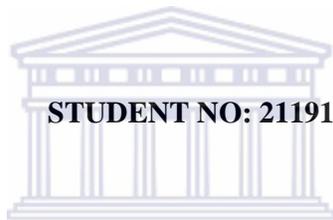


**COOPERATIVE ENTERPRISES AS A SOLUTION TO RURAL POVERTY AND  
UNEMPLOYMENT  
CASE STUDIES OF THE HEIVELD COOPERATIVE AT NIEUWOUDTVILLE IN THE  
NORTHERN CAPE AND DIE BERG VRUGTEVERWERKING AT PIKETBERG IN  
THE WESTERN CAPE PROVINCE**

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**A research report submitted in partial fulfillment of the requirements for the  
degree of Master of Public Administration in the School of Government,  
Faculty of Economic and Management Sciences, University of Western Cape**

**15 OCTOBER 2009**

**SUPERVISOR: Professor John Bardill**

## **ABSTRACT**

Historically, the poor have always been socially, politically and economically marginalized in society. The South African Government's Cooperative Act 2005 presents a promising step in the right direction towards addressing poverty and unemployment in rural areas. The research looks at two case studies and site relevant findings.

This study gives a brief introductory account of cooperatives with regard to their history and existence, particularly in South Africa. The research report focuses on two case studies, where the organisational structures and business operations will be examined and compared. Finally the report will draw lessons to indicate the possible social and economic viability of these cooperatives and their place in rural development. Based on the findings and conclusions, a number of recommendations are made on cooperatives in the rural sector.

The research utilizes secondary data, such as documents, records, the internet, books and literature on the subject of cooperatives and related aspects of unemployment and poverty, forming a background of cooperatives in the South African rural sector. Primary data takes the form of structured (personal one on one) and semi-structured (group discussion) interviews. The primary and secondary data present the basis for the report findings and conclusions. Where possible, the relevant recommendations are made.

### **KEY WORDS**

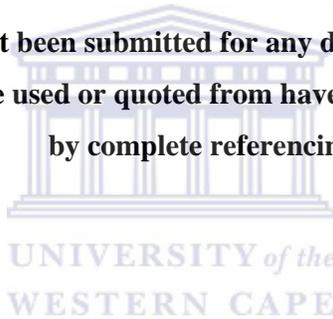
1. Cooperatives
2. Participative-management
3. Social re-engineering
4. Training and development
5. Rural development
6. Cooperative consciousness
7. Mentorship
8. Unemployment
9. Skills transfer
10. Job-creation

**DECLARATION**

**I declare that**

***COOPERATIVE ENTERPRISES AS A SOLUTION TO RURAL POVERTY AND  
UNEMPLOYMENT  
CASE STUDIES OF THE HEIVELD COOPERATIVE AT NIEUWOUDTVILLE IN THE  
NORTHERN CAPE AND DIE BERGVRUGTEVERWERKING AT PIKETBERG IN THE  
WESTERN CAPE PROVINCE***

**is my own work, and has not been submitted for any degree or examination in any other  
university. All sources I have used or quoted from have been indicated and acknowledged  
by complete referencing.**



**Carl Abrahams**

**Date.....**

**Signature of author.....**

## ACKNOWLEDGMENTS

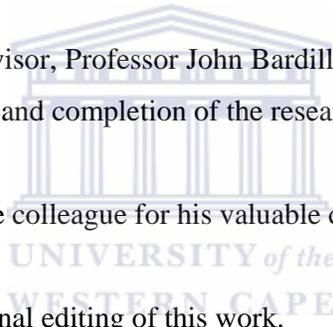
I would like to acknowledge:

All the members of the Heiveld Cooperative and Die Berg Vrugteverwerking who contributed relevant information toward the completion of this research report. I wish to thank Rhoda Louw for facilitating my introduction to the Heiveld Cooperative. A special thank you to Bettina Koelle at Indigo for allowing me to interview members in the compilation of the research report at the Heiveld Cooperative and to Mr Leslie Henrie at Die Berg Vrugteverwerking.

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## ABBREVIATIONS AND ACRONYMS

ANC	African National Congress
Agrilek	ESKOM (Agricultural Electricity)
ARC	Agricultural Resource Council
BOP	Bottom of The Pyramid
CBO	Community-Based Organisation
Co-op	Cooperative
COPAC	Cooperative and Policy Alternative Centre
CSIR	Council for Scientific and Industrial Research
DLA	Department of Land Affairs
DoA	Department of Agriculture
DTI	Department of Trade and Industry
EMG	Environmental Monitoring Group
FLO	Fair Trade Labelling Organisation
GDP	Gross Domestic Product
GEF	Global Environment Facility
ILO	International Labour Organisation
NDA	National Development Agency
MDG	Millennium Development Goals
MNC	Multinational Corporations
NCASA	National Cooperative Association
NGO	Non-Government Organisation
PIC	Public Investment Corporation
SACC	South African Council of Churches

# CHAPTER 1

## INTRODUCTION AND BACKGROUND

### 1.1 INTRODUCTION

Poverty and unemployment are dominant socio-economic issues facing South African society. The ongoing plight of people in the rural areas requires more attention from stakeholders in the public and private sectors as this is where extreme poverty is most common. Not much has changed in the past 20 years. Moll (1991: 119) emphasized that the poorest people are to be found in the rural areas. He describe the poor as typically people of very low skill and educational levels, doing menial tasks, such as casual agricultural work. Poverty affects women and children in particular. Prahalad (2005: 4) refers to the poor globally as the people at the bottom of the pyramid, consisting of 4 billion people living on less than USA \$2 per day. In South Africa, according to the Presidency's *Development Indicators 2008*, the percentage of people living below the poverty line of R367 per month was 41% (SAIRR, 2008).

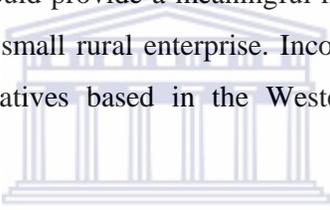
In identifying the poor, Chambers (1988: 112) refers to five distinct dimensions of poverty, described as the poverty trap:

- A lack of adequate income or assets to generate income due to poverty
- Physical weakness due to under-nutrition, sickness or disability
- Physical or social isolation due to peripheral location, lack of access to goods and services, ignorance or illiteracy
- Vulnerability to crisis and the risk of becoming even poorer
- Powerlessness within existing social, economic, political and cultural structures.

In order to assist in tackling the serious problems of rural poverty the South African Government tabled a new Cooperatives Act in 2005, which has been promulgated in parliament. (Act No 14: 2005) This legislation is significant for rural development, as it indicates the Government's explicit intent to more seriously focus on poverty reduction and job creation in the rural sector.

There is a distinct lack of infrastructure and resources in rural communities, particularly amongst the previously disadvantaged and marginalized poor. The cooperative concept introduces an opportunity for people to pool their labour and other resources such as capital or credit loans in order to survive, sustain and produce a surplus that could translate into a viable cooperative enterprise. The cooperative provides a vehicle for workers to participate in a communal relationship that encourages self-management in a democratic organisational structure. This type of control restores ownership, dignity and self-worth in people who are the key to constructive change and development in the rural sector.

This research report looks at the cooperative concept and how its organisational structure and outlook could provide a meaningful model as one possible solution for the development of small rural enterprise. Incorporated in this work are two case studies of cooperatives based in the Western and Northern Cape area respectively.



## **1.2 RESEARCH PROBLEM**

The research problem focuses on poverty and unemployment in the rural sector. The socio-political-economic magnitude of this problem cannot be ignored and has to be constructively addressed on all possible levels. The lack of capacity in rural areas highlights the need for strategic systems to be put in place to address development within the rural sector. Existing policies of Land Reform, Restitution, Redistribution and Land Tenure have made a contribution. However, critics argue that they are being implemented at too slow a pace (Hall: 2004). Land reform and rural development programmes put in place since 1994 have made little difference to the lives of most rural South African. (Kepe & Cousins: 2002)

Although a lot has been said and written about rural poverty, there has been a relative lack of significant research on cooperatives in South Africa that could

contribute to an understanding of their potential in helping to address rural poverty. This research paper examines the role of emerging cooperatives.

Key research questions include:

- To what extent can cooperatives render a possible solution in the work toward the creation of employment and poverty eradication?
- Are cooperatives a possible instrument for addressing poverty alleviation and unemployment in the rural sector?
- In what ways could cooperative development add value to rural development?

The new Cooperative Act 2005 recognizes the important role that cooperatives can play in social responsibility, self-help, democracy and social re-engineering. The Act also recognizes the important role that a national cooperative movement can make in advancing social and economic development. The recognition of the important role of cooperatives in the content of the Act should stimulate the need for similar and further research into the activities and advancement of cooperatives towards the alleviation of poverty and unemployment in the rural sector. The focus of the research problem is to ascertain the viability of rural cooperatives as a sustainable enterprise that could provide a workable socio-economic base for its members, thus contributing to the alleviation of rural poverty and unemployment.

### **1.3 OBJECTIVES OF STUDY**

This provides a brief introductory account of cooperatives with regard to their history and existence particularly in South Africa. The overall purpose is to examine and evaluate the cooperative concept as a viable or non-viable tool to assist the processes of sustainability, employment growth and poverty alleviation in the rural and agricultural sector.

More specifically the objectives of this study are:

- To contextualized the study within comparative debates and the history of cooperative development in South Africa.

- To examine the role of emergent cooperatives.
- To ascertain the cooperatives' contribution in addressing unemployment and poverty eradication.
- To provide a comparative analysis of two case studies where the organisational structure and business operations are examined.
- To establish what achievements, limitations, challenges and constraints the cooperatives are currently faced with.
- To provide conclusions and recommendations that may usefully inform current policy and practices of NGO's, academics, researchers and government departments.

#### **1.4 RATIONALE AND SIGNIFICANCE OF STUDY**

Addressing the issues of poverty and unemployment in rural development within a developing country like South Africa is a crucial part of the country's economic development and the social development of its people. This standpoint is made within the context of the democratization, post-1994, and the aim, vision and mission of the state, business and civil society to uphold the new constitution. It is also noted that within the context of the South African socio-economic scenario it is important for all stakeholders to play a part in contributing to moving the country and its people forward with regard to development and prosperity. More importantly, there is a need for stakeholders to work together on reaching short, medium and long-term goals.

This report examines cooperatives as a contributory factor to rural development by investigating their capacity to help in job creation leading to meaningful self-employment. The cooperative, self-help organization presents a possible solution that could appeal to actors in the sector dealing with rural poverty because it is self-managed, small and local, thus affecting the very people it aims to help and benefit. The report serves as a catalyst for further research on cooperatives and as a significant stimulus to state and civil organisations as a reasonable, cost-effective and important milestone warranting further investigation.

## **1.5 RESEARCH DESIGN AND METHODOLOGY**

The research methodology comprised both secondary and primary data sources. Secondary data sources include documents, records, internet, books and literature on the subject of cooperatives and related aspects of unemployment and poverty. This research forms the basis for the study of the historical background and current trends in cooperatives in the South African rural sector.

The primary research data was derived from interviews, questionnaires and group discussions with cooperative members in the case studies being researched. The collection of primary data takes the form of structured interviews with some of the respondents, using a questionnaire to guide the interviews, and semi-structured interviews with other respondents through focus group discussions. This format made it possible for the cooperative members to respond and articulate their opinions and ideas more comprehensively.

The respondents in the interviews were chosen through purposive sampling. They were all members or associate members of the organisations researched in the research report who have relevant experience and working knowledge of the respective organisations. At Die Bergvrugteverwerking, three separate interviews were held with the Manager, Mr. Leslie Henry, and two other members, Mr. Solly Jansen and Mr. Forgan Monk, respectively. At the Heiveld Cooperatives, interviews at the farm Melkraal were held with Groot Oom Kotze, Mrs. Bet Sas, Johan Freyer and Drikka Kotze. At the farm Bitline a group interview was held with five members with Mrs. Elsie Louw as the main spokesperson. The primary data collected together with secondary data serves as the basis for the report findings and conclusions.

## **1.6 ETHICS STATEMENT**

The work set out in the completion of this research report complies with the ethical research guidelines and upholds the integrity of the University of the Western Cape.

The primary research data has been compiled by conforming to prescribed ethical standards thus ensuring reliability, accuracy and quality in the research data. Compliance to the necessary steps of obtaining permission from the organisations in each case study to use information obtained for the sole purpose of completing this report has been upheld. Permission was sought and granted from all the individual members interviewed to use their names in this report

In the use of secondary data the authors and sources are acknowledged and referenced in compliance to the university's academic guidelines.

### **1.7 ORGANISATION OF STUDY**

Chapter one of this research report provides a brief introduction to the study, including a brief background on rural poverty and unemployment in South Africa. The possible opportunities that cooperatives present for rural development are formulated in the research question, research objectives, rationale and significance of study, as well as the research methodology.

Chapter 2 provides a literature review on cooperatives in relation to poverty alleviation and unemployment. The review encompasses a theoretical framework that is fundamental to the research report. These fundamentals are presented in a table of value concepts. The value concepts significant to this study are: community participation, education, the role of the state, resources and a cooperative culture. The synergistic effect of these key themes is expressed as crucial to the cooperative idea.

Chapter 3 introduces a brief history on cooperatives. The cooperative is identified as an age-old concept serving a socio-economic purpose universally, throughout the history of man. The history of cooperatives in South Africa is reviewed with particular attention to legislation in the period before the 1994 dispensation, as well as policy and legislation in the period since 1994.

Chapter 4 provides a comparative case study account of two cooperative organizations, namely the Heiveld Cooperative and Die Berg Vrugteverwerking.

In each organization, threats and weaknesses, as well as achievements and strengths are recorded. The key issues in the comparative analysis are membership, organization, ownership, marketing and employment.

Chapter 5 provides conclusions and recommendations. The recommendations identify local investment, development vision, financial aid and incentives for cooperatives as important issues that are vital for cooperative development in South Africa.



## **CHAPTER 2**

### **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **2.1 INTRODUCTION**

This chapter provides an account of important ideas from different authors relating to cooperatives. Five main cooperative values are emphasised in the literature review. The review also links the cooperative idea with poverty alleviation and unemployment. The literature review focuses on themes, which are expressed as important concepts for cooperative building. Implementing a set of basic value concepts could have far-reaching benefits for generations of rural people, present and future. The values and themes that are strongly emphasized are: community participation, education, resources, cooperative culture and the important role of the state.

These themes form a foundation for consideration by stakeholders involved in building a rural economy where in the South African context the contribution to Gross Domestic Product (GDP) is relevant. The GDP is the total value of goods and services produced by the factors of production in a country over a specific period. In South Africa, agriculture is still an important part of the economy although its contribution to GDP has declined over time from 18% in 1950 to 5.1% in 1994 (Roux, 1997:109). In 2007, South Africa's national agricultural contribution to GDP was 2.8% (Mosonkutu: 2007), though a rise to 3.3% in 2008 shows that agriculture can still play an important role in the economy. What is significant is that agriculture currently contributes 9% of formal employment in South Africa. Together with back and forward linkages to industry the agro-industrial sector contributes 15% of GDP.

#### **2.2 LITERATURE REVIEW**

With reference to Table 1, five important value concepts are extrapolated from the body of literature reviewed below. These value concepts are prioritized as important in understanding the operational work and important value of cooperatives in rural areas. Each of these concepts will be discussed below.

**Table No.1 VALUE CONCEPTS:**

<b>Value concept</b>	<b>Similar ideas</b>	<b>Authors</b>
<b>1. PARTICIPATION</b>	Community participation participatory democracy, mass participation planning process labour participation self sufficiency	Coombs(1980) Dixon& Macarov(1990) Todaro(1997) Whyte&Whyte(1988) Verhagen(1987) Erasmus(1994) Thomas&Logan(1982), Alvarez(2005)
<b>2. EDUCATION</b>	Education & training, job training	McFate Lawson &Wilson(1995) Verhagen( 1987) Thomas&Logan(1982) Whyte&Whyte(1988)
<b>3. RESOURCES</b>	Lack of resources, resource mobilisation, access to capital	Dixon&Macarov(1990) Mc Gregor(1990) Verhagen(1987)
<b>4. COOPERATIVE - CULTURE</b>	Cooperative consciousness	Whyte&Whyte(1988) Erasmus(1994)
<b>5. STATE</b>	Responsible State, Government's legitimacy	McFate, Lawson &Wilson(1995) Eberstadt(1990)

### **2.2.1 Community Participation In Running Cooperatives**

The first value is that of public or community participation. The cooperative concept emphasises the importance of participation (value concept 1, Table 1). This is reflected in the work of Coombs (1980) on the idea of community participation, Dixon & Macarov (1990), who refer to full participation and Todaro (1997), who refers to mass participation. Erasmus (1994) extends these ideas a little further, where participation finds deeper meaning in her theories of participative democracy in cooperatives and its imperativeness to cooperative consciousness. Thomas & Logan (1982), term the same concept differently, calling it “community orientation”. Whyte & White (1988) embrace a similar concept that consciousness is expressed in Mondragon’s cognitive framework of

equality, solidarity, dignity of labour and participation. Todorov's idea of ideological consciousness reflects the well-being of all members of the cooperative. A big part of development means enabling people to make choices. It is, therefore, important for allied and advisory agencies to show people alternatives; the course that the cooperatives follow, however, must be left to its members.

The progressive trend of thought relating to rural development encourages the idea of full participation of all people, as opposed to a top-down approach to rural development and management of sustainable livelihoods. Coombs (1980: 23) strongly promotes an integrated approach combined with extensive community participation. He also challenges the poor to rise above the pervasive sense of impotence and hopelessness, and to take control of an environment that normally puts higher socio-economic classes in the dominating role. Participation is seen as a self-help activity within the community.

Thomas & Logan (1982), place a large emphasis on decentralisation and participation from below. This aspect, together with training and education, reflects a large measure of community orientation. Dixon & Macarov (1998) promote the idea of agrarian reform and self-help ventures that involve full community participation in rural development.

President Fidel Castro in the 1990's promoted worker participation in the form of cooperatives amongst others. In Cuba, a principal policy change was announced in 1993, with regard to the agricultural sector. This announcement was a break up of state monopoly on land. Cooperatives were established and called the Basic Unit of Cooperative Production (UBPC), or *Unidad Basica de Produccion Cooperativa*. At the time of establishing the UBPCs, and also thereafter, the Cuban leadership placed an emphasis on four basic principles, namely:

- linking of the man to the land;
- self-sufficiency of the workers' collective and their families, and improvement of their living conditions;
- strict relation of workers' earnings to the production results achieved;

- autonomy of management and administration of their resources with the objective of achieving self-sufficiency in the production process (Alvarez 2005: 136)

Attempts at promoting cooperative participation and entrenching a cooperative culture are encouraged by Opyene (1993) with his extensive research of cooperatives in Uganda, and Saruchera (2004) with his advocacy of land and resource rights for the rural poor. Mayson (2003) focus on joint ventures in land and agrarian reform, Goler Von Ravenberg (2005) on self-help in cooperative development, Thornley (1981) on the development of worker cooperatives and Hazen (2004) on the value of having a broad based cooperative business association.

### **2.2.2 Education**

Education in private and public schools has become more state regulated in South Africa as well as the setting of standards for the curriculum and syllabi in different educational institutions of higher learning. A link is made between education, poverty and unemployment in the need for a more integrated approach from school to skills-transfer and work. Entrepreneurship, which is vital to economic development, is also dependent on higher levels of education and skills for success. The involvement of the church, private sector business, Community-Based Organisations (CBO), Non-Government Organisations (NGO) and other donor organizations in education, as well as formal educational institutions, are important for development in the rural sector.

Training and education is a vital part of cooperative development, which is a key factor expressed by Thomas & Logan (1982). Whyte & Whyte (1988) provide a detailed account of the founder of Mondragon, Don Jose Maria Arizmendi-Arrieta's tireless work and views with regard to the cooperative and the importance of education and skills development. The Mondragon Cooperative started as a very small initiative and is named after the town Mondragon in the Basque region of Northern Spain. Don Jose Maria Arizmendi combined a social

vision with an emphasis on education for technical knowledge and skills. Education is noted as the key to training in community orientation. Within the Mondragon cooperative movement, Don Jose was instrumental in establishing a satellite technical institution, so that members of the cooperative could study and obtain their technical degrees. His first school opened in 1943, with a class of 20 students. This was the start of the Mondragon cooperative, as eleven of the first 20 students went on to complete their studies and achieve degrees in technical engineering. From the eleven graduates, five went on to pioneer the first worker cooperative in Mondragon, called Ulgor, established in 1956. Thomas & Logan (1982) emphasise the security of employment and the idea of full employment. For this, the planning of the labour force is important therefore attention is given to education, on the job training and specialization.

### **2.2.3 The State**

Mcfate, Lawson & Wilson (1995) see a correlation between work and poverty and promote the idea of the responsibility of the state to entrench a program integrating schooling with apprenticeships, so that young people get absorbed into the labour force early, without a period of adult unemployment. Eberstadt (1990) is more direct, claiming that a government's record in dealing with poverty is widely understood to reflect upon its legitimacy, per se. At the same time, he acknowledges the harsh economic realities of poverty and the resilient endeavor and motivation of the human spirit to overcome socio-economic and political disadvantages.

Harper (1992: 48) warns of the possible negative effects of state involvement in cooperatives such as:

- Outside political interference
- State compulsion destroying the motivation of cooperators
- Official bureaucracy, leading to damaging delays
- Excessive dependence on outside assistance
- External initiators reluctant to allow independent self management
- Cooperators motivated by subsidy rather than genuine needs

The challenge for cooperatives is that, although state support is invaluable, it is vital to achieve the correct balance between state help and self help. The aim of the cooperative idea is to function as an independent and self-managed organization. Internal as well as external factors can sometimes lead to the autonomy of the cooperative being compromised. Misplaced interventions by state assistance in cooperatives can create a dependence on the state for assistance that is contrary to the ethos of cooperative independence and financial viability as a self-sustaining entity.

The work of the National Cooperative Association of South Africa (NCASA) established in 1996 to facilitate cooperative development and to act as a cooperative incubator has been an important initiative towards building cooperatives in South Africa. The Department of Trade and Industry (DTI), as a government department, has been the most active structure involved in cooperative development. This department has been tasked with the role of the central organ for cooperative development in all sectors of the economy. In the Department of Agriculture (DoA), a formal structure called the Farmer Organisation Support Unit (FORSU) exists to help develop agricultural cooperatives. The aim of the unit is to coordinate the implementation of agricultural strategies and programmes of the department by mobilizing farmers into agricultural cooperatives in provinces to establish and sustain viable agricultural establishment of agro-processing industries for emerging farmers, facilitates access to funding to agricultural cooperatives and self help groups and assesses the impact of the agricultural programmes on the economic development of farmers.

The state will continue to be challenged by civil society and organisations such as the Cooperative and Policy Alternative Centre (COPAC) to do more for cooperative development and creating jobs and reducing poverty in the process. State support is vital for capacity building and programme implementation. Parastatals, such as the Public Investment Corporation (PIC), who control and

manage a large portion of public funds, should be obligated by state policy to invest a substantial amount of their resources for cooperative development.

#### **2.2.4 Resources**

Besides looking at poverty as a social issue, Dixon & Macarov (1998) view poverty as a problem stemming more from the reality of exclusion. The emphasis on exclusion directs one to the heart of the poverty, that the lack of resources prevents participation in the normal life of the community. They identify a link between exclusion and community participation in rural development which is hampered by the lack of material and other crucial resources such as mediums of communication, transport and extension services.

Wilson & Ramphela (1989) get more to the point of power and ownership and acknowledge the historical political facts of inequality, major disparities and human impoverishment. They emphasize the importance of transformation in South African society, but pose the question to the reader, “Does the struggle against poverty in South Africa require a capitalistic framework or is socialism an essential part of any comprehensive action against poverty?” It is clear that we have inherited a dual economy, with both the state and private sector heavily invested as large stakeholders in different sectors of the South African economy. There is a need for this duality to coexist. Considering the South African situation as a developing country, a stronger Keynesian approach is necessary in sectors that provide utility services, such as water, electricity, roads and transport. The international trend for less state involvement, more privatisation of public resources and opening up of trade and industry to market forces may not be the answer to South Africa’s domestic priorities. The priorities should be addressing the pressing needs of marginalized masses where a chronic shortage of housing, education, employment creation, land reform and poverty reduction programmes exist. With reference to The South African Constitution (Act 7, 1996) and the Freedom Charter (1955), the primary needs of people can be interpreted as a justifiable demand for basic human rights. To meet the demand for basic human rights, people need greater access to the country’s resources.

Defining and measuring unemployment is complex, as are its causes and cures. The central strategy is growth of the South African economy. Remedying unemployment entails, “effective application of the key factors of production, land, labour and capital,” according to McGregor (1990). She also notes that for development, access to capital as a resource is a precondition. Roux (1997:109) mentions entrepreneurship as a fourth key factor of production. The success rate of entrepreneurship can be measured by the sustainability or failure of small business. The cooperative, although uniquely different to other business forms, can also be classified as a small business. The progress and success in small business is dependent on skills and the level of education of its members.

(GEM Report, 2008)

Todaro (1997) looks at the Chinese success story of agricultural communes for rural development and indicates how resources are used to benefit rural communities. One of the first attributes is their ability to mobilize the unemployed labour force (human resource) for land improvements, building dams and dikes, digging irrigation channels, constructing roads and cultivating existing land more intensively (resources for production). The result is a country with self-sufficient food production. Another factor is the ability to diversify its rural economic activity from agriculture to forestry, fisheries and finally small industries (production resources). This continuing diversification in rural economic activities is regarded as a key factor with regard to rural employment.

The Chinese agricultural commune’s strongest attribute is its ability to generate rural capital formation (capital resource) and industrialization (production resources) through a system of transfers of 15-20% of rural agricultural sector contribution to the Gross Domestic Product (GDP) into an accumulation fund for investment of capital in rural agriculture. The accumulation fund is then used to invest in productive improvements like capital construction and mechanized farm equipment. Another significant aspect is the commune’s role in providing essential social services (human resources) to all rural people, particularly in the

areas of education and health. Schools and hospitals were provided out of the commune's own savings. The people were therefore able to realize the direct social benefits of their labour. The unique system of Chinese decentralized rural planning, with emphasis on maximum exploitation of local resources to meet local needs, is very important for successful rural development.

In a powerful capitalist country like the United States of America, cooperatives exist and function as an alternative business model that benefits all its members. International presentations by Hazen (2000) indicate a growing trend in cooperative development, which has a positive impact on poverty reduction and unemployment. Cooperative growth indicates a trend by collectives of people who want to establish their small business, uplift themselves from poverty, and preserve their jobs as workers, by stabilizing the economy of their community, thus seeking more control and self-determination, by taking over the management and member ownership of these resources. The United States of America's current population is 305 million people. According to Hazen (2009: 6), the cooperative sector of the United States economy provides 120 million people with a safe haven. The emergent cooperative enterprise as a business entity has to draw on all its resources, such as labour, capital, expertise, stock and machinery, to ensure the establishment and growth of small business, thus meeting the needs of its members.

In the rural sector, land ownership as a resource for development is crucial for survival and co-existence. In South Africa, the link between cooperatives as a vehicle for reducing poverty and unemployment should include agrarian reform. In this regard, the Department of Land Affairs (DLA) and the Department of Agriculture (DoA) as well as the Department of Trade and Industry (DTI) have a mammoth task ahead in facilitating a space for cooperative development. Each department has policies and programmes in place that leave room for inter-departmental cooperation in order to make the necessary resources available for cooperative development. Cousins (2005) goes a step further in terms of land as a resource. He suggests that the problem of rural poverty can only be resolved by

state action in wide ranging agrarian reform that must include redistribution of land and the securing of land rights. This view refers to structural change in the agrarian political economy and the implementation of the meaningful poverty reduction programmes that have the intention of redistributing agricultural land to the poor who till the land, but have no secure access to land. They therefore have no financial security. For most poor people in South Africa, the current slow process of land redistribution will mean that the rural poor will continue to be marginalized.

### **2.2.5 Cooperative Culture**

The cooperative culture of a commune is embedded in the socio-ideological values of the people that constitute the cooperative. This is often signified in the unity is strength concept which motivates people to work together to achieve common goals. The material and physical needs are primary goals in the value chain. The extension of this is the social bonds that comprise just one factor in constructing the fabric of a community. These social networks culminate into a belief system based on trust and social capital that dominate the will and aspirations of the cooperative. The cooperative culture manifest itself in all facets of the organization such as business, economics, organizational behavior, sport and social outlook. It culminates in the spirit of human endeavor that makes cooperation potentially unique and powerful.

The most important strategic position of the commune in the political and ideological system of China, according to Todaro (1997):

“Is its place in the ideological and political system in China. The main objective of the Chinese society is not the most rapid material progress or creation of a consumer society, but an evolution of a classless society in which social inequalities are reduced to the minimum, and where there is a high level of political and ideological consciousness and a pronounced concern for the well-being of every citizen. These goals are radically different from the implicit or express objectives of many other developing countries, where, in the name of economic growth or economic

development, the main pursuits are essentially material in nature and the end result is generally the enrichment of a privileged minority or a consumer society but without anything to consume. Pecuniary incentives are not absent in China – they have sought to meet everyone’s basic needs and provide for steady increase in real income - but the desire for a larger monetary reward is not the prime mover of the system: it is ideology plus organization.”

The Mandragon cooperatives in the Basque region of Spain are well-known for their history of success as a cooperative enterprise. They have a proud life of sustainability and growth since 1941. Whyte & Whyte (1988) give an account of their research into this worker cooperative complex. The Mandragon cooperative complex encompasses many enterprises built up over more than 60 years. The cooperative complex enterprise units are comprised of a number of activities, from manufacturing, cooperative banking, education and training and agriculture, to retailing. Whyte refers to the cooperative culture that is vital to the existence of the cooperative. The cognitive framework is a set of ideas or beliefs about basic values, organizational objectives, and guiding principles that form the foundation of any organisation.

This shaping system may enable an organisational culture to be maintained or changed. This normally happens by major policies, structures and instruments of governance and management. Within the cognitive framework, the basic values are: equality, solidarity, dignity of labour, and participation. The broad objectives of the cooperative concept are job creation, employment security, human and social development, autonomy and self-governance, and economic progress. Some of the guiding principles of the organisation are balance, future orientation, organisational self-evaluation, openness, pluralistic political orientation, freedom of information, inter-cooperative complementarity, formation of cooperative groups and size limitation.

The socio-economic and political scenario in a country has a direct influence on the existence of cooperatives, and affects the cooperative culture of these organisations. Mellor, Hannah & Stirling (1988) question the success of the cooperative within a capitalist society. They refer to Lenin's argument that cooperatives were essentially bourgeois, as they had a political complexion, where only the better off could participate in them. Lenin saw the cooperative as a small island in a capitalist society. The Far Left argue that cooperatives are vehicles for self-exploitation and are ultimately illusory in their promise of secure jobs and workers' control. Mellor, Hannah & Stirling (1988) conclude that there are three ways in which the cooperatives can be perceived: as agents of social stability, as a method of working within the plurality of organizational structures, and as a traditional shining light for a new society. The current nature of society with its hybrid of socio-economic and political influences impacts on the cooperative culture. The challenge is to embrace all influences that keep the cooperative culture alive.

The work of Harper (1992) covers a number of case studies in Asia and Africa, with interesting lessons. One such lesson is the topic of freedom. In the successful case studies, members formed the cooperatives without anybody telling them what to do. Erasmus (1994) provides an account of cooperative development in Southern Africa. She draws insights from Brecker's theory on cooperative development as a process. The process involves various stages of development. The stages referred to are listed as the pre-cooperative stage, the non-viable or start-up stage, the potentially viable stage and the fully-fledged cooperative stage. At each stage of the process, typical organisational characteristics and needs exist. A major part of the work of Erasmus is a focus on the theories of participatory democracy in cooperatives, which, in essence, is pivotal to the cooperative concept. Emphasis is put on the need for a cooperative consciousness, which is crucial to cooperative development. Ruiters (1993:195) indicates that the development of cooperatives is an evolutionary process, characterised by experimentation and debate. A more radical form of thinking on cooperatives is needed as a catalyst to transform our society. Within the current South African

socio-economic environment, a strategy to encourage links between cooperatives and other support structures is needed. Although Ruiters makes mention of the evolutionary process, agents within the South African society need to build capacity to accelerate or facilitate change in the cooperative process and to build and strengthen a cooperative culture in our society.

### **2.3 THEORETICAL FRAMEWORK**

The theoretical framework encompasses the cooperative value concepts of participation, education, resources, cooperative culture and the state as essential elements to the cooperative ideal. The ideas are further expounded in Verhagen's conceptual framework.

Verhagen's (1980) conceptual framework for self-help promotion is based on the rationale that it is not necessary to reinvent the wheel. A documented body of knowledge exists that synthesizes the essential aspects of self-help promotion. Eight instruments in a systematic approach are outlined here, which overlap with the five cooperative value concepts noted in this chapter; they are:

- Identification of the population and target group. Often there is a danger of bypassing the poor without proper identification. A core group of the target population can often play a key role in population identification.
- The identification of economic activities through participatory research and planning. Organisational staff needs to have an in-depth knowledge of socio-economic issues related to rural poor in order to make improvements. There are also difficulties in integrating the poor and landless into a participatory process.
- Access to education and training. This should be related to daily interaction between members.
- Resource mobilization and provision are essential to self-help development. External resources such as the availability of credit and donor funds can sometimes undermine self-help orientation.

- Management systems in the form of bookkeeping systems, as well as monitoring and evaluation, should be in place on an administrative level.
- Process extension and movement building should concentrate on local areas before expanding in terms of distance and contact.
- Linkage building with third parties indicates the organization's autonomy to choose partners of association with government agencies or NGO's in order to fulfill its aims.
- Monitoring with ongoing self-evaluation helps with the assessment of strategy, working methods and performance. This would determine decision-making and implementation new processes to improve standards and efficiencies within organisations.

A closer evaluation of the above ideas draws parallels to the conventions of modern day business practices where the application of management principles are employed to achieve successful outcomes in the world of trade and commerce. The broad emphasis is on base functions such as planning, organizing, directing and controlling. Pakhari (2007) The four base functions are elements drawn from the work of Henri Fayol (1841-1925), a French management theorist who advocated fourteen management principles. Storrs (1949)

The challenges faced by cooperators are similar to other businesses in the private sector. In order for the cooperative to survive it must be in a position to sustain itself. The organisational principles mentioned above are sophisticated management tools used in economic and management science. Can Small emerging organisations such as cooperatives practice the same elements of business management to strengthen cooperative business models in this sector?

For South Africans the New Cooperative Act 2005 is a platform for a start of a new era in cooperative development. Long before act, commentators like Theron imparted the idea that cooperatives still have a role to play in fostering development and alleviating poverty. His view is that, "in all communities and

sectors where communal values are still held as important, cooperatives represent an appropriate alternative to other forms of enterprise available. The aim of a new policy should thus be to spur the development of a new, revitalized cooperative movement.” (Theron, J: 1998, 30)

## **2.4 SUMMARY**

Chapter 2 has given an account of cooperative ideas that exist and the views of a few renowned authors. Some common factors are evident in the work of these authors. The important factors, deemed crucial for cooperatives to be successful, are: the value concepts of participation, education, resources, a cooperative culture and the attitude of the state toward cooperatives.

A community-based anti-poverty programme is a powerful mechanism and would further influence positive change where a self-help culture already exists in local communities. The cooperative idea emphasizes the importance of participation in local social and economic needs. Proponents of this approach believe that poverty can best be addressed by involving local people in socio-economic and political activities that raise incomes and enhance the quality of life. The cooperative concept implemented in South Africa, a developmental state, seems to be fertile ground for its entrenchment. This could also have some impact on stemming the tide of rural-urban migration. A combination of state and civil society programmes, led by communities involved, would have positive results for the reduction of poverty and unemployment.

Chapter 3 provides a historical background to cooperatives in South Africa.

## **CHAPTER 3**

### **BACKGROUND TO COOPERATIVES**

#### **3.1 INTRODUCTION**

This chapter provides detail on the evolution of cooperatives and the cooperative idea, historically and comparatively and examines developments in South Africa before and after 1994. Mutual cooperation between people living in communities dates back to the beginning of time. This chapter provides a brief summary of historical and comparative data on cooperative activity, as well as a more detailed survey of co-operative development in South Africa in both pre- and post-1994 period.

#### **3.2 THE COOPERATIVE IDEA**

The historical indicators of cooperatives can be seen in Egyptian systems dating back to the period 3100-1150 BC. Cooperatives existed in the Egyptian period, the Greek period 300-325 BC, and in China 200 years before the Christian era. Moreover, the guilds of the Middle Ages as well as the Renaissance period all demonstrated some form of historical cooperative activity. (Van Niekerk: 1988)

The cooperative as a formal organisation, however, is relatively young and only goes back as far as 1844 with the establishment of the Rochdale Cooperative in England. Robert Owen was a Welsh industrialist who saw the capitalist system as fundamentally unjust. He attempted to develop an alternative system of experimental communities by investing his own capital in projects and at the same time getting other willing donors involved. The focus was to establish the rights of workers, encourage democratic participation in the workplace and thus giving workers more control of conditions in the work environment. Since then the establishment of cooperatives has taken place all over the world. Robert Owen is known for his significant contribution to cooperatives in England. He was one of the pioneers of this period and his ideas influenced the work, values and principles of the Rochdale Cooperative. (Demeter: 2000)

The values and principles of cooperatives have been formulated and adopted universally by the International Labour Organization (ILO). Some of these fundamentals are:

- Freedom of association and workplace democracy
- Opportunities to secure decent employment and income by cooperators combining talents, resources and skills
- Basic social services and protection for the socially excluded
- Defending the interests of the rural poor and unprotected workers

(ILO: 2002)

Primary cooperatives serve as a basis for the cooperative structure. Primary cooperatives are an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises. This is very important, because it presents an international interpretation of the word cooperative. It follows that the cooperative has a distinct identity. It also has an economic objective. It has an objective to provide services to its members rather than accumulate profits for its shareholders. They perform functions in the interest of agricultural activities and its members. (Cooperative Development Strategy: 2004, 9) They undertake a limited variety of activities. Other cooperatives might specialise in certain services, such as banking, insurance and retailing. The central agricultural cooperatives can be divided into selling, purchasing, manufacturing and rendering of services.

In the United States of America, Benjamin Franklin established a cooperative in Philadelphia in 1867 for agricultural farmers. From here Agricultural and Consumer cooperatives flourished and a cooperative movement in agriculture was established. (Frederick: 1997) Cooperative development in Finland dates back to 1889, when the Pelervo Society was established for the marketing and supply of agricultural products. (Kruisma: 1998,12)

The Netherlands cooperative movement developed out of the weak economic conditions in the late 1800's. A government commission made an investigation into the agricultural sector. The use of cooperatives in the agricultural arena was established to make this sector more organized and coordinated. This was the start of a very organized cooperative movement in the Netherlands. (Wintle: 2000,175) Cooperative farming is recorded in places such as Italy, Russia and Israel and China. Italy is regarded as the birthplace of cooperative farming where the catholic priests were pioneers in the field of development of worker agricultural cooperatives in rural areas. (Bhuimali: 2003,9)

The documentation of the establishment of cooperatives is an international phenomenon. Some countries have established more cooperative movements than others. The idea of people working together for the common good of sustaining themselves and improving their socio-economic conditions collectively is significant to the development of society in a way that all can share adequately in the resources that are available.

In the current global economic environment the goals for cooperative activity are no different. The focus is on one hundred percent worker management and ownership. The division of labour in terms of technical expertise has resulted in many firms being controlled by a small management elites. In contrast, the cooperative idea speaks to the culture of enterprise democracy. It encourages full participation of workers in the decision-making and productive processes of the organization, thus diminishing worker alienation and adversarial relations among workers. "Cooperatives serve the valuable purpose of more effectively engaging people in shaping their work environments and in developing civic virtues of participation and responsibility." (Pencavel: 2001, 89)

### **3.3 COOPERATIVES IN SOUTH AFRICA**

#### **3.3.1 Introduction**

The development of cooperatives in South Africa has its routes in agriculture and land. Historically, agriculture has played a very important part in the economy. It

was the most important sector and contributor to the economy before the discovery of diamonds and gold in the 1860s and 1870s. The main focus of cooperatives in the early 1900's was to promote and improve agriculture. However, the South African political landscape was deeply racialised and so the dispossession of black farmers of their land forced them into farm labour.

### **3.3.2 White Cooperatives in Period up to 1994**

Van Niekerk (1988) provides an account of cooperatives and their development in South Africa, which sees the cooperative mainly serving the interest of white farmers. The pre-1994 period of South African agricultural history illustrates how cooperatives advantaged a white minority. The current emergent cooperatives however still have lessons to learn and gain from this period of documented policies and practices. Van Niekerk (1988) argues that South Africa has a dualistic agricultural economy, namely a relatively well-developed market orientated agricultural sector and a subsistence level agricultural sector. The natural resources of South Africa have always been poor and challenging for agriculture. The high cost of capital resources in agriculture has contributed directly to the establishment of cooperatives in regard to support measures for farmers. The idea of cooperation would mean that members of the cooperative would pool their resources to advance the interests of the collective. For example, capital-intensive equipment such as tractors, trailers and trucks would be used to service the needs of a group of farmers in the cooperative, instead of each member buying their own vehicles or equipment. This collective action within a cooperative reduces the input costs of production significantly and is thus an advantage to all the members in the organisation.

“The oldest cooperative established in the white community was formally registered as the Pietermaritzburg Consumers Cooperative in 1892”. (Satgar: 2007) However, the first national legislation for cooperatives in South Africa emerged later in 1922. The Cooperatives Act of 1922 gave cooperatives a corporate status. A registrar's office was created to monitor, regulate and encourage cooperative movements. The socio-political nature of the government

and the economy in this historical period meant that the institutional objectives were to build white cooperatives. The focus of the Act was primarily on agricultural cooperatives, with other cooperatives categorized as trading cooperatives. During the depression years the cooperatives were reduced to 375 by 1935. From these institutions 149 were occupied in marketing, 63 were involved in agricultural activities and the rest was livestock. (Strickland: 461)

The Cooperatives Act 91 of 1981 provided for the establishment, incorporation, and functioning of a cooperative. This Act catered for highly commercialized cooperatives, such as KWV and Koo, both examples of household names today.

In 1993, the Cooperative Act was amended to enable cooperatives to compete more effectively. The focus at this stage was on organised agriculture where white cooperatives controlled assets of R12,7 billion, a total turnover of R22.5 billion and a membership of 142 000 members in 250 cooperatives (SACP: 2002). The amendments to the Act meant that some obsolete definitions were removed; the amendments also meant that changes in membership and requirements of membership were streamlined. The amendment allowed cooperatives to buy land and in this way maintain economic control in agriculture. The Act also allowed for expansion of business with non-members. The imminent change in government has been seen as one reason for the change, as hostility to cooperatives was anticipated. The commercial cooperatives was seen as a white monopoly in agriculture with links to the Land Bank, marketing and The South African Agricultural Union (SAAU). One of the changes in the Act was setting up the incorporation of cooperatives as private or public companies or as a closed corporation. The Amendment also provided for the delegation of powers by a board of directors and regulated the representation of voting rights of members at general meetings.

Another reason for the change in the nature of large cooperatives was the socio-political and economic trends in the global economy. The New Institutional Economic (NIE) theory informs the conversion of conventional cooperatives into Investor Orientated Firms (IOF) and the rise of a new generation of cooperatives.

The South African situation indicates that white agricultural cooperatives played a major role in the development of agriculture. Success was however also due to the fact that they served as agents of the South African marketing board and the Land Bank, which provided subsidized loans to commercial farmers. From the 1980's trends began to change with the withdrawal of farmer subsidies, tax concessions, and deregulation of agricultural financing and marketing. These reforms reduced the viability of agricultural cooperatives and prompted their conversion to Investor Orientated Firms (IOF). (Ortmann & King: 2007)

### **3.3.3 Black Cooperatives in Period up to 1994**

Black Cooperatives in South Africa have gone through turbulent times due to the nature of the social, political and economic environment. The history of segregation and the consolidation of power in the hands of the white minority meant that the majority of black people were marginalized, thus retarding development and progress on many fronts. The South African business environment presented a racist and capitalist condition that kept the majority of people outside the mainstream of business activity. However the documented history of black cooperatives seems to go as far back as 1906 (Satgar: 2007). In the Western Cape the African Political Organization (APO) set up several cooperatives such as Wellington Trading Cooperative and Salt River Trading Cooperative. (NCASA: 2006)

The South African agricultural landscape changed with the introduction of the Land Act of 1912, under which black landowners were dispossessed of land. Since then and up to 1994, state policy and law favored the economic development of white landowners and farmers. Hence the cooperative development that took place during this period was largely state subsidized with a pro-white economic advancement agenda. Black agricultural cooperatives were mainly based in the homeland regions like Transkei because of access to land. Restrictions on black traders also existed and this also affected black trading cooperatives.

The churches and philanthropists were primarily involved in starting cooperatives in Transkei and Ciskei. Father Bernard Huss (1876-1948), a catholic monk of the Trappist Order based in Natal, was known for his philanthropic interest in agrarian relations with regard to black peasantry in South Africa. Most of his work took place in Transkei where he established a cooperative credit scheme in the early 1920's. By 1932 only thirty six cooperative credit societies existed in Transkei. His enthusiasm for the establishment of cooperatives began a revival of an old idea of cooperatives as a means of regenerating the black reserves. His visits abroad to study cooperatives convinced him that cooperatives could succeed in South Africa because of the racial homogeneity amongst blacks, close settlement proximity and small farms compared to a more individualistic society like America.

In the late 1920s Howard Pim, a philanthropist on the Witwatersrand involved with the establishment of black cooperatives, viewed the idea of education and agricultural schools as a long-term development strategy for rural development. Although he managed to register three African cooperatives at the Registrar of Cooperatives in 1935, a more successful form of cooperative existence was the tribal kinship and ethnic ties and control by chiefs. “ One of the more successful efforts was that of the Bakgatla Cooperative Society Limited under Chief Makapan of Makapanstad near Pretoria, whose objectives extended beyond trading to ‘tribal coordination’ and the integration of four separate groupings of Moseitlha, Mocha, Makau and Pilane” (Rich, 1984: 46).

After 1935, Claude Francis Strickland (1881-1962), a former magistrate and registrar for cooperatives who was regarded as highly knowledgeable on the subject, warned that in order for cooperatives to become a cohesive rural economic force the expertise of the educated elite had to be acquired to engage in building a community spirit. He believed that cooperatives could create a social cohesion that could modernize African rural society free of missionary supervision and tribal leadership. “Strickland tried to impress the point that for

cooperatives to work they had to be managed by intelligent, literate Africans and should be democratic as well” (Rich, 1993: 304).

With the gradual urbanisation of people the cooperatives began to extend beyond agriculture to other sectors of the economy in the form of worker cooperatives. Cooperatives became part of the agenda of social movements for the democratization of South Africa. Churches, civic organizations, trade unions and at the time banned political organisations all contributed to the agitation for democratic change. It is from this sector of South African society that the cooperative concept resurfaced as an alternative to the neoliberal business environment that emerged in the 1970’s and 1980’s. The cooperative idea provided a model of hope for equal opportunity, social cohesion, strength and power as a collective.

According to Ruiters, the African National Congress (ANC) in 1935 began to show an interest in cooperatives. African Congress Clubs were established. The South African Communist Party, however, discouraged such schemes and labeled them petit bourgeois. They claimed that a small group of businessmen possessing more than half the shares would manage the company in their own interests. They warned people about cooperative schemes, saying that they would not be of any benefit, as they just served the interests of elite businessmen. Instead of helping workers get an idea of class, they were deceiving workers. The cooperative directors had majority shares as well as all the decision-making powers. The all-important democratic element and social consciousness were lacking (Ruiters: 1993, 113).

The 2<sup>nd</sup> World War (1939-1945) period impacted on the development of cooperatives. Scarce resources and increased vulnerability contributed to cooperative formation (Ruiters, 1993: 121). The 1940s and 1950s witnessed a further growth in cooperative activity. In Durban, for example, the activist, William Mseleku, established The Natal Bantu Cooperative Trading Society

Limited and The Bantu Cooperative Credit Society. Mseleku's cooperative ideas also contributed to adult education throughout Natal. (NCASA: 2006)

According to Ruiters (1993), however, many of these black cooperatives failed to thrive and survive. There is no official data indicating the number of black cooperatives established. Unofficial indicators are that they were less than one hundred. Their unsuccessful performance was put down to a lack of state support, which was an important factor. A lack of capital and technical knowledge also obstructed the development of cooperatives. The State at the time was classed as hostile and racist, although it was, however, involved in cooperative support in the homelands through the 'betterment schemes' in the 1950s. These schemes often faced popular resistance, however, because of state control.

The work of Ruiters clearly depicts the shift in views within the political and trade union movement of this period. This was a period in time (1950-1970) when cooperatives were seen as a non-issue and unnecessary, warranting little attention from the liberation movements. By the 1960s, the idea of cooperatives had disappeared from the agenda and activities of social movements. Ramphele (1989) suggests that the reasons for the lack of success of cooperatives at this time included the lack of trust amongst members, and the absence of strict guidelines for acceptable behaviour.

In the 1970s and 1980s, however, the debate and establishment of cooperatives started again. Workers' unions, such as The Allied Workers Union, Food and Canning Workers Union and the National Union of Mineworkers, all COSATU affiliates, felt - in the mid 1980's - that they had an obligation to unemployed workers. In the light of this, the idea of a cooperative movement was viewed as a solution to unemployment. The workers movement regarded this as a way of keeping the unemployed organized and together. The cooperative was seen differently in this period. The cooperative was regarded as a progressive institution based on the endorsement by social movements. This type of political credibility had been lacking before.

The churches and the Black Consciousness Movement also had input into the idea of cooperatives. Church organizations such as the South African Council of Churches (SACC) stimulated the idea of cooperatives via their funding arm. The cooperative concept was seen as a vehicle for social transformation. The Black Conscious Movement was always looking inward at communities and trying to find mechanisms to develop capacity for change from within. Self-Help schemes were seen as a pillar of empowerment for people to do things themselves. Black leadership and control over the allocation of resources for the black community were important for restoring a sense of independence.

Ruiters (1993) refers to another wave of cooperative activity in the 1980's. The debate on cooperatives became a contentious issue in the social movement at the time. The economic sustainability of projects was stressed. Income generating projects were therefore needed in order to eliminate dependence on donor organizations. The church also took an active role in cooperative activities citing this role as an extension of church activities. This was regarded as welfare work, and the stimulation of welfare projects and education for cooperative enterprises was looked at in a fresh way.

The 1980's marked a period of cooperative development in addition to a shift in political activity and thinking within the social movement. Attempts at regional networks were made. In Cape Town the Masibambani Cooperative Forum brought together 20 cooperatives in 1987. The Credit Union League brought together 47 credit unions. In the Eastern Cape the Black Conscious Movement (BCM) was responsible for establishing the Self Help and Cooperative Coordinating Council.

(Ncasa: 2006)

In this period from the 1980s onward, the idea of cooperatives was again politically in vogue in the ANC and the Trade Union Movement. However, elements to the extreme left of the socio-political movement (such as the South

African Communist Party) warned that cooperatives could easily be captured by and run in the interests of the emerging black middle class, thus serving elite rather than mass interests. Trade unions, such as the Congress of South African Trade Unions (COSATU), however, endorsed the idea of cooperatives because they wanted to keep both employed and unemployed workers united. They saw the cooperative as an answer to this form of unity. Within the National Union of Mineworker (NUMSA), two cooperatives were established in the 1980s. The union set up BTR SAMCOL in Howick and the PANAMA Texas Cooperative to provide work opportunities for workers who had been retrenched due to disinvestment. Both these cooperatives have subsequently failed. (Sikwebu: 2009).

#### **3.3.4 South African Cooperatives Post 1994**

The established white cooperatives that dominated the agricultural industry in sectors such as processing, marketing, pricing and finance began to be dismantled after 1994. These cooperatives began to convert to limited liability companies. The Minister of Agriculture at the time, Derek Hanekom (1994-1999), tried to stop KWV from converting to a limited liability company but was unsuccessful and the matter was settled out of court in 1998. The basis of his legal argument was that white cooperatives were given government support for decades, which created a monopoly of privileged stakeholders, thus privatisation meant that cooperative members were asset grabbing. (Phillips: 2003)

The period 1994-2000 was a lean period for cooperative development in the agricultural industry. The Growth, Employment and Redistribution Strategy (GEAR) overtook the 1994 Reconstruction and Development Programme (RDP). This change in macroeconomic strategy translated into less spending by government, more privatisation and the creation of a leaner state. The internal and external factors that influenced cooperative development included the deregulation of domestic agricultural marketing, international trade liberalisation, relaxation of exchange controls, fluctuation in production and movement in world prices.

In 1994 the national elections and the introduction of a new government of national unity started a change in policy shifts. The withdrawal of the National Party from the government of national unity in 1996 also impacted on change in policy. In agriculture the most significant policy change was land reform launched in 1994. This included land redistribution, land restitution and tenure reform programmes. The Labour Relations Act (1995) also impacted on agriculture activities and the protection of worker rights.

A baseline study carried out in 2001 by the National Cooperative Association of South Africa (NCASA), conducted on 654 (predominantly black) cooperatives and representing 56 000 members, revealed that although the movement was struggling, cooperatives had an annual turnover R84 million and an aggregate savings level of at least R5,7million. (NCASA, 2003). NCASA emerged in 1996. Its leadership was marked by serious weaknesses; however, due largely to its top down approach to management and the organisation now no longer exists. (Copac: 2004)

As Table 2 shows, the development of agricultural cooperatives showed a steady increase in the establishment of new cooperatives from 2001 to 2005. The adjusted totals row reflects the fact, as new co-operatives were emerging, some of the older ones were folding and being taken off the register, due to liquidation, amalgamation, conversion from an agricultural to other type of cooperative or conversion to a company.

Table 2: Registered Agricultural Cooperatives 2001-2005

	2001	2002	2003	2004	2005
Total previous year	220	256	290	369	459
New coops	49	41	87	98	97
Adjusted Totals	256	290	369	459	550

Source: South African Agricultural Industry in Context (Online, 2009).

The legislative framework in terms of which cooperatives operate is also in transition, like many other areas of society. In 2002 it was decided to transfer the responsibility for cooperatives to the Department of Trade and Industry (DTI). The physical transfer only took full effect in 2005. DTI in the meantime established a Cooperatives Development Unit and adopted a Cooperative Development Policy. The Cooperative development Policy is meant to streamline legislation, thus making the processes involved in setting up a cooperative simple and accessible. Other aspects of the policy included financing through the National Empowerment Fund (NEF) and the APEX fund (a micro finance fund within DTI), as well as education and training. Many aspects of this policy had still to be implemented. A new Cooperatives Act was adopted in 2005. At the time, cooperatives were still being registered in terms of the 1981 Act (the old Act), until the new Act (2005) was promulgated in parliament.

With the arrival of the new dispensation in South Africa, the legislative process had undergone a number of radical changes relevant to the needs of the country and its people. Up until this point in the country's economic history, the Cooperatives Acts before 1994 were more relevant to the old order and a new Cooperative Bill was tabled at parliament in 2005. This initiative is indicative of the government's serious intent toward making cooperatives an important feature of the South African society, in an attempt to address poverty and unemployment. It also attempts to indicate the government's support in facilitating the growth of cooperatives in the new South Africa.

The earlier Cooperatives Acts focused mainly on agriculture, while the new changes in the 2005 Act position cooperatives as the potential vehicle to establish enterprises in all sectors of the economy. At the same time, it must be noted that a culture of entrepreneurship had been created and propagated by a powerful interest group (private business sector), encouraging a more robust approach to work and ownership by the development of the successful entrepreneur.

The new legislation heralds a fresh beginning for cooperatives in South Africa, as it is inclusive of all of its people. The definition of a cooperative is in line with the International Cooperative Alliance. “A Cooperative is 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.” (Act No14: 2005). The definition gives the cooperative a specific identity.

The New Cooperative Act 2005 is part of the state legislature that will continue to shape the development of cooperatives in South Africa. In some countries, like Finland, no Cooperative Act exists, yet the cooperative movement has thrived without government intervention. The relevance here is to a contested area in the South African political economy, with business on the one hand indicating that the state should leave the cooperative sector to survive in a market economy, and the labour unions - representing workers - pushing for legislation that would support, strengthen and develop cooperatives. The main area of contestation is that labour is of the view that cooperatives should serve the interests of their members and empower them to control their own operations and management, thus indicating its specific requirements. COSATU’s position is that the act copies company law, which protects shareholders from management and lays down specific requirements for operations. (Roelf: 2008) Roelf also quotes Elroy Paulus of COSATU citing the act as inadequately enabling when it comes to accessing to minimum support measures provided by the state.

The purpose of the Cooperative Act 2005, is clearly outlined, namely, to:

- promote the development of sustainable cooperatives. Cooperatives are recognized as viable businesses aimed at economic activity for people with limited resources and they have limited financial risks.
- encourage the self-reliance and self help of people who choose to work together in a democratically controlled enterprise. The position of

small business is strengthened through cooperatives. Cooperatives also contribute to community development by creating jobs.

- make provision for the promotion of equity. The new act makes provision for gender equality, the empowerment of women, black economic empowerment and a commitment to poverty reduction
- facilitate the provision of support programmes especially agencies of national departments. A special fund has been set up to facilitate the establishment of cooperatives through training programmes. Within the DTI cooperators also have access to finance (Cooperative Act No14: 2005, 7)

It is important to acknowledge that other policies also inform cooperative development in rural South Africa. An example is the country's land reform policy involving the promotion of redistribution, restitution and tenure reform. The Government has a target of transferring 30% of agricultural land to black ownership by 2014. A number of programmes have been established to promote small-scale farmer initiatives, together with the expertise of extension services and mentorship. The Ministry of Agriculture has established a farmer support and development branch that includes five directorates. These are:

- farmer settlement,
- financial services and cooperatives,
- food security and rural development,
- agriculture risk development and
- the registrar for cooperatives.

Other government interventions include the work of parastatals such as the Industrial Development Corporation (IDC), which has introduced a R1 billion entrepreneurship, and development scheme that will affect cooperatives directly. (IDC: 2008)

President Jacob Zuma signaled the importance of co-operatives in his address to the 14<sup>th</sup> Annual summit of the National Economic Development and Labour

Council (NEDLAC). The first strategic priority he mentioned is to create work and sustainable livelihoods. One of the key elements that he highlighted was “strengthening competitiveness and promotion of small and medium enterprises (SME’s) and cooperatives” (Zuma: 2009).

### **3.4 SUMMARY**

Chapter 3 provides an account of cooperative history and background. The Rochdale Cooperative in England, started in the early 1840’s is seen as a landmark in terms of the establishment of cooperatives in the modern-day industrial era. A brief reference is given to cooperative activity in Europe and Asia, as well as the USA, thus emphasizing the existence and growth of cooperatives as an international phenomenon.

Within civil society, cooperative activity from the late 1970s became an important development with the establishment and growth of worker trade unions and the worker struggle for a free and democratic political dispensation in South Africa. The introduction of the New Cooperative Act of 2005 is an important juncture for the way forward for cooperatives in South Africa.

To drive the process forward, there will be a need for government support and the facilitation role of NGO’s and other donor bodies in society. The most important component, however, is for the people working on the land and involved in the cooperatives to be the proactive force in driving the process for strong, sustainable and progressive collective organisations.

Chapter 4 introduces two case studies of cooperatives in the Western and Northern Cape Provinces. A simple comparative analysis is made of these two case studies where membership, organization, products, ownership, marketing and employment are examined and compared as important elements of study.

**CHAPTER 4**  
**CASE STUDIES OF THE HEIVELD COOPERATIVE**  
**AND DIE BERG VRUGTEVERWERKING**

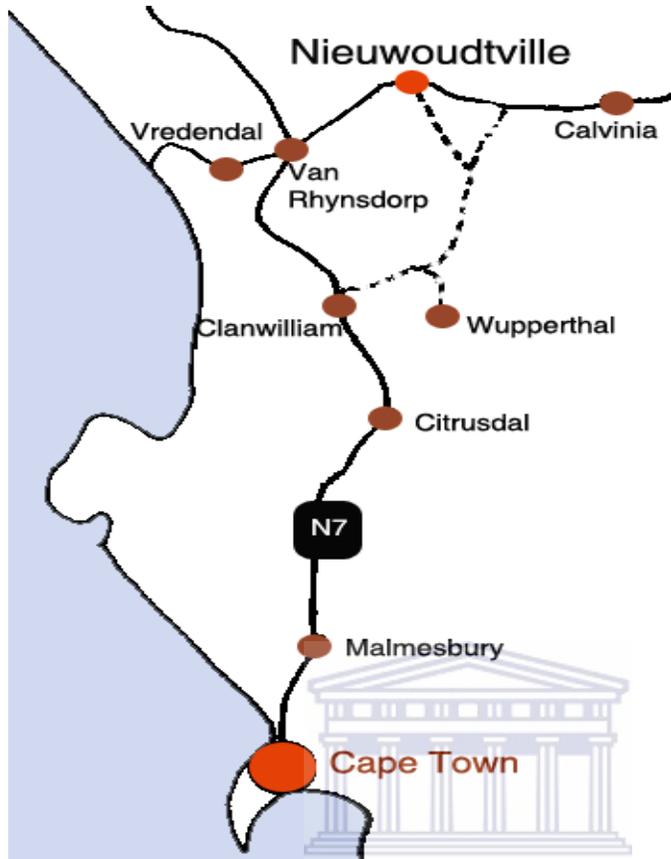
**4.1 INTRODUCTION**

This chapter covers the research of two case studies. The first case study is the Heiveld Cooperative. This organisation consists of 43 members based at Nieuwoudtville in the Northern Cape. The cooperators have established themselves as organic rooibos tea farmers with an export market for their products. The second case study is a self-help organization called Die Berg Vrugteverwerking. This organisation consists of 9 members, whose main activity is the manufacture of jams and chutneys made from fruit, which the cooperators source from surrounding farms in the Piketberg district. In each case study, a record of business activity is presented and findings are made. The chapter concludes with a comparative analysis of the two case studies.

**4.2 THE HEIVELD COOPERATIVE**

**4.2.1 Introduction**

The Heiveld Cooperative comprises a number of small farmers living in scattered homesteads over a large area in the Bokkerveld region. The membership component (43) is made up of individuals and families. Members live and work on a number of small farms affiliated to the larger Heiveld Cooperative. Within the main Heiveld Cooperative there are a number of smaller emerging cooperatives (such as the Bitline Cooperative). The emergent cooperatives are mostly small, primary cooperatives. Cooperatives are an extremely diverse movement, both in terms of where they are located, the sectors in which they operate, and the different kinds of cooperatives that exist. The Heiveld Cooperative is involved in the manufacture and marketing of rooibos tea grown by small farmers in Nieuwoudtville, four to five hours drive from Cape Town and about 450km from the city centre (see map no1). The area has a dry, rural setting that is located high above sea level over the Vanrhynsberg Pass in the Kouebokkeveld region.



**Map No.1 NIEUWOUDTVILLE** UNIVERSITY of the WESTERN CAPE

#### 4.2.2 Cooperative production and activities

Rooibos is a plant that occurs naturally in the dry, mountainous regions north of Cape Town. The rooibos is a South African indigenous plant. It is rich in minerals, antioxidants and vitamins, and has been harvested for generations by the indigenous people of South Africa. The initial fourteen people who decided to form the rooibos tea cooperative are all small farmers, some of whom owned small tracts of land, individually or as a group, and some of whom farm on rented land. The fourteen members are Afrikaans speaking and from the historically disadvantaged coloured community in South Africa. They are descendents of the Khoi and San indigenous people now called Khoisan. The cooperative concept started in 2000, after a representative of the Environmental Monitoring Group (EMG), a Non-Governmental Organisation (NGO) introduced them to a proponent of organic tea farming.

The Environmental Monitoring Group (EMG) is involved with the Heiveld Cooperative. EMG is an NGO, which acts as a resource organisation for disadvantaged communities. It undertakes the research on environmental problems and sustainable development opportunities. EMG also develops policy options around environmental and developmental issues.

The original objective of forming the cooperative was an extremely limited one. It was to establish a facility to process each member's tea, so that it could be delivered to a company marketing rooibos tea. This company was formerly a cooperative, but had converted to a company, and some of the small farmers were contractually bound to deliver all their produce to it. However there was unhappiness at the price it paid to the farmers for their yield. It soon became apparent that the cooperative could get a much better price by marketing their tea through an agent, under a fair trade label and as organically produced tea. During the first year of its operation the cooperative leased a centrally located facility to produce the tea, some of which was then marketed through the agent. This operational activity was very successful. The following year all the members were marketing their tea through the cooperative, and the cooperative realized a substantial surplus. The Heiveld Cooperative realised a profit of R104 000 in 2002 and R140 000 in 2003. (Nel: 2006)

The cooperative's constitution stipulates that the board may retain a portion of any surplus for reserves and that the balance is available for distribution to members as a bonus. A decision by the group was made that only seventy percent of any such amount may be distributed as a bonus, calculated in accordance with the patronage proportion. Patronage proportion is the farmers' tea crop traded to the cooperative. The larger the crop, the larger the bonus proportion allocated. The remaining thirty percent:

Must be used to further the objects of the cooperative of enabling its members to develop sustainable economic activity. This may be done by supplementing any bonus payable to members who, in the opinion of the board, have been most disadvantaged because of their race, and or because

they are women, or by sponsoring a training or development programme to assist such members. Theron (2005)

The principle of retaining thirty percent of the amount available for distribution to benefit the less advantaged members of the cooperative is well accepted by the members. It has enabled the proportion of women members to increase significantly. Two of the fourteen founding members were women. There are now forty-three members, twelve of whom are women. At the same time, the cooperative has sponsored a number of training and development programmes, which have included topics ranging from financial management to global climate change, an issue of direct relevance to the sustainable cultivation of the tea.

“It gives me a headache to see how rapidly the co-op has grown”, the treasurer of the Board commented. “I am not capable enough...we are board members but we are also farmers.” The R100 entrance fees contributed by each member gave an initial capital of R1 400 in 2001. At the end of 2004 the cooperative had a turnover of R1, 25million and assets of R896 708, including a truck to deliver the tea, a welding machine and a tractor used in the production of tea.

The financial success of the co-operative has in some ways proved to be threat, however. One of the cooperative members in financial need began to agitate for the payment of bonuses that, on the advice of the auditors, had been retained in a reserve account. It was a demand that could easily have precipitated the dissolution of the co-operative. By a process of deliberation and debate, members ultimately came to a solid understanding that their cooperative was not for the short term gain of the members, but for sustaining itself and providing stability and growth in the medium and long term. This has undoubtedly created an understanding that has put the cooperative in good position for future planning and stability. The focus on reaching future objectives resulted in the cooperative employing its own marketing manager, as well as an administrator.

The employment of a marketing manager in the year 2003 marked a new stage in the development of the cooperative. It is also a stage that less successful

cooperatives are often unable to arrive at on their own. Marketing is critical for the viability of the cooperative. The cooperative is part of a cluster of cooperators and self-help groups who share the services of a marketing manager and administrator.

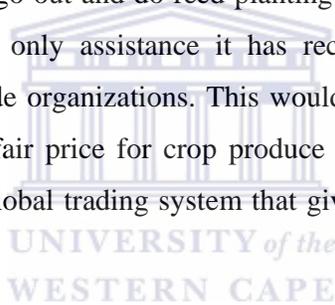
By 2004, the rooibos tea cooperative had realised that it could do far better for itself by eliminating the agent who marketed its produce, by dealing directly with the buyers. However this required that they obtain the required certification from the Fair Trade Labelling Organisation (FLO), which is a relatively sophisticated process. One of the potential benefits of the cooperative form is that, collectively, producers are able to engage in such a process, as well as achieve vertical integration of the different units making up the enterprise, by means of pooling equipment and collectivising the costs of seasonal labour.

At the same time, and apparently without any prompting by outside organisations or individuals, the members have realised that cooperation extends to assisting others to form cooperatives, as well as to cooperating with other cooperatives. Wupperthal is an area to the south of Nieuwoudtville where rooibos tea is grown by a far greater number of small farmers, almost all of whom rent the land they utilize from the Moravian Church. With the assistance of the cooperative, these Wupperthal small farmers are now in the process of forming themselves into a cooperative, and are also marketing their tea under the FLO label. The basis for the formation of a secondary cooperative, to represent both communities of small growers, is readily apparent.

The process of soliciting grants and support for the co-operative has been slow. However, it did receive a fairly modest grant from the Canada Fund, facilitated by the change agents (Indigo and EMG), toward establishing the production facility at its inception. Indigo and EMG are conservation groups involved in rural development. The production facility is a cement tea court where all the harvested tea is brought for shredding, drying, sorting and grading. The Heiveld cooperative decided that the grant would be used to build their own tea-court in Bloemfontein.

The first phase has been completed and the 2006 harvest was cured at the new tea-court, which the cooperators can now call their own facility. The tea production process starts with the wet tea delivery to Bloemfontein. The watering and rolling of the tea takes place, which is then followed by fermentation and a drying process. The next phase is two different sorting processes and a tea sterilisation procedure before being bagged and sent for packing.

The Global Environment Facility (GEF) has funded two mentor farmers who go out and assist farmers with organic farming practices. The cooperative received a small grant from the GEF, for, amongst other things, a project to enhance soil conservation, and a mentor farmer project to advise small farmers on how to cultivate in a sustainable way. The GEF funding also helps with windbreakers. This means that teams go out and do reed planting to prevent soil erosion. Aside from these grants, the only assistance it has received is the social premium charged by the fair trade organizations. This would mean access to markets that are prepared to pay a fair price for crop produce rather than simply the lowest price. Fair Trade is a global trading system that gives small-scale farmers access to global markets.



In the case of the rooibos tea cooperative, the cooperative provides the members with self-employment, by ensuring they have a steady income. As one board member expressed it, it has “given us stability in terms of development.” However, as small farmers they do most of the work themselves and only employ others to assist with seasonal work. This is not of course the case with the commercial farmers, who employ a workforce in the same way as any other farmer.

The rooibos tea cooperative provides three examples of an employment effect it has had. Firstly, it provides seasonal employment to a team of about nineteen contract workers, for casual or temporary work during the harvest season. As the need requires, the whole of this team could be deployed to one farm, or different teams to different farms. The net effect is more stable employment for the

workers concerned, and almost certainly higher wages than workers would have earned had individual farmers employed them. Secondly, the cooperative has an agreement with three local groups of women to buy cloth bags sewn by them, which are used to package the tea. Thirdly, yet another group of women was assisted to establish a tourism project, which caters for what appears to be a steady stream of visitors to the cooperative. This involves providing overnight accommodation, meals and a tour of the farm. In an impoverished rural community, the prospects of formal employment are very limited. Any prospect of work or self-employment is therefore significant. The reality of rural life is the lack of resources and infrastructure. In this sector, people struggle to sustain themselves. It is, therefore, difficult to survive the harsh realities of the rural environment. A common occurrence in the rural sector is the involvement in more than one economic activity, hence the tourism project at the cooperative, which brings in much-needed revenue. Tourism in the rooibos region has been further enhanced with the introduction of the 95-mile Rooibos Heritage Route between Wupperthal and Nieuwoudtville (see map No1). Jolliffe (2006) quotes the director of Indigo, Bettina Koelle, stating, “ The Rooibos Heritage Route will help the farmers to diversify their livelihood strategies and preserve the unique culture and ecology of the home of rooibos ”. Indigo is a conservation group involved in development and change in the rural sector.

The impact of environmental factors has a constant influence on the yield of rural agricultural farming in either a positive or negative way. For the small farmer this can be very challenging as a single crop might be the main source of income. The rooibos farmers have experience good and bad years of rooibos tea crop yields.

“After a long drought over the past few years, the heiveld region experienced rain that has made it possible to plant new seedling and make the community very optimistic about the 2007 harvest of rooibos tea crop.” Heiveld News (2006)

Although this region is indigenous to rooibos, conditions like heat, wind and drought can still affect the crop adversely. The terrain can be harsh and some of the crop can be affected by these harsh conditions, and die. The seedling

production helps with the opportunity to plant new seedlings. Organic seedling production is very important to the cooperative, as it is one of the few organizations that produce certified organic seedlings.

In the area of rooibos tea marketing, a significant point has been reached for the cooperative, as the members are now directly involved in the marketing. In terms of marketing exposure and learning experience for the cooperative, many opportunities to share knowledge with other organizations have arisen. Some examples are the invitations from cooperatives abroad, for members to visit Germany, France, Tanzania and Italy, to give a presentation on organic rooibos tea and to meet and market rooibos products. These meetings also revolve around fair-trade and co-operative activity.

The cooperative's headquarters, based in the town of Nieuwoudtville, is where all the organisation, administration and marketing with the outside world take place. It is a worthwhile stopping point for visitors to the town. The visitors have access to literature depicting the history of the rooibos cooperative and an opportunity to purchase and taste Heiveld organic rooibos tea of superior export quality.

#### **4.2.3 Findings**

The cooperative provides the main source of income for the cooperators. With only one rooibos tea harvest a year the cooperators have to look at other sources of income to sustain their livelihood. A good example of other forms of socio-economic activity is the cooperative's women's group, which established a guesthouse and short conducted veld tours of the surrounding farmland and rooibos tea planting areas. This project has impacted very positively on a farm called Melkkraal, where the women have established rudimentary lodging, provision of meals and conducted tours for guests visiting the farm. Melkkraal is a farm that is owned by the Kotze family, who are all members of the cooperative. Melkkraal is situated more than 30km outside of Nieuwoudtville, on a dirt road. The success of the Heiveld Cooperative has attracted many local visitors. The cooperative's international links have also resulted in visitors from Europe, who

come to the farms to experience the organic farming environment first-hand. These activities have played an important role in developing a network on all levels and creating some form of additional income for the members of the cooperative. Some members have small vegetable garden patches and keep poultry as a food source.

The farm has an arid look to it, synonymous with the region. Despite the harsh terrain, a number of plant species exist in this area. At least two varieties of cacti have been observed as indigenous to this region. Within the large spans of arid surroundings lies an oasis that was pointed out by Groot Oom Kotze, the Kotze family patriarch, aged 76. He grew up in this region. The oasis is a small spring at the bottom of a rocky, cavernous decline. Oom Kotze pointed out rock art paintings of work done by his San ancestors. Some of the paintings, although faded, depict elephants that once roamed this region but are currently non-existent in the Northern Cape. Without the knowledge and guidance of Oom Kotze, the untrained eye could easily overlook this location. His narration of the history, events and personal experiences, reminds one of the cruel master-slave relationship between whites and blacks in rural South Africa.

The traditional home in this area has been built out of rietjies (a woody organic plant material) and is called a Rietjieshuis. The people use these structures for different domestic functions. One is used as a kitchen, with the centre of the rondavel-like architecture used for fire making. Another rietjieshuis is used as a sewing workshop-room, where the women sew the little bags in which they market their rooibos tea products. Other structures on the farm have been built from wood and galvanized iron sheeting. The perseverance and ingenuity of one member, Johan, has resulted in the building of a small stone house. The area is very rocky. When Johan cleared his tracks of land for planting rooibos, he kept and used all the stones he dug up from his fields, for building his home. Mud from a nearby riverbed was used as cement. Johannes has his motor vehicle licence and works as a driver within and outside the Cooperative whenever the opportunity

arises. He also works on neighbouring farms in the rooibos off-season, to supplement his income.

A visit to another small rooibos farmstead indicated a different dynamic: this five-member farmstead has established a Cooperative amongst themselves and are also members of the Heiveld Rooibos Cooperative. Although they are cash-strapped and struggling, they have managed to secure a loan to buy their land and were afforded a government grant to buy a tractor and trailer. They have also secured mining rights to a sandstone quarry on their farm. Their rooibos has given them its first yield and they also keep sheep on the farm. Their plans are to build guesthouses on their farm with the sandstone, and to capitalize on the growing market for accommodation of visitors to the area. In time, their intention is to expand by obtaining additional land.

The involvement of the NGO's is critical to the future of this cooperative. The international or global links are essential for further lucrative trade. The sensitive environment demands inputs from outside stakeholders in terms of scientific and environmental expertise. The international market for rooibos tea has placed the cooperative's products in a niche market where the demand is high. The progress made and plans envisaged for the future indicate that this cooperative will be able to sustain itself. A strong export market for the cooperative's rooibos tea exists in Europe, USA and Canada.

The management and operations of the cooperative are done by the members of cooperative themselves. The NGOs involved have director status as members of the cooperative. The democratic procedure in operational functions is a high priority and focus on empowerment of the people seems to be embedded in the organizational culture.

Some members of the cooperative have no formal schooling and cannot read or write. Mrs. Elsie Louw of Bitline has gone back to school after a 38-year break. She makes good use of the resources from the Adult Basic Education Trust. It is

her desire to understand all the aspects of her business better. The level of understanding about the cooperative and particularly its financial distribution may need a greater effort by management to communicate cooperative activities and decisions better to its members. Some members seemed unsure and ill informed about cooperative activities. One possible reason for this is that because of the long distances and high traveling expenses, members are not attending all the regular meetings.

The cooperative has also actively engaged in community activities, despite financial constraints: the local school, attended by children from the cooperative, benefits from its support. A study grant has been extended to two students from the community, for tertiary studies in Social Science.

#### **4.2.4 Threats and Weaknesses**

The grading process of rooibos tea means that four final tea products are currently produced. The pricing of these products creates a market sensitivity which affects turnover favorably or unfavorably, based on demand for this commodity.

They are:

- Supergrade Rooibos (basic export quality) ... average price R49.20/kg (2006)
- Superfine Rooibos (higher export quality) .....average price R62.50/kg (2006)
- Coarse grade Rooibos (Sticks) .....average price R28.00/kg (2006)
- Wild Supergrade Rooibos.....average price R76.00/kg (2006)

Competition, based on price, exists from plantation farm owners who have also been certified as organic farmers. A big difference exists between certified organic plantation owners and small producer organizations, such as the cooperatives. The threat lies in the cost of production. This means that the plantation owners are able to sell tea to the market at a lower rate per kilogram. The only requirement from Free Trade Labelling Organization (FLO) is that the tea is sold above the cost of production.

Global warming places an overall threat on this organization, the whole community, as well as the organic tea industry. Changes in weather patterns, rain and drought have meant that the organization had to start a re-establishment

scheme, whereby new planting of organic rooibos seedlings took place. The erection of wind barriers has become a necessary technical (albeit simple) intervention, to protect plants and prevent soil erosion.

#### **4.2.5 Achievements and Strengths**

The rooibos tea cooperative is an unusually successful enterprise. The growth of its membership, increase in its turnover and the surplus it has generated, indicates rapid change since its establishment. This is unusual for a small business that would normally go through a survival stage. The survival stage would mean that the business is vulnerable to failure. What often happens is an inability to attract new business and a struggle to maintain repeat business. The rooibos tea cooperative has managed to attract new customers and stabilize revenues. They have managed to stay in business by developing a niche market in the export industry.

The cooperative started off with very little financial input. The initial R1 400 investment from the first fourteen members was the start. Since then the net profit each year has increased, showing positive results. An example is a net profit of R157 000 in the year 2003, and R310 000 in the year 2004. The current indicators are that the Heiveld Cooperation produces and exports 60 tons of organic Rooibos tea. (Copac: 2008). What is very impressive is the discipline of allocating 30% of the net profit to a reserve fund, which allows for medium and long-term planning. The other 70% is used as well deserved dividends to member shareholders. Donor funds in the form of a grant have made it possible for the cooperative to build their own tea-court. The help of the two NGO's (Indigo and EMG) has been a large contributor to the success of the cooperative. The cooperative received its organic certification in 2001. The cooperative was certified in 2003 as a Freetrade Labelling Organization (FLO). This achievement is significant for small producers, as the products gain a premium export price, thus adding value to the crop as an export commodity.

The current state of the rooibos industry puts the cooperative in a very strong position for further growth. The stage of development for final products is still in an infantile stage. The potential for developing different blends of tea with rooibos, particularly organic herbs and other flavours, is yet to be fully exploited. The benefits of more products from blending and packaging open up opportunities for growth in the cooperative. This translates into the possibility of an increase in membership and for employment for people of this region.

The cooperative is favourably situated in terms of infrastructure: e-mail systems, a postal service, telephone network and road transport make the cooperative accessible for business and communication from the Nieuwoudtville head office. The strong financial position of the cooperative and the prospects for new product development make the medium to long-term prospects extremely viable.

A sense of community exists amongst the cooperators. The daily operational activities involve a participatory process, where both local knowledge and the scientific and management expertise of the change agents are used to advance livelihoods and the sustainability of the cooperative. A true knowledge exchange process exists here, where the local people and researchers are learning from each other and implementing methodologies to improve, sustain and protect the organisational resources. The transparency and open, democratic (board of executives are elected by members) organizational structure are a good and strong foundation on which the cooperative can build. This democratic structure is enabling and empowering for the cooperative membership and other organizations, especially where the organisation is involved with mentorship.

The relationship that the cooperative has with the change agents (Indigo and EMG) is very important, with regard to the expertise on environmental issues that these organisations bring. The future and success of the cooperative lie in preserving the bio-diversity of the area. The establishment of an organic seedling nursery and employment of two mentor-farmers that give technical assistance to

the cooperative members are some of the strategies put in place to ensure sustainability.

The cooperative's social responsibility, especially towards educating young people (in the form of financial support to the local school and two university students from the community) shows a strong organizational ethos, compliant with its objective to plough resources back into the community, in order to build a better society.

### **4.3 DIE BERG VRUGTEVERWERKING**

#### **4.3.1 Introduction**

In 2002, a number of previously disadvantaged Piketberg citizens started Die Berg Vrugteverwerking. This self-help organisation is registered as a company and is included as a case study for its rural-based initiative as a project by its members who are all equal shareholders in the company. This group works as a team, empowers its members, and adheres to democratic organisational principles. The organisation is based in the rural town of Piketberg and depends on the natural fruit produce from surrounding farms for its primary operation, which are the manufacturing, marketing and sale of jams. The organisation has nine members who are previously disadvantaged South Africans, classified coloured. Five of the members are woman and four are men.

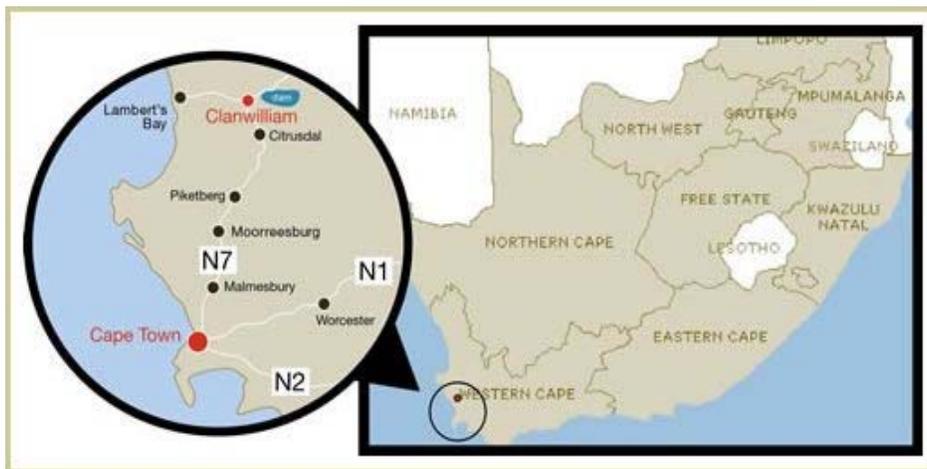
#### **4.3.2 The Intaba Jam Organisation**

Intaba Jams is the brand name of the products made by Die Berg Vrugteverwerking. Both the names, "Intaba" and "Die Berg" are Xhosa and Afrikaans words, respectively, for "mountain". The organisation has managed, through the help of government, to purchase a morgen (8000 square meters) of land in the Piketberg Mountains. Access to the organisation is through a steep mountain pass, the top of which opens up to a valley of fruit farms.

This organisation has a code of conduct that ensures that the interests of the group are always put first. The group has an undertaking to show respect to each other at

all times. The misuse of alcohol and drugs is not tolerated. Like most organisations in the commercial world, a big emphasis is placed on punctuality. The nature of the work involved has created an undertaking to always obey the safety rules. No theft of goods or misuse of time from the company or team members are tolerated. A strong caution has been made with regard to gossiping or ill intent. Sexual harassment is strictly forbidden. The operational and production methods require strict adherence to hygiene and standard operating procedures.

The name of the community is PIKET-BO-BERG. The community is a small town, but unlike the village Piketberg that lies in the lowlands, it is situated on top of the mountain. The name, “Piketberg”, was recorded for the first time in 1677, in the diary of Governor Simon van der Stel, when he established a military post on the mountain during a war with an indigenous tribe. The current community of approximately 4000 people is situated on top of the mountain. This mountain forms a stark contrast with the surrounding countryside, which consists of rolling lowlands. To the west lies the SANDVELD with its sparse natural vegetation. To the south lies the rolling landscape of the SWARTLAND, famous for its corn and wine. Table Mountain can be seen, 150 kilometres away. To the motorist passing the mountain on the N7, the mountain gives the impression of ruggedness. It is hard to believe that a beautiful plateau with valleys, flowers and green orchards awaits the eye.



**Map No2 PIKETBERG**

The main objective of the organization was based on need for the members to start a successful and viable business that could provide all its members with an adequate income, thus keeping them self-employed. The justification for the start of the fruit-processing project in the year 2002 was due to the potential for a successful operation based on sufficient fruit available in Piketberg and surrounding areas to make Intaba products.

A market for Indaba products exists locally and there is a possible export niche market to the rest of Africa and abroad. There is the eventuality of growth in the company, and adequate labour in the area is available when needed. The members have an advantage in that they are owners of a site and buildings of the business. An established infrastructure exists. Although the manufacturing site is on top of the mountain, road access exists for transportation. Individuals and organizations involved in sales and marketing already exist for the marketing of Intaba products. The marketing is done by independent marketing and sales people outside the organisation, to the wider South African market. A highly favourable factor is the large local market for jams and chutneys. A market for dried fruit also exists.

The focus by the group is to use good quality, fresh produce from the area, which they would then process and market at the right price. As with any business, the aim is to realize a profit. The goal and efforts of this group are to engage in an income-generating activity that serves the interests of its members. One serious concern of the group, when considering their business venture, was the cost of production, i.e. its ability to produce a product economically. The right equipment and the availability of fruit to produce a desired product were other concerns.

Some of the jams and chutneys are unique to Intaba. The organisation is still young, so there is sometimes uncertainty in forecasting demand for these products. The current operation as a small-scale business is to produce on demand, that is, as the orders for jams come in. This has the advantage of not tying up money in too much stock, as well as keeping an adequate cash flow in

the business. The effectiveness of the sales and marketing agents is important to the success of this business. They are the link between the producer and the market for Intaba products, because of their ability to find, service and grow new market share in the food industry. The type of products that Intaba manufactures are chutneys, jams, dried fruit, dried fruit rolls and fruit in concentrated syrup form. The group decided to start with the jams, in order to establish themselves in the local market and grow gradually, while managing their risks.

#### **4.3.3 Intaba Chutney Products**

Fresh fruit is used to make the chutney. The fruit is shredded during the fruit season when there is an oversupply. The resulting pulp is used to make chutney. The chutney is available to the local market. Agricultural shows are often used as a good place to market Intaba products. Chutneys are packed in glass containers. The Intaba group's aim is to eventually target the product for export, where a larger market exists.

#### **4.3.4 Intaba Dried Fruit Products**

There is a definite market for dried fruit, provided it is of top quality. Fruit that is dried in a dehydration tunnel is usually of top quality. The fruit is packed in attractive 125g plastic bags. The dried fruit can also be bulk-packed into 1kg bags, for catering purposes. The dried fruit is arranged in woven baskets and sold as gifts at florists, farm stalls and gift shops. Fruit kebabs are sold at agricultural shows and festivals. The 125g packets retail at a reasonable price and are in demand at factories, health shops and schools.

#### **4.3.5 Intaba Jam Products**

The organisation's current focus is to concentrate on the local market, as it is more cost-effective than to export. The brand also needs to establish itself in the local market. Customers are able to purchase jam directly from their factory. The local community can also buy in bulk by supplying their own containers. An assortment of jams are packaged and sold as a hamper.

Jams are bottled in small bottles to be used in hospitals, hotels, airports and guesthouses. Jams are also sold in bulk to Government feeding schemes. A growing niche market for organically produced jams as well as diabetic jams exists. This creates an opportunity for further investigation and market research.

#### **4.3.6 Findings**

The organisation is well organized, as the administrative and production functions are clearly defined, and members are capable of multi-tasking in both areas. This is important because the organization is small. The organization has a good team leader who, together with the rest of the group, has a vision and plan for growth. One of the important things noted in the group is its determination to exploit all their strengths in order to succeed.

The sustainability of Die Berg Vrugteverwerking is very promising, as a number of factors count in its favour. A variety of fruit is available in the local area and although it is a season-dependent industry, the organisation is capable of being operational in the off-season too. This is done by the variety of fruit available. The fruits are seasonal, so the organization has the capacity to work on the first step of the fruit processing and store fruit in its refrigeration facility until needed. The power supply to the factory is adequate, with enough capacity to double its operation if more power supply is needed. The facility has enough space to accommodate a second cold storage container. The infrastructure is available for fruit processing in substantially large quantities. The facility is an old school that was converted into a factory in 2004. The house of the ex-school principal has been converted into an office, storage and sales and marketing area. It also serves as a reception area for visitors to the facility.

Roads are accessible, which is important for the logistics linked to the distribution of the products. The team consists of members who are all young and motivated. Another important factor is that all the members are literate and have some form of high school education. All the members are hard working and have work experience. They want to make a success of the project to be able to establish a

successful enterprise and generate an adequate income for themselves. The group had undertaken to do most of the repair work on the building, themselves.

The production material and inputs are a variety of fruit that is available in the immediate vicinity. Service providers, such as suppliers, can deliver essentials such as sugar and other ingredients. If and when necessary, fruit outside the immediate vicinity can also be sourced and supplied to Intaba. The Agricultural Resource Council (ARC) and ESKOM (Agrilek) have been helpful in supporting the manufacturing process. ESKOM (Agrilek) is a division of ESKOM that serves the agricultural community. Both these organisations are involved in training and development. All nine Intaba members received training in jam production from Agrilek and ARC. An NGO called Izandla, (a women's initiative) has been helpful with their contributions in the developing of Intaba's business plan.

The significance of teamwork has been observed in this organization. All the members attend meetings and join in the important activities of the organization. This contributes to the working cohesiveness of the people in organization. All the members come from the same area and know each other very well. Everyone speaks a common language, namely Afrikaans, which facilitates teamwork. The team has a common goal, which is to grow the business and to make the organization successful enough to support all nine of its members with a reasonable income. What contributes to the teamwork is the fact that all members are equal shareholders in the organization.

#### **4.3.7 Threats and Weaknesses**

Although Intaba's history and products are unique, the competition in the market place for similar products is challenging. The challenge presents itself as a mix of issues relating to price, quality and service. Some competitive companies, such as Melissa's and Hillcrest, have established themselves well in the market place so Intaba has a lot of work to do in terms of finding more business.

The organization is small and, at times, not able to accept large orders because of limited resources. The risk of over-extending, by taking loans for example, needs to be carefully considered. Intaba seems to have opted to grow and expand at a more conservative pace that is within their cash flow capabilities or comfortable growth path.

Outside help is also used for the marketing of goods in the greater part of the Cape Province. Large orders are also dispatched to other provinces. A common problem of the organisation is cash flow. Some orders had to be declined because of cash flow problems. The cost of production and credit terms expected from big companies (such as 60 to 90 days' credit) make some business transactions non-viable for the organization. In order for the organization to sustain itself, some of the members had to leave its full-time employ and find work elsewhere until it had once again reached full operational capacity. Of the original nine members, only three are currently employed on a full-time basis until the summer fruit season arrives. Suitable manpower is available throughout the year, when needed at the processing plant. The aim of the organization is to be fully operational, so that there is enough work to employ all nine members on a full-time basis.

#### **4.3.8 Achievements and Strengths**

Die Berg Vrugteverwerking managed to secure a R300 000.00 grant to start their initiative from Vuya Investments (BEE empowerment group). They purchased land and buildings for their current business premises. There is equal shareholding amongst its 9 members. They developed the Intaba product label and company branding. The members received technical training in fruit processing from the Agricultural Research Council. After six years of being in business, this organization is still operating and has survived difficult times.

The organization's membership has managed to adhere to a strict code of conduct. Observing democratic organisational procedures and making business decisions by consensus has been the cornerstone of this organization. Important compromises have been made by some members in order for the business to

survive. The members renovated the business premises themselves, in order to save on building costs. The organization secured a grant of R850 000.00 in September 2004 from the Western Province Local Government to assist with the expansion of production capacity in order to service sustainable retail markets.

#### **4.4 A COMPARATIVE ANALYSIS OF THE HEIVELD COOPERATIVE AND DIE BERGVrugTEVERWERKING**

A focus on membership, organization and culture, marketing and employment is looked at in the two case studies as important elements of organizational success.

##### **4.4.1 Membership**

The membership component in Die Bergvrugteverwerking is nine people and at The Heiveld Cooperative, forty-three. The membership at Die Berg is much smaller than the Heiveld Cooperative and allows greater room for quick decisions to be made by consensus. The other advantage of Die Berg is that the processing plant is also the work base where all members meet daily to engage in the operational activities of the organisation. At the Heiveld cooperative, the members are scattered on different farms over a 70km radius. This makes meetings and collective decision making a little more challenging.

There is potential for the membership of the Heiveld Cooperative to grow in number as this will increase the productive output of the organisation. This growth would be dependent on new members meeting the standards and criteria as authentic small organic rooibos tea farmers. Die Berg Vrugteverwerking is at a stage where they will have to establish themselves further in the market place. This will provide for larger production runs, thus securing regular work and income for its current members. It is only at this stage of the growth cycle that the organisation will have the potential to increase membership, due to the need for expansion. It is clear that the current membership at Die Berg will have to establish the organisation properly in the market place. New growth opportunities would involve generating enough business that will increase production thus

making it viable for all current members to become involved in the organisation on a full-time basis.

At both the Heiveld Cooperative as well as Die Bergvrugteverwerking membership participation is vital for support and sustainability of the organisation (value concept) where participative-management (theoretical framework) is encouraged. It is clear that the members in both the organisations are committed to the success of the cooperatives.

#### **4.4.2 Organisation and Culture**

The Heiveld Cooperative is a young organisation that has established itself well to deal with its internal and external factors effectively. The organisation has acquired the help of external expertise, from the EMG for example particularly in the area of marketing. This has been very beneficial. The international marketing of rooibos tea and meeting the high quality demands for organic rooibos tea is a sophisticated process. The expertise of change agents, like Indigo and EMG, as external partners to the Heiveld Cooperative is very important to the success of the organization. The development of external links in a globalised world has secured an export niche market for organically grown indigenous rooibos tea for this small group of Northern Cape subsistence farmers. The organization has effectively utilized the internal and external resources (value concept and theoretical framework) by identification of its economic activities through participatory research and planning and simultaneously exploiting linkage building with external parties in order to grow.

The democratic values of the cooperative movement are enforced and practiced at all times, and they guard against the temptation to convert to a capitalist firm. This is done by keeping the cooperative values alive by continuous monitoring and self-evaluation. The cooperators help each other by supporting members who are struggling to survive, thus propagating the imperatives of cooperative consciousness within the cooperative culture. Chronic poverty in the rural sector of the Northern Cape Province is common. The potential for large profits and the

mechanisms of market forces can sometimes corrode the ethos of collectivism within the organisation. The Heiveld Cooperative is governed by a constitution. An executive committee of board members exists, which represents the interest of the group. Most the board members are farmers. The board ensures that the policy of retaining 30% of the surplus before bonuses are paid is upheld, in order to ensure the stability, growth and sustainability of the organization. Education is important at Heiveld, and a continuous effort is made for training and development of the Heiveld members by networking with other organisations.

Die Berg Vrugteverwerking still has its full membership of nine as equal partners in the organisation. The lean business period has, however, forced most members (six) to find work on other farms with the business only employing a skeleton staff of three members until the business improves enough to include the other members full-time in the organisation. This decision has been a collective democratic decision with the survival of the organization (during a lean period) as its sole aim. It has required sacrifices by members, to prevent the total failure, and closure, of the business. In this way, costs are kept low and expansion can happen by natural progression as demand for Intaba products grows. This strategic application indicates the maturity of members in the organization and the ability monitor and self evaluate (theoretical framework). The team has a healthy ethos of hard work and of doing things themselves. For example, the repairs and structural work on the buildings have been completed by the members of the organisation. The members of Die Berg work with a strong focus on their business plan and code of conduct. A common language, culture and background has made organisational operations very efficient.

The ownership of the Heiveld Cooperative is solely in the hands of its membership, who are small-scale farmers that work the land, themselves. Historically, this is a major achievement in the current market-orientated economy, where workers are not just wage earners but business owners and landowners simultaneously. In the case of Die Bergvrugteverwerking, the nine shareholders are all equal partners in the organisation. This is significant in the

cooperative movement, as it gives controlling power to the people who work the land and labour in the factory.

Both organisations have a strong culture of social cohesion. The people in each group have a common bond that has made each organization strong and stable. The basic organisational values and objectives of self-governance, equality of membership, dignity of labour and participation are firmly entrenched in both organizations.

#### **4.4.3 Marketing**

The Heiveld cooperative employs a marketing manager to market its products on the international market. The focus on marketing on the international market is based on the fact that a niche market exists in the global economy for the limited resource of high quality organic rooibos tea indigenous to South Africa. Marketing is done under the Fair Trade label, which gives marginalized subsistence farmers, such as the Heiveld Cooperative, a chance to build sustainable and equitable trading relationships with potential buyers (linkage building in theoretical framework). Part of the marketing strategy is for members to attend international trade shows to market the cooperative and its products. Marketing would also include emphasizing to potential clients the traditional form and history of production of wild rooibos. This practice has social and economic benefits for the producers. The opportunity to inform people of the Fair Trade development objectives is made, creating consumer awareness and raising advocacy, assisting capacity building and empowerment (process extension and movement building in theoretical framework). The rooibos organic tea has attracted a lot of European interest for the product. European visitors are also interested in experiencing and seeing, first-hand, how rooibos organic tea is grown and harvested.

Die Bergvrugteverwerking has a large range of products in its stable. The marketing and sales of products are made by independent people outside the organisation. These are often individuals that call on small retailer stores with

a range of products to sell into retail outlets. These individuals effectively serve as marketing agents for Intaba products. They buy goods from Intaba and resell to retailers as independent marketing agents. This is an important external marketing function as it contributes to the volume of product sales. In the local communities, the organisation does its own marketing at festivals and bazaars. The infiltration into smaller farm stalls and speciality shops is slowly making progress as production runs grow.

#### **4.4.4 Employment**

The economic activity of the organization is to keep making a turnover of income from sales so that all its members are gainfully employed. This is primarily the aim of the cooperative, i.e. to sustain itself. In the example of the two case studies, this has been possible, but in varying degrees of success.

Die Bergvrugteverwerking has had a few setbacks in that the forecasts anticipated in terms of marketing and sales growth were not realized. This resulted in and some members having to adjust to finding work elsewhere until an upswing in production and demand for Intaba products occurred. The higher demand for Intaba products would allow for all members to be gainfully self-employed at the factory once again.

The situation at the Heiveld Cooperative is different, in that all the members own small tracks of land, either individually or communally. As owners of the land they are working as farmers, albeit subsistence farmers. The planting and harvesting season is a very busy time for the cooperators and often seasonal workers are employed during this period. The nature of farming in this area, together with the harsh terrain and limited harvesting income, means that even as farmers and landowners these people have to find additional means of work to support themselves, in order to survive. This will often mean that employment has to be found on bigger farms in the surrounding areas.

#### **4.5 THEORETICAL INSIGHTS**

In both the case studies it is evident that for the cooperative ideal to survive, sustain itself and grow, the core value concepts of participation, education, resources, cooperative culture and state facilitation are imperative, as indicated in Chapter 2 of this research report. On an institutional level this requires a constant review of the organisation to keep track of goals and direction of the cooperative enterprise. The following section provides a brief discussion of the extent to which the experiences of the two co-operatives survey comply with the Verhagen's eight point conceptual framework, also highlighted in Chapter 2.

*(a) Identification of the population and target group. Often there is a danger of bypassing the poor without proper identification. A core group of the target population can often play a key role in population identification.*

The members of both the Heiveld Cooperative and Die Bergvrugteverwerking have identified themselves as the target group. All the cooperators are poor people. As the key stakeholders, they have taken it upon themselves to establish their organisations from very little resources.

*(b) The identification of economic activities through participatory research and planning. Organisational staff needs to have an in-depth knowledge of socio-economic issues related to rural poor in order to make improvements. There are also difficulties in integrating the poor and landless into a participatory process.*

The members of both organisations in the case studies have been part of the process of establishing their respective organisations. An in-depth experiential knowledge of socio-economic plight as a reality of everyday life is inherent in the mind of the cooperator. For the poor, rural life is hard and it is difficult to survive.

*(c) Access to education and training. This should be related to daily interaction between members.*

In both organisations, significant progress has been made in regard to education and training. At the Die Bergvrugteverweking all the members have some form of high school education. The training received from the Council for Scientific and Industrial Research (CSIR) has equipped members in the skills of jam and chutney production. At the Heiveld Rooibos Tea Cooperative, work with change

agents (Indigo and EMG) has been important in terms of education and development. Their technical assistance, mentorship and advice, particularly in relation to biodiversity issues, has been invaluable to the cooperative resulting in more effective decision making that has sustained the existence of the cooperative.

*(d) Resource mobilization and provision are essential to self-help development. External resources such as the availability of credit and donor funds can sometimes undermine self-help orientation.*

The securing of grants from different institutions indicates that both organisations have a business model that is viable. This potential for success has influenced institutions, such as Vuya Investments and the Western Cape Provincial Government, to provide financial support and expertise. Resources and expertise were used to start up a guesthouse and to conduct veld tours by some of the cooperators at Heiveld Cooperative in order to generate an extra income. At Intaba Jams the group made use of their own labour and skills to help keep cost down in the building of the factory. This is a good indicator as to how the group has exploited their strengths in the form of social capital as a resource. The Self help orientation has also been displayed by how people in small organisations multi-task. The same person who manufactures jams in the factory can easily administrative a sales office function or completes a computer task.

*(e) Management systems in the form of bookkeeping systems, as well as monitoring and evaluation, should be in place on an administrative level.*

Due to its larger size, the Heiveld cooperative has been able to employ a dedicated person who manages book keeping. This has definitely contributed to the efficient financial administration of the co-operative. Die Berg Vrugteverwerking does not have a dedicated person but all the co-operators contribute to the administration of the organization. Membership participation and the participative management culture have been invaluable keeping organizational systems working efficiently

*(f) Process extension and movement building should concentrate on local areas before expanding in terms of distance and contact.*

The form of process extension applied at Die Berg Vrugteverwerking can be seen in the form of infrastructure. The things that are in place like good road access, electricity, storage and factory manufacturing capacity shows that the organization is ready to extend to the next level. At the same time the organization has already become involved with skills transfer by teaching groups in other areas how to make jam and chutney. At the Heiveld Cooperative, the completion of the building of their tea court has given the organization the capacity to process more tea. They are also actively involved in passing on skills to other small farmers in the Wuppertal area who are also busy setting up a cooperative.

*(g) Linkage building with third parties indicates the organization's autonomy to choose partners of association with government agencies or NGO's in order to fulfill its aims.*

At Die Berg Vrugteverwerking the grant from the Provincial Government has assisted in the expansion of the organisation's productive capacity. At the Heiveld Cooperative strong links with global partners exist for international trade. The linkage building with international partners has been the most significant influence impacting on the success of the organization in terms of the demand for organic rooibos tea. The national and international institutional links has been important not only for strengthening the cooperative movement but also for exchange of expertise, education and research on bio-diversity and environmental issues. This is very important for the sustainability of the rooibos tea business.

*(h) Monitoring with ongoing self-evaluation helps with the assessment of strategy, working methods and performance. This would determine decision-making and implementation new processes to improve standards and efficiencies within organisations.*

The modern trends in business today are for management to be involved with ongoing monitoring and evaluation of business operations. The cooperative operation is no different. On going self-evaluation by the cooperators has led to good business practices where new strategies and work methods are put in place

to increase performance. This has been the case in particular at the Heiveld cooperative where environmental challenges have forced the organization to introduce new methods in rooiboss farming.

#### **4.6 SUMMARY**

This chapter has covered the two case studies of Die Bergvrugteverwerking and The Heiveld Cooperative respectively. A comparative analysis was made in the context of the capabilities of each organisation concern and concentrated on specific areas of membership, organization and culture, employment and marketing. These factors are all deemed crucial for establishment and sustainability of the organisation. The operational functions, human resources, production, marketing and the capital resource of ownership are vital elements to business success. Both the above organisations are to be commended for their business sustainability, through their attempts at utilizing their respective combinations of resources. Each organization has managed to function and survive in business for more than seven years, despite difficult periods.

The organisations are both able to sustain business and in this way stimulate trading activity that provides work. The goal of an emerging cooperative is to reach the potentially viable and fully viable stage in cooperative development mentioned in chapter 2 by Erasmus as Brecker's Theory of Cooperative Development (Erasmus, 1990). The Heiveld Cooperative has successfully managed to reach this stage with a further growth path and demand for rooiboss products. The Bergvrugterverwerking is potentially viable and need more business development before reaching a fully viable stage.

Chapter five will deal with conclusions and recommendations.

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

The cooperative as a collective concept serves as a symbol of hope and self-help to individuals in a mode of despair and who are attempting different options for survival. The cooperative as a business organisation has great potential as a vehicle for empowerment. A spirit of community and belonging is important to nation building, and the cooperative is a catalyst for conceiving and developing these ideals. The idea of a cooperative serves as a value role for the betterment of society. Within the cooperative lie the seeds for a new society. What one has to note is that, “Cooperatives are different in some respects that its profitability is essentially to survive, but survival is only required to enable the cooperative members to pay themselves wages and to achieve other goals such as job security, democracy in the workplace, assistance to other cooperatives and socially worthwhile projects”. (Thornley, 1981: 63)

This chapter presents conclusions and recommendations with regard to cooperative development in South Africa.

#### **5.2 CONCLUSIONS**

The case studies of The Heiveld Cooperative in Nieuwoudtville in the Northern Cape and Die Bergvrugteverwerking in Piketberg depict how, even in difficult times, one will find that small organisations can survive. In rural communities, the cooperative has important potential to play a greater role as the economic engine for creating jobs and increasing rural income. “People can participate in the cooperative sector to help build a community that benefits them, as well as their neighbouring communities.” (Hazen, 2000:1). This point reinforces objective number no.3 of this study, namely, “to indicate the possible social and economic viability of these cooperatives and their place in rural development.” The cooperative concept places an important emphasis on social capital, which is an expression of collaboration among individual aspects of the social structure such

as trust, networks, and conventions that encourage sharing and coordination for mutual advantage. Social capital is embodied not in a single organization or individual, but in the relations among organizations and individuals. Worker cooperatives, by definition, entail cooperation. The cooperative can thus be seen as the socio-economic intervention with the potential to contribute significantly to improving living and working standards of the poor in the rural sector and, in so doing, relieving the chronic poverty that currently exists.

The case of the rooibos tea cooperative suggests that while support can take financial or other forms, what is critical is that it should be at hand when it is needed. The most serious constraint to the development of sustainable cooperatives is the development of a secondary movement that can provide this kind of support. Support is often found within the structures of the international cooperative movement where NGO's with foreign donors are able to contribute to cooperative building in South Africa. This could take the form of a collective of interested parties with the financial backing, business and academic expertise and the will to make a contribution to cooperative development. The moment to develop such a movement is now. A concerted effort must be made to do so, and unless there is progress in doing so, the moment will be lost, and the possibilities of a vibrant cooperative sector establishing itself will again fade.

The State as a stakeholder in the socio-political economic dynamic of the country has an important role to play. Within the South African context, the legislation in place is a start to further implementation of policies related to the New Cooperative Act (2005). Agencies of the State have tremendous power and resources to facilitate cooperative development at national, provincial and local government level. This can be seen in Provincial government aid to the Intaba Jams in the Western Cape.

A good example of support is Die Bergvrugteverwerking, where Intaba Jams are produced by previously disadvantaged South Africans in Piketberg. The Provincial Government of the Western Cape has assisted Intaba Jams in the

expansion of their factory. This initiative also indicates clearly how, “Cooperatives should actually be in a better position to contribute towards poverty alleviation due to the fact that they are managed by their members. Any surpluses generated by their activities are available to the individual members” (Goler Von Ravensburg, 1999:6). It is the small business sector that keeps the local economy and small communities alive. These businesses however, find it hard to survive due to competition in the market place and monopolisation by corporate business. The participation in cooperatives has the potential to strengthen not only business, but communities as well. It is also important for cooperatives to be guarded in relation to the prospect of joint ventures. “Joint ventures are generally unequal arrangements, and the dominant partners will seek to ensure that there are facilitators to understand this and to seek ways to increase their resources (including land) and benefits from the scheme”. (Mayson, 2004:1). This point is further substantiated by Opyene who points out that, “Members of the organization should have complete autonomy with external associates encouraging the democratic process and accountability” (Opyene: 1993). It is important for farm workers and small-scale farmers, because it ensures their interests are promoted. This autonomy suggests that the bottom-up approach to management of an organisation is needed. This concept has to be continually nurtured as a way to social transformation in the rural sector. There is a need for the cooperative movement originally spearheaded by NCASA to strengthen its structures and take the lead in further development of cooperatives on all levels such as production, training and education, and markets.

In both the Rooibos Cooperative and Intaba Jams structures, the importance of membership is very significant. It is the membership that will lead to shareholding, rights to vote and worker-ownership. This allows for members to be directly involved in the management of the organisation. Labour managed firms are important, especially in the rural sector, where “Africa’s poor are heavily dependent on land and natural resources for their livelihood. Underprivileged groups need to be included in decision making that affect access to use and ownership of resources”. (Saruchera, 2004:1)

Some of the main challenges faced in developing the cooperative sector are for cooperators engaged in cooperative activity to be genuinely committed to the ideals of cooperative activity and to embrace universal cooperative principles. The worker driven cooperative need to ensure that members stay in control.

### **5.3 RECOMMENDATIONS**

Within the context of the objectives of this report a number of points have to be raised in order to increase the awareness and sharpen the focus on cooperative development in South Africa. A few recommendations are put forward that would add value to the cooperative movement and help in the work toward poverty alleviation, employment and ownership for our citizens.

#### **5.3.1 Local investment**

Local investment in the cooperative idea is important, in order to grow a movement that has the chance to sustain itself once the right support and capital are put into place. Recent indicators show that the Public Investment Corporation (PIC), has potential funds, “earmarked to kick start the second economy” (Klein: 2006). This corporation manages assets to the value of 600 million rand. The funds belong to 40 public sector entities, the largest being the Government Employees Pension Fund. According to Klein, the PIC plans to play a catalytic role by making investments in the second economy. This is potentially the type of investor the cooperative movement should be engaging for investment in its projects. The concept of a “second economy” was first popularized by ex-President Thabo Mbeki in 2003 and frequently used in the State of the Nation Addresses of 2004 and 2005. “We must achieve new and decisive advances to eradicating poverty and underdevelopment, within the context of a thriving and growing First Economy and the successful transformation of the Second Economy” (Mbeki: 2005) The need for more local investment by both the public and private sector is crucial to stimulate small business projects such as cooperatives.

### **5.3.2 A cooperative development vision**

A closer look at post-colonial land reform and rural development organizations in South Africa should be looked at in order to facilitate cooperative development. These organizations should be part of an attempt to construct a vision of rural development in the post-apartheid era, which includes values such as social justice; equitable distribution of land, and meeting basic needs both of farm owners and of farm workers. The environmental component of some of these organizations has to become more astute, as the utilization of resources in a responsible manner is needed for a sustainable future. This is seen in the way that the rooibos cooperative conducts its business.

By the realization of self-sufficiency, the cooperative can play an important role in increasing rural income. The concept of rural development broadens out from agriculture to include issues of community development and participation in rural areas and the local control of natural resources. Government and allied organizations should help cooperatives and other self help organisations create new visions of development. Currently, cooperatives have the same status as small business and they have access to resources from The Small Business Development Agency (Seda), which has been set up by The Department of Trade and Industry (Dti). More research also has to be done on important issues such as land distribution, organic farming and environmental factors that are influencing agriculture. These issues all impact on rural development and the future of cooperatives in the rural sector. What is also needed is for cooperatives to become project-focused, such as the case of the Rooibos Tea Project and Intaba Jams. These organizations add value by including local people in the decision-making processes, and they work on issues pertinent to the community such as control over the available resources.

### **5.3.3 The cooperative as an instrument for aid**

The government, donors and business community could be more inclined to use the cooperative as an instrument for channeling aid to the small business sector. This will not only contribute to the survival of the small business sector, but can

also position the small business sector in a way that it can contribute considerably to the economic development of regions and the country as a whole. “The cooperative as a business form actually serves as an instrument of development in the hands of the small business sector and the establishing of cooperatives by small businesses has become a worldwide trend.” (Hazen: 2000)

Amongst the measures envisaged to promote cooperatives are access to the same tax incentives as are available to micro, small and medium enterprises (SMMEs), which are currently being revised, and access to preferential procurement policies. Government is also committed to promoting cooperatives, specifically workers’ cooperatives and consumer cooperatives, in terms of its integrated manufacturing strategy, and in terms of local economic development strategies. The establishment of a Cooperative Development Fund for “technical assistance and capacity building” is also envisaged.

Currently, a Cooperative Banking Bill is being tabled in Parliament, which would mean greater access to funds for cooperative development. It is hoped government will emerge with, “more enabling policy that keeps control of emerging cooperatives in the hands of its members and which ensures that the state and state officials operate in a facilitating capacity only” (Opyene: 1993). This idea, based on cooperative values, is very important and advocated in the interest of democratic participation of members and the eventual self-sufficient and independent organisations.

“The importance of building financial cooperative institutions means that money generated by the cooperative enterprises is been kept within the community to be used for the benefit of the whole community as well as individual cooperative members.” (NCASA: 2003) This is the basis for economic empowerment within a small community and if duplicated by more people it has the potential to thrive and become a significant contributory factor to development of cooperatives as a unique sector within the economy. The nature of cooperatives also mean that

surplus money is reinvested in the local community and economy as apposed to outflows of profits by foreign investors.

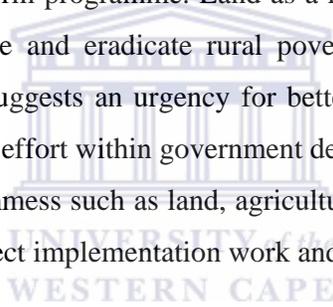
The programmes that accompany the New Cooperative Act (2005) should outline key strategies for partnerships between government and stakeholders within the cooperative movement. The legislation should also provide funding mechanisms for the development of cooperatives in two ways, namely the building of financial cooperative institutions (cooperative banks, credit unions, insurance) and state funding for creation of effective support institutions such as research and education for cooperative development.

Cooperative development in South Africa is one of the most exciting and promising initiatives taking place in the country. This is based on the potential that cooperatives have as a socio-economic model for dealing with community-based survival strategies at local level. The idea of community self-involvement being the foundation is necessary and important in order for cooperatives to sustain themselves and develop further. This chapter concludes that cooperatives have a place in South African society and fill an important space for rural agricultural development in a context of local communities taking the initiative to help themselves. Where government has the will and resources to encourage these initiatives, the potential for economic sustainability and prosperity exist in these communities.

Cooperatives need their independence and autonomy in order to sustain and develop into strong organisations. In order to get to this stage donor financial assistance and technical expertise are needed. The support can become very significant when government gives priority to its development. This would translate into a number of departments of government collaborating in order to stimulate cooperative growth. Cooperative development in the rural sector also translates into prioritizing agricultural development in the rural sector. In the words of Professor Richard Mkandariwe, agricultural adviser to NEPAD and internationally-recognised agricultural and socio-economist and rural

development expert, “Building Africa means building agriculture”. He says, “Agriculture is the conduit for poverty reduction”. (Du Plessis: 2008,15)

A vital link in the process to building agriculture and reducing poverty is access to land as a resource. The land reform agenda is the instrument for the redistribution of land to small-scale farmers and making a transition from people being farm workers to farm owners. There is a desperate need to address the socio-economic imbalances of the past that still exist today. Within the rural context an opportunity exists for the land reform programme to be used in conjunction with the programme for cooperative development, for example through the design and implementation of an integrated plan for land redistribution and economic development within the cooperative sector. There is an urgent need for land transfer in the land reform programme. Land as a resource is part of the solution to constructively reduce and eradicate rural poverty and unemployment. The cooperative idea also suggests an urgency for better cooperation and integration resulting in a combined effort within government departments. Inter-departmental cooperation on programmes such as land, agriculture and cooperatives, has to be taken seriously for project implementation work and sustain itself.



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## **INTERVIEWS**

Leslie Henrie at Die Bergvrugteverwerking, Piketberg

Solly Jansen at Die Bergvrugteverwerking, Piketberg

Forgan Monk at Die Bergvrugteverwerking, Piketberg

Groot Oom Kotze at Melkkraal, Heiveld Rooibos Cooperative, Piketberg

Bet Sas at Melkkraal, Heiveld Rooibos Cooperative, Piketberg

Johan Freyer at Melkkraal, Heiveld Rooibos Cooperative, Nieuwoudtville

Drikka Kotze at Melkkraal, Heiveld Rooibos Cooperative, Nieuwoudtville

Elsie Louw at Bitline, Heiveld Rooibos Cooperative, Nieuwoudtville





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