of commitment could be due to a number of factors which include over-reliance on the government. As much as some co-operatives need government support, this needs to be carefully investigated as the line of demarcation between a dependency syndrome and genuine need for support is sometimes very thin. Fowler (1995: 155) notes that “one of the legacies of colonialism that stands in the way of Africa’s liberation is the syndrome of dependence. Its most obvious symptom is economic dependence”. Since dependence does more harm than good, as it delays self-driven development and economic liberation, the 1967 Arusha Declaration which was the policy of the Tanganyika African National Union lead by Julius Nyerere (1967), gives a recipe for overcoming the dependency syndrome:

If every individual is self-reliant, the ten-house cell will be self-reliant; if all the cells are self-reliant the whole ward would be self-reliant; and if wards are self-reliant the District will be self-reliant. If the Districts are self-reliant then the Region is self-reliant, and if regions are self-reliant, then the whole Nation is self-reliant.

The co-operatives support systems, however, do not seem to distinguish between those who are indefinitely dependent on government support and those who genuinely need support to either kick start the business or help in an area of difficulty. Interestingly, COPAC (2005, 30) observed that “co-operatives that were self initiated are much better off in terms of asset base than those initiated by government”. Investigating this is crucial as those that were initiated by government may be expecting the government to do everything for them while the self initiated ones may have adopted Steve Biko’s attitude ‘Black man, you’re on your own’ and applied it to co-operatives to say ‘co-operative members, you’re on your own’. COPAC (2005, 38), however, infers that “co-operatives initiated by government in Gauteng have not been about broad-based black economic empowerment, but rather have been about setting up the poor for failure. More sharply, it has been about pushing the poor back into poverty”. This is a very crucial observation which underscores the need to investigate the effect of government intervention and ‘support’ in the co-operatives’ success or failure.

Co-operatives also face competition from private enterprises. Mellor (2009) observes that credit co-operatives often start business in rural areas where many banking facilities are unavailable. When the co-operatives have lead the way, private banks then follow and thereby increase competition. Private banks are well established, they operate nationally and others internationally. For this reason, they can afford to offer relatively low interest rates and they also offer a variety of products which include loans for various purposes, overdrafts, credit cards, savings facilities, and insurance. Credit co-operatives then find it difficult to compete with them and thereby get forced out of business.

Furthermore, small farmers also rarely benefit from the contract farming arrangements required by supermarkets since they are not sufficiently organized for this purpose. Consequently, the supermarkets import the goods which could have been procured locally because they do not see it as their responsibility to organize the myriad of farmers. The Department of Agriculture has the responsibility of organizing and supporting farmers so that small farmers could be able to grow and meet the demands of big retailers and multinational co-operations. This needs to be probed further to establish what the structural and organizational impediments are which prohibit the small farmers from being organized (through the Department of Agriculture or by themselves) into unified bodies that can do business with established retail organisations. Burgess (2011) uses the Kat River Valley Citrus farmers’ example to reveal that one of the working solutions proven in the Eastern Cape is partnerships between successful businesses and black emerging cooperatives based on business principles. Furthermore, anecdotal evidence suggests that the goods quality and quantity may also contribute to the retailers’ preference of imports in lieu of locally produced ones. This again needs to be investigated to establish if the farmers collectively cannot meet the retailers’ demands. Such collaboration could also enhance quality because it is more economical to give production training and advice to co-operative members rather than to individuals.

The other challenges co-operatives face include, but are not limited to, lack of demand for products, poor quality products, uncompetitive prices, lack of business management and marketing skills, lack of organisational and administrative skills and poor teamwork skills. Some of these challenges, like the lack of demand for products, are inevitable in the light of Kanyane’s (2011) observation above that most co-operatives operate in economically marginal areas. Consequently it does not matter how much skills development training co-operative members receive, if the economy is still centralised, enterprises which operate at the margins are not likely to succeed. The co-operatives

status quo should then indicate their areas of operation and challenges thereof so that the governments' intervention strategies may not be a one-size-fits-all.

A major challenge stems from the regulatory environment within which co-operatives operate. Co-operatives are meant to be autonomous, allowing for the voluntary meeting of people for their common economic, social, and cultural needs and aspirations. It still needs to be established if government practices are consistent with the Co-operatives Act of 2005 in relation to regulation, management, registration processes, rules for functioning and operation, rules for capital and ownership structures, and administration of co-operatives. This is crucial for assuring co-operative autonomy and success. On the one hand, for the sake of accountability, there has to be legislation, monitoring and evaluation of co-operative functioning to ensure returns on government investment in the sector. But there are unintended consequences of such intervention. One is the challenge of illiteracy, the fact that accessing government's support programmes requires completion of forms which are mostly written in English. Such an obstacle compromises the good intentions of government and leaves co-operatives struggling, notwithstanding the publicised availability of assistance. On the other hand, it is important to examine the effect of government's intervention on the autonomy, and independence of the co-operatives and see to what extent the co-operative practices are enhanced or stifled by the government's requirements.

The operation of co-operatives in silos is another impediment to their development and graduation into the first economy. The COPAC (2005) study revealed that this practice also exists in Gauteng as many co-operatives are not interlinked and there are no upstream and downstream value chain linkages in all the co-operative sub-sectors which clearly overlooks the co-operation among co-operatives principle.

13. CO-OPERATIVES INTERNATIONALLY: LESSONS FOR SOUTH AFRICA

It transpired in the DEDEA and ECSECC (2009) study that there is minimal co-operation among co-operatives in the Eastern Cape. This was also manifested by the fact that none of the co-operatives have relationships with provincial or national apex bodies despite the availability of Eastern Cape Tertiary Co-operative and SANACO which are provincial and national apex bodies respectively. DEDEA and ECSECC also observed that this is also, to some extent, caused by the fact that co-operatives see one another as competitors. Such unproductive relationships among co-operatives are unfortunate especially in light of the productive regional network of co-operatives in Mondragon in Spain which shows that co-operatives function best when they co-operate with each other and control entire value-chains and regions. The Mondragon Corporation is a federation of worker co-operatives and 256 companies which started by producing paraffin heaters and whose business model is people and the sovereignty of labour. It is now the seventh largest Spanish company and employs up to 83,859 people who work in finance, industry, retail and knowledge (Mondragon Corporation 2009).

Wanyama et al (2009) conducted a study on eleven African countries to ascertain the strengths and weaknesses of the co-operative movement in terms of poverty reduction through job creation, generation of economic activities, social cohesion and centralisation of the marginalised groups in society. The report is dichotomised with the first section dealing with the origin and arrest of co-operatives by the state and the second section dealing with the impact of the triumph of liberalism

over communism and socialism which resulted in trade liberalisation and reduction of state support for co-operatives.

Wanyama et al (2009) argue that due to the close association and participation of the state in co-operatives and also use of co-operatives for political interests, the state's failure to meet developmental goals inevitably affected the performance of the co-operatives. There is a school of thought which holds that state control stifled the economic contribution and performance of co-operatives, but in light of limited impact assessment research it is not easy to conclude that liberalisation augurs well for optimum economic contribution by the co-operatives. The colonial state had to control the co-operatives since they were established to serve the interests of the colonisers like enhancing the productivity of the white farmers. Although Africans were allowed to have their co-operatives, the activities were regulated by the state so that they may not pose competition threat to white co-operatives.

The post-independence states also deemed it necessary to control the co-operatives in an attempt to redress colonial imbalances. Post-independence leaders saw co-operatives as good vehicles for nation building as they believed in their "potential to mobilise local human resources to serve the entire nation and to transcend the existing class and/or ethnic divisions" (Wanyama et al, 2009:5). The nature and role of co-operatives evolved in the post-independent era to include being made sole agents for processing, marketing and exporting farmers produce like coffee, cotton and pyrethrum in countries like Kenya, Uganda and Tanzania. The implementation of socialism in post-independent Tanzania together with the government's urgency to deliver rapid development translated in the coercion of people to join co-operatives and discrimination of non-co-operative members. People were encouraged and/or coerced to live and work on a co-operative basis in ujamaa (familyhood) villages to ensure collectivisation of agriculture, large-scale nationalization, enhancement of traditional values and responsibilities around kinship. Co-operatives also served donor organisations as instruments for channelling grants to recipients but the unintended consequence was "dependence on external funding and the subsequent external accountability rather than internal accountability" (Wanyama et al, 2009:8). However, the top down approach, lack of autonomy, inefficiencies, mismanagement, price controls and irregularities lead to their failure to make headways towards the development goals and subsequently the withdrawal of the state from co-operatives.

The withdrawal of the state from co-operatives was a curate's egg as in other countries it meant the withdrawal of support services like audit, supervision and management training without replacement by the same from the co-operatives. Giving autonomy to co-operatives was meant to enable them to participate in the market economy but without the state protection the competition proved rather difficult for some co-operatives as the market had many sellers and buyers. As private buyers paid better and promptly, co-operative members were not encouraged to retain their affiliation especially because the other membership benefits had been eroded. These challenges together with low business efficiency, weak capital base, heavy indebtedness, limited credit worthiness, weak entrepreneurial capability resulted in many co-operatives being financially unstable and insolvent.

The operation of co-operatives in the liberalised environment wherein they are restructured and disentangled from state control and are run on business principles in line with the market economy seems to be working well for other co-operatives. Wanyama et al (2009) argue that 'the fit' co-

operatives survived liberalisation and observed several success stories in various countries that are presented in Table 7 below. Furthermore, state intervention in other countries saved the co-operatives from collapsing in the liberalised economy. By and large, Wanyama et al argue that liberalisation is not necessarily bad for co-operatives but their inadequate preparation for the new environment is the main cause for the poor performance and/or demise.

Wanyama et al (2009) identified three main reasons behind the emerging success of savings and credit co-operatives in some African countries namely:

1. Reliance on their own financial resources in order to avoid dependency
2. Financial services are always in demand
3. Ability to reach to people who would be excluded from the financial markets

With regard to the success of the other co-operatives in a liberalised economy, their inference is that “[i]t seems that liberalisation has produced a sieve for sifting the grain from the chaff in the co-operative sector. Since the chaff rotes as the grain grows, the future for African co-operatives in a liberalised economic environment is getting brighter” (p.20). Despite the success, they, however, point out that “the challenge is how to inculcate the business virtues in the less-adapted co-operatives in order to spread the benefits of the ‘new’ mode of co-operation to a wider population on the continent” (p.21).

14. CONCLUSION

This paper has argued that the co-operatives’ potential of contributing to the country’s challenges of job creation and poverty alleviation are compromised due to several internal and external factors which include how they are organised, perceived and managed. As businesses, from a marketing perspective, the fact that little is known about them in relation to conventional businesses does not augur well for their success. In addition to their obscurity, the paper has pointed out some of the gaps in the South African co-operative system which translates to them being less successful than they could be otherwise. Such gaps include the failure to adhere to and dynamics posed by the co-operative principles, lack of capacity and lack of training in production and marketing. The gaps identified in the paper underscore the need for a concerted effort to research co-operatives in South Africa, in order to have a clear picture of the status quo. In fact, these gaps also underscore the need for an efficacious data collection system that is regularly updated.

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