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THESIS

Can the co-operative business model contribute to Local Economic Development?
A critical appraisal of three co-operatives in the City of Tshwane, South Africa

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DECLARATION

I, the undersigned, hereby declare that this mini-thesis is my own work and that I have not previously submitted it to any other university for a degree. All the sources that I have quoted have been indicated and acknowledged by means of references.

Signature: _____ Date: _____



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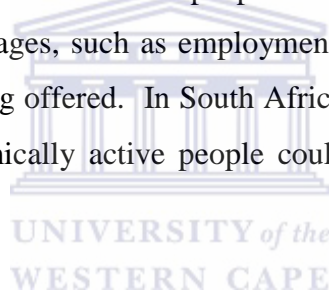
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ABSTRACT

Title: Can the co-operative business model contribute to Local Economic Development? A critical appraisal of three co-operatives in the City of Tshwane, South Africa

The high unemployment and poverty rate in post-apartheid South Africa has necessitated the need to identify policies and programmes to provide economic and employment opportunities. This included a review of the practice of local economic development (LED), guided by the recognition that local government had a developmental role to play. Local government exercises a role in promoting LED initiatives such as enterprise development, locality development, community development and governance. The International Co-operative Alliance (ICA) states that more than 1 billion people benefit from co-operative enterprises, that co-operative enterprises are found in all sectors of the economy, and that co-operatives provide employment to more than 100 million people. By co-operating, people are able to gain economic and social advantages, such as employment, support for their businesses and access to social programmes being offered. In South Africa, co-operatives were identified as a vehicle through which economically active people could be absorbed into the economic mainstream.



The idea in getting groups of people to work together is seen as an opportunity to fast-track development. Co-operatives have the potential to promote and support local economic development. Government has created an environment conducive for co-operatives through its policies and programmes. Much of the literature focuses on the failure of co-operatives in South Africa. This research, while acknowledging the many difficulties/challenges confronting co-operatives, investigates three relatively successful co-operatives in the City of Tshwane. In doing so, this research highlights the processes that make these co-operatives successful, and assesses what lessons, if any, these might hold for other co-operatives in South Africa. The research investigated the reasons behind their success and this information was used to analyse how co-operatives might contribute to LED. The key objectives of the study was to assess the economic and social impact of co-operatives on the livelihoods of the members, evaluate the economic impact of these co-operatives on LED in CoT, and formulate a set of recommendations that could be used to guide the implementation of the National Co-operative Strategy and provide lessons for other co-operatives.

The research employs a qualitative research design in studying the three co-operatives and data were collected via desktop research, in-depth interviews and questionnaires. A non-probability purposive sampling technique was used. The outcome of this empirical research will lead to a more nuanced and comprehensive understanding as to whether the co-operative business model can promote LED through a critical appraisal of the three co-operatives in CoT.

Key words:

Co-operative;

co-operative values;

co-operative principles;

local economic development;

economic empowerment;

livelihoods;

poverty reduction;

new institutional economics;

transaction cost economics.



LIST OF ACRONYMS AND ABBREVIATIONS

B-BBEE	Broad-Based Black Economic Empowerment
BBSDP	Black Business Supplier Development Programme
CIPC	Companies and Intellectual Property Commission
CIS	Co-operative Incentive Scheme
CoT	City of Tshwane
COPAC	Co-operative and Policy Alternative Center
DGRV	German Co-operative and Raiffeisen Confederation
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
EMIA	Export Marketing and Investment Assistance (EMIA)
GEP	Gauteng Enterprise Propeller
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation
ICA	International Co-operative Alliance
ILO	International Labour Organization
IWF	Isivande Women's Fund
LED	Local Economic Development
MCC	Mondragon Co-operative Corporation
MRDP	Mpumalanga Rural Development Programme
NFLED	National Framework for Local Economic Development
NIE	New Institutional Economics
OCDC	Overseas Co-operative Development Council
SALGA	South African Local Government Association
SEDA	Small Enterprise Development Agency
TCE	Transaction cost economics
UN	United Nations
USD	United States Dollar

CHAPTER 1: BACKGROUND AND RATIONALE

1.1 Introduction

Developing local economies through the bottom-up approach of local economic development (LED) has been shown to be a successful way of empowering local communities. Many multi-national organisations have been supporting LED programmes globally. As an example, the International Labour Organization (ILO) has been implementing LED programmes in more than 36 countries around the world. Through LED programmes, local authorities have been able to drive processes that are built on local economic potentials to find solutions to social and economic problems such as poverty, unemployment and to address the challenges to enterprise development (ILO, 2013a: 1). LED practices have shown varying results with some being successful and others not, but some key lessons have been learnt to drive the development of more successful models of LED.

LED in South Africa has gone through a rigorous development process culminating in the National Framework for Local Economic Development (NFLED) that was finalized in 2006. LED is mainly about using local resources to strengthen, “consolidate and build local economic growth and development” (DPLG, 2006: 9). Hindson (2005) identifies the four main spheres of LED, namely enterprise development, locality development, community development and governance. The paper focuses primarily on the sphere of enterprise development, with a specific focus on the impact of the co-operative enterprise on LED. Different stakeholders have promoted various LED programmes and methodologies throughout the country and these, in turn, have resulted in both successes and failures. In a LED programme that was implemented in Hazyview in Mpumalanga Province, nine out of the eleven LED initiatives that were planned and implemented were successful (Fiedeldei, 2004: 14). In Nahoon, an LED process was initiated and implemented successfully and the culmination of this process was the identification of economic opportunities for local people for income creation and enterprise development (Assig, not dated: 2). The establishment of co-operatives has been identified as one of the ways in which enterprise development can be promoted to support LED.

Co-operatives, like all other enterprises, can potentially contribute to LED. According to the ICA, more than 1 billion people benefit from co-operative enterprises. Globally, co-operatives provide more than 100 million jobs (ILO, 2013b: 1). Co-operatives do not only

provide employment to members, but also to non-members. They are able to support members' businesses and provide social benefits to members and the communities in which they operate through social programmes they may initiate. In a study of co-operatives in Indonesia, the ILO (2004: 1) noted that co-operatives and medium-sized enterprises are "critical factors in economic growth" and are providing, in many cases, the majority of jobs. In this programme, it was also noted that the role of co-operatives as community-based businesses in local development should not be ignored (ILO, 2004: 8).

The Mondragon Co-operative Corporation (MCC) in Spain is the most well-known and one of the most successful examples of a worker co-operative. It started up in 1956 with 5 young people (Flecha and Santa Cruz, 2011: 158) and today it employs 84 000 people worldwide, a sixth of whom are in Spain (The Guardian, 2013). The success of the MCC model is in part based on the founding principles of employment, solidarity and education (Flecha and Santa Cruz, 2011: 158). The ability of co-operatives globally to provide jobs suggests that they can exercise an important role in reducing poverty. When looking at the number of jobs that are created by co-operatives such as MCC and compare that to jobs created by other multi-national capitalist companies, the latter outnumbers MCC statistics. However, recognition must be given to the advantages of jobs created within MCC as these are a lot more secure and stable than the jobs created within multi-national capitalist companies. The Mondragon project out of which MCC resulted was founded on the principle of employment solidarity (Flecha and Santa Cruz, 2011: 158) and this principle is still applied in the organization. So when crises hit the economy, multi-nationals would be inclined to shed jobs in order to protect share-holders' financial interests, whereas MCC will implement the austerity measures that have been agreed to by the membership in order to retain employment.

Co-operatives in Africa have also proven to have some successes in terms of job creation. In a study conducted by the ILO CoopAfrica Programme on co-operatives in 9 African countries they estimated that in Ethiopia, Kenya, Tanzania and Uganda co-operatives provide 81 651, 303 455, 34 949, and 10 524 direct jobs, respectively (CoopAfrica, 2009a: 23). Moreover, in a study conducted in Botswana, the ILO (CoopAfrica, 2010: 13) noted that the number of people employed was affected by the size and performance of the co-operative.

At the end of December 2012, the total number of co-operatives registered in South Africa was 69 430. Determining the employment potential of co-operatives in South Africa has been

difficult to estimate bearing in mind the lack of available data. However, empirical evidence suggests that co-operatives are able to provide jobs for members, support members' businesses and provide social benefits through the social programmes that co-operatives may provide. In an LED programme that was implemented by the German Society for International Cooperation - Mpumalanga Rural Development Programme (GIZ-MRDP), it was found that "agricultural cooperatives can stimulate local economic development in rural areas" (SA LED Network, 2012: 5). This agricultural co-operative created 73 full-time jobs.

Notwithstanding, the large number of co-operatives that are registered in South Africa, many of these have failed. However, there are some successful co-operatives that have managed to grow into viable business entities that are able to provide services, including employment, for their members, and, in some cases, for non-members, as is shown through my study of three co-operatives in the CoT. The three co-operatives in this research study are operational and provide employment for a total number of 24 people in CoT. They show that they are able to generate an income for their members who, in turn, are able to actively participate in the Tshwane local economy. These three co-operatives engage in activities such as manufacturing leather goods and the production of school uniforms. The research investigates what the reasons are behind their success and this information was used to analyse how successful co-operatives might contribute to LED.

The key objectives of the study are to assess the economic and social impact of the co-operatives on the livelihoods of their members, to assess the economic impact of these co-operatives on LED in CoT, and lastly, to formulate a set of recommendations that could be used to guide the implementation of the National Co-operative Strategy and provide lessons for other co-operatives. It is important that research of this nature be carried out to determine whether the co-operative business model can contribute to LED in South Africa. The outcome of the research will lead to greater understanding of the potential role co-operatives can play in local economic development. A qualitative design was adopted in studying the co-operatives which also involved desktop study, questionnaires and in-depth interviews.

1.2. Background and rationale for the study

1.2.1 Rationale for the study

The current unemployment rate for South Africa is 25.6 per cent, up from 25.2 per cent in the first quarter of 2013 (Trading Economics, 2013). As part of the policies to address the

growing unemployment rate in South Africa, government has prioritised the promotion and support of co-operatives, as it recognizes that sustainable co-operatives can play a meaningful role in addressing the socio-economic challenges of the country. This recognition was based on global evidence of the success of co-operatives in other countries. Co-operatives are found all over the world, are operational in all sectors of the economy, and have proven to be successful business forms that can employ large numbers of people (Barberini, 2009: 52). In 2012, global co-operatives had a turnover of more than 2 trillion United States dollars (ICA, 2013). In Kenya, for example, co-operatives contribute 45 per cent to the country's GDP (Gicheru, 2012: 4) (ICA, not dated c) (SoftKenya, not dated) and in New Zealand, co-operatives contribute 3 per cent to the country's GDP (nz.coop, 2013).

According to the ICA, more than 1 billion people benefit from co-operatives. Through cooperating, poor people are able to improve their livelihoods (Birchall, 2003: 7). Co-operatives can create jobs, support small enterprises by helping to reduce input costs for member businesses through marketing and supply co-operatives and may provide social support to their members through various social programmes. These benefits are only possible if the entities are viable and sustainable and for this reason all members need to participate actively in the business. Numerous studies have found that co-operatives can play a role in job creation. This is due to their nature of "self-determination and entrepreneurial association" (Barberini, 2009: 13). The worker co-operative model is established by people who have a joint need for employment. Co-operative members are inclined to ensure continued employment as opposed to increased wages or increased profits.

Co-operative development and support in South Africa over the last ten years was seen as a priority because co-operatives have the potential to absorb large numbers of economically active people within the mainstream economy. The policies and programmes to support co-operatives are wide-spread and this is evidenced to some degree by the large number of co-operatives that have been registered. Until December 2012, 69 430 co-operatives were registered, but notwithstanding this clear show of interest by local entrepreneurs in this business form, there has been very little reliable information available on the developmental impact they have on the economy of South Africa. Except for the information on the number of co-operatives registered/de-registered that is made available from the office of the Registrar of Co-operatives, there is very little data available on the economic and social impact of co-operatives in the country and this makes it also difficult to determine the real

success and failure rates of co-operatives in the country. As Braverman (1991) points out, the establishment or registration status of a co-operative is no indication of its success (Beesley, 2013: 253).

This rationale for undertaking this study is seen against the backdrop of the global successes of co-operatives and the unrecognized potential they could be playing in LED in South Africa. This enquiry took an in-depth view of the economic viability and sociological feasibility of co-operatives as a model to launch micro and small economic enterprises amongst the hitherto economically marginalized people of this country. The research seeks to investigate the potential impact of the co-operative business model on LED in Tshwane, by evaluating the impact of three successful co-operatives on the existing poverty levels and livelihoods of their members.

1.2.2 The City of Tshwane (CoT)

The CoT is one of the 6 metropolitan municipalities in South Africa. It has a population of over 2 million people and has an unemployment rate of 20 per cent. The metropolitan consists of both urban and rural areas and the economy is mainly driven by the services sector (government and financial services) and it also has a strong manufacturing sector, mainly in the automotive and metal production industries. Local economic development programmes and activities are captured in the municipalities' Integrated Development Plan (IDP). It does not have a separate LED plan but has a fully-fledged LED Division and Co-operatives Programme. The IDP reports that the CoT supported 531 co-operative enterprises during the 2009/10 financial year. Within its IDP, support to co-operatives is included under its Strategic Objective 2: Economic growth and development and job creation. One of the ways in which jobs are to be created in CoT will be through the promotion of and support to co-operatives.

Co-operatives are supported through three separate programmes, namely the Co-operative Development Programme, the Sustainable Agricultural Villages Programme and the Trade Development Programme. The CoT plans to support 3000 co-operative members per year until 2016. There is very little reference to direct LED programmes and activities save for the mention that it will support “meaningful local economic development initiatives that foster micro and small business opportunities and job creation” (IDP, 20011: 184). In addition, the only other mention of LED programmes is in reference to the establishment of marketing and

trading stalls, which suggests that the focus on the role of LED in job creation and poverty reduction is not a priority for the CoT.

1.2.3 Overview of the three co-operatives in the City of Tshwane

In this research, I analysed three successful co-operatives operating in the City of Tshwane (CoT). The first is Rossdav Manufacturing Co-operative (Rossdav), which was registered in 2009, has 5 members, and employs an additional 3 people. Rossdav manufactures leather goods such as handbags, wallets, purses, shoes, key holders and file folders. Through its business operations, it supports businesses located in the local municipality and outside it and it also supports another local co-operative by outsourcing some services to them. These business practices are driven by the need to source the best prices for its operational inputs from available suppliers. It sells its products in the local area to individuals, at markets, shows and trade fairs.

The second co-operative is Sisiziwe Skills Development Co-operative (Sisiziwe) which was registered in 2010, has 7 members and employs 5 seasonal workers. The co-operative makes school uniforms and clothing which are sold to the Gauteng Provincial Department of Social Development and the community and people in the local community. The third co-operative in the study Sizameni Construction Production Primary Co-operative (Sizameni) was established in 2009. The co-operative has 10 members and manufactures leather bags and other leather products that they sell to the local community. The three co-operatives were chosen based on their locality within the CoT, their availability and willingness to participate in the study and the fact that they are all operational.

1.3 Research problem, question, aim and objectives

1.3.1 Research problem

This research was undertaken because co-operatives, as vehicles of economic empowerment that are being used by large numbers of economically active people in South Africa, are being ignored as key players in our mainstream economy. Due to this, their potential to reduce poverty, increase wealth and provide social benefits to their members and the local communities within which they operate are also largely ignored or undermined.

1.3.2 Research question

The study focuses on the question of whether the co-operative business model can promote local economic development by conducting a critical appraisal of three successful co-operatives in CoT.

1.3.3 Research aim and objectives

The overall aim of the study is to evaluate the economic and social impact of the three co-operatives situated in the City of Tshwane within the framework of LED.

Specific objectives:

The study investigated the research question in terms of the following areas:

- 1.3.1 Assess the economic and social impact of co-operatives on the livelihoods of the members. The indicators that were used to assess these included members' job security and increase in members' basic standard of living.
- 1.3.2 Assess the economic impact of the co-operatives on LED in the City of Tshwane; and
- 1.3.3 Formulate a set of recommendations that could be used to guide the implementation of the National Co-operative Strategy and provide lessons for other co-operatives.

1.4 Chapter outline

Chapter 1 introduces the research problem and rationale for the study. It also identifies the case studies and the methodology that was adopted in this study.

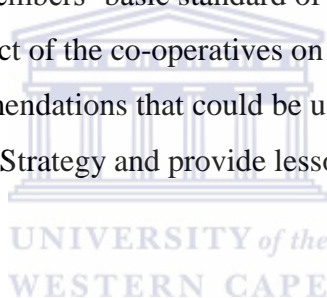
Chapter 2 provides the literature review that provided the background for the research study.

Chapter 3 sets out the theoretical framework for the study and lays the grounds on which the study was designed and developed.

Chapter 4 informs the reader of the qualitative research design and methodology that was followed in the data collection process. It also discusses the tools and processes used, such as questionnaires, interviews and desktop analysis of secondary data sources.

Chapter 5 provides the analysis of the data and the findings of the study.

Chapter 6 lists the conclusions of the research study and provides recommendations to guide co-operative development and support in South Africa and shares some lessons learnt from the study of these three co-operatives.



CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Co-operatives were started as early as the eighteenth century and their development was shaped by various factors that included “the context of systems of faith and profound beliefs, including some of the greatest ideologies and religions on earth” (Barberini, 2009: 21), the economic conditions prevailing at the time, the need for farmers to organize and also public policy (Ortman and King, 2007: 44). Societies initially developed economies that were founded on mutuality and solidarity while the advent of a market and the profit motive are fairly recent developments (Barberini, 2009: 22). The modern day form of co-operative was established in the United Kingdom in 1844 by the Rochdale Society of Equitable Pioneers. These co-operatives emerged to address the prevailing levels of poverty through self-help initiatives (Ortman and King, 2007: 43).

Other types of co-operatives, such as marketing co-operatives, developed in the late nineteenth century by farmers who sought to secure their place in the economic organisation of the agricultural sector at the time (Torgeson, 1998: 2). The first savings and credit co-operative was established in 1864 in Germany by Friederich Wilhelm Raiffeisen (Ortman and King, 2007: 44). Co-operative development in South Africa can be traced as far back as 1892 with the establishment of the first consumer co-operative (Ortman and King, 2007: 45).

There are four schools of co-operative thought namely co-operatives as an all-inclusive system (e.g. the Israeli kibbutz), co-operatives that are founded on capitalist principles, co-operatives that form a part of the state and that are state controlled, and co-operatives that exist between capitalist enterprises and public enterprises (Barberini, 2009: 37-39). The three purposes of economic organization are, firstly to make a profit, then to provide services and lastly to realize meaning (Torgeson, 1998: 7). Torgeson (1998) finds that co-operative organizations typically include elements of all three. This is supported by the general practices of co-operation. Co-operatives are established by people to address a need which can be addressed through co-operation and the entity that is formed ensures that the service to address the need is provided. The service cannot be provided in the absence of some economic activity that generates a positive financial outcome/surplus and members also gain the satisfaction of being part of a unit through which they can address their needs, thus giving them meaning. The discussion on the three purposes for economic organisation supports the general practice of co-operation in South Africa, which supports the view that co-operatives

in South Africa fall between the capitalist enterprises and public enterprises. The many successful agricultural co-operatives that existed prior to 2005 and established mainly during the apartheid era, were entities that were heavily subsidized by the state and were by-and-large state controlled, e.g., the co-operative marketing boards. Many, if not most of them, converted to companies after 2005 (DTI, 2009c: 8).

Co-operatives are found in many countries across the world, are active in almost every sector, and have achieved globally recognized success (Barberini, 2009: 52). In many developing countries, they are survivalist enterprises that are initiated by people who share a common need and who see the value in co-operating in order to fulfil this need. In more developed economies, they have reached the status of multinational organisations employing large numbers of people and providing services to their members and the community at large. Two of the three co-operative case studies are survivalist enterprises while the third is marginally more established. The complexity of the co-operative business model is often misunderstood by many development practitioners. Section 2.2 outlines the model in more detail to clarify its nature and its complexity in theory and practice.

2.2 Defining a co-operative

The first universal definition of a co-operative adopted by the Congress of the International Co-operative Alliance (ICA) in 1995 (Barberini, 2009: 38) states that a co-operative 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” (ILO, 2002). The international definition serves as a guide for many countries and organizations. In South Africa, the DTI (2013a: 4) defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social or cultural needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles”. This definition ensured that co-operatives that are incorporated in South Africa are founded on the internationally accepted values and principles of co-operatives.

The Amendment Act has made co-operation in South Africa more cumbersome. Some of the provisions restrict the development and adaption of a business form that initially grew out of a need to address prevalent economic and social conditions. The co-operative principles and values, which are discussed in 2.2.1, serve as parameters within which the model can grow

and expand and these principles were not meant to be cast in stone and are regularly reviewed by the ICA. Erroneously though, the DTI has included these principles and their explanation in the Act, making them law. This addition of the words “and operated on co-operative principles” in the Act and the inclusion now of these principles and their explanation in the Amendment Act, have substantially broadened the meaning of a co-operative in South Africa. For purposes of completeness and correctness a discussion on the definition should include these principles as they now stand in the Amendment Act. It should be noted that discussions are currently under way to amend the co-operative principles as outlined in R193 and how the inflexible definition contained in the South African law will deal with these new changes, remains to be seen. The consultative and legal processes that took place when the Act and the Amendment Act were promulgated were notoriously laborious.

Co-operatives are autonomous entities which theoretically mean that they are free from outside influences in their internal decision-making. Decision-making power vests in the members of the co-operative. This means that even though they receive support from persons or organisations that are not members, the decision making still rests with the members. This process empowers the members of the co-operative to engage with outside support organisations or business partners without the fear that internal management processes may be influenced. Government has a key role in supporting co-operative development, but this development assistance should be carried out in a way that preserves the co-operative’s autonomy.

The co-operative is also an association of persons or an organized group of persons who voluntarily come together to establish the co-operative. This voluntary decision to co-operate is often driven by a need to address a common problem or opportunity that exists and collaboration with others is a means to addressing this common goal (Harris, 1996: 25). It is the acting in unity that is at the heart of association (Davis, 1999: 21). However, this need to co-operate alone does not lead to the formation of the co-operative. Institutional support is a further pre-requisite for the establishment of the co-operative (Harris, 1996: 25). Co-operatives can have members who are natural persons and who are legal persons.

Members in a co-operative are joint owners in the enterprise. This means that members share in the benefits of the entity and that they are liable for the debts of the entity. Ownership may be based on equity share-holding, in the case of a co-operative that has shares. In the case

where a co-operative does not have shares, ownership is shared equally. The widely accepted view is that ownership vests in those who contribute equity to the co-operative and this equity is tied directly to his/her use of the co-operative (Jacobs, 2014). Establishing this economic linkage, through the equity shares or patronage refunds, between the member-owner and the prosperity of the co-operative fosters a clearer understanding on how the prosperity of the business links to the prosperity of the individual owner.

A “patronage refund” is the terminology used to describe the profit (surplus) that is refunded to members at the end of the financial year in proportion to the business that the members have conducted with the co-operative. This determination of the profit (surplus) is arrived at when prices have been retrospectively corrected (Münkner, 2005: 215). In the case of many co-operatives in South Africa, the matter of ownership is often not clearly understood. In the first instance, members are not always required to make a financial contribution to capitalise the business and secondly members do not understand that they have ownership rights and responsibilities. These ownership rights are mainly exercised through members meetings and the Annual General Meetings.

However, it was observed in this study that co-operatives don't even hold these meetings. Ownership is only of real value for a member who understands his/her rights and responsibilities and exercises these rights and upholds obligations. The liability of the members in a co-operative is limited to the unpaid value of the shares held in the co-operative (DTI, 2005: 29). As ownership is exercised mainly through participation in the decision-making in the co-operative, members need to have a clear understanding of the business operations and participate fully in all the activities of the co-operative. Where members neglect or fail to participate in the enterprise they lose the ability to decide on their own futures. Decision-making is a democratic process.

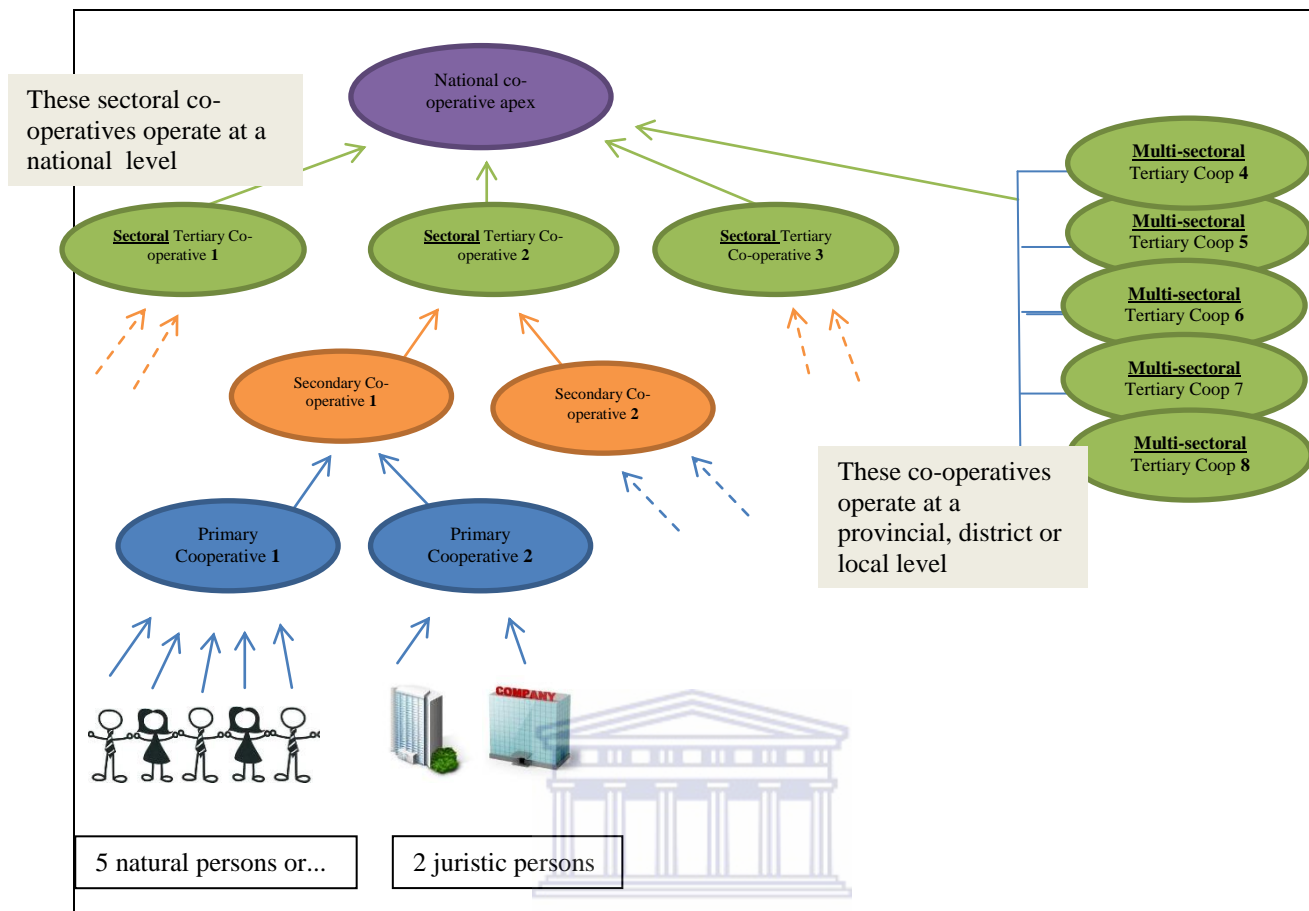
There are four levels of co-operation, namely primary co-operatives, secondary co-operatives, tertiary co-operatives and the national apex (see Figure 1 below). In addition to the four levels of co-operation, primary co-operatives are categorized further into Category A, B and C primary co-operatives, according to their annual revenue or projected revenues for financial accounting or auditing purposes. In the case of Category A and B primary co-operatives, a primary co-operative being one that has a minimum of 5 natural persons or a minimum of 2 juristic persons or a minimum of 5 persons that consists of a combination of natural and

juristic persons, each member has one vote. In the case of Category C primary co-operatives, secondary co-operatives (these are co-operatives that have at least two operational primary co-operatives as members), tertiary co-operatives (these are co-operatives that have at least two operational secondary co-operatives members) and the national apex (has at least three operational sectoral tertiary co-operatives that function at a national level and five operational multi-sectoral tertiary co-operatives that function at local, district and provincial levels), decision-making is also conducted democratically and this process is stipulated in the Amendment Act (DTI, 2013a: 6, 14 &16).

In addition to the different membership criteria at each level of co-operation, these co-operatives also differ in their main function. The function of primary co-operatives is principally to provide employment or services and community development to its members and that of secondary co-operatives is to provide sectoral services to its members (DTI, 2005: 11& 12). The main function of tertiary co-operatives and the national apex is to advocate for its members' interests through engagement with the state, private sector and other stakeholders (DTI, 2005: 12) (DTI, 2013a: 10).

In Figure 1 below, all co-operatives should be operational and this status is achieved if the co-operative has had an Annual General meeting in the year in question and has filed its financial statements with the Registrar of Co-operatives. Figure 1 outlines the minimum membership requirements at the various levels of co-operation. In addition to the levels of co-operation there are also several different types of co-operatives. These include financial co-operatives, agricultural co-operatives, housing co-operatives, worker co-operatives, social co-operatives, co-operative burial societies and consumer co-operatives (DTI, 2005: 15). The discussion on the co-operative principles and values that follows, provides a more complete picture of the co-operative business model.

Figure 1: Levels of co-operation



Source: Co-operative Act No. 14 of 2005 and Co-operative Amendment Act, No. 6 of 2013

WESTERN CAPE

2.2.1 Co-operative principles and values

The Society of Equitable Pioneers of Rochdale first gave the co-operative “principles the form of statutory clauses that still remain fundamental in the juridical ordering of modern co-operation and in the basic principles of the co-operative movement around the world” (Barberini, 2009: 31). All co-operatives should be founded on the “values of self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility, and caring for others” (ILO, 2002: 2). These values are put into practice through adherence to the co-operative principles (ILO, 2002: 2).

The co-operative principles that had previously only been referenced in South African co-operative law has, since the enactment of the Amendment Act, now been made into law. The first principle is that of *Voluntary and open membership* which means that the co-operative is open to anyone who is able to use the services and who is prepared to accept the membership responsibilities of the co-operative. In terms of this principle such a person or

organization will not be discriminated against. The second principle is that of ***Democratic member control***, which means that the co-operative is controlled by its members who decide on matters of the co-operative in a democratic manner. Category C Primary co-operatives, secondary, tertiary co-operatives and the national apex are given an option to choose alternative voting rights but these are strictly outlined in the Amendment Act and serves to protect all members' interests in the co-operative. The third principle is that of ***Member economic participation*** which means that the members contribute equally to the co-operative. They also participate in decision-making on the distribution of the capital held, either as common property, for compensation for membership subscriptions, distribution of surpluses, patronage refunds or for other approved activities.

The fourth principle is that of ***Autonomy and independence***, which stipulates that decision-making in the matters relating to the co-operative vests solely in the members, and that the co-operative must be independent of outside influences in its decision-making. The fifth principle is that of ***Education, training and information***. The co-operative must provide education and training to its members, elected representatives, management and employees and may also inform the general public about the nature and benefits of the co-operative. The sixth principle is that of ***Co-operation amongst co-operatives*** which encourages co-operatives to work with other co-operatives at local, national, regional and international levels and to serve their members effectively.

The seventh principle is that of ***Concern for community*** that requires co-operatives to support their communities by policies approved by the members (DTI, 2013a: 7). These principles define the very nature of the co-operative and non-compliance with these principles may ignore its unique identity (Barberini, 2009: 41). From the above, it becomes clearer that co-operatives differ in some fundamental ways from other business forms. Some of these are discussed next.

2.2.2 Co-operatives vs other business forms

The four key ways in which a co-operative differs from other business forms relates to benefits, participation, control, and ownership. Co-operatives are established to satisfy a joint need or provide a needed service whereas a company is established and operated to maximise profits for its share-holders or the owner. Profits in a co-operative are referred to as the surplus. In the case of a company, the profit is distributed to share-holders at the end of the

financial year, whereas the co-operative may choose to retain a portion of its surplus as the common property in the business. The distribution of surplus, as a patronage refund, is done in accordance with the business a member has conducted with the co-operative and not in proportion to their investment (Ortman and King, 2007: 42). Benefits of co-operation may include access to markets, bargaining power, provision of products and services at competitive rates, new income opportunities or the improvement of existing income streams, reduction in costs to do business and also risk management (Ortman and King, 2007: 43). Capital is the central component of a traditional business whereas, in a co-operative, the people or members are central to its establishment and operation (Dowell, 2014).

Control in a co-operative is organized on democratic principles, whereas control in traditional businesses is held by the principle share-holders or owners of the business. This ensures that in a co-operative, the ownership vests in the members who use the services in contrast to a company where ownership is held by the investors or share-holders, who may not even use its services (Wolfe, 2014). This aspect of control then also mirrors the ownership aspect in the enterprise. In a co-operative, ownership is held by the members and in a company ownership is held by the principles share-holder/owner.

A co-operative is an enterprise. This means that it needs to apply enterprise/business principles in order to ensure that it is able to produce a surplus that will enable it to provide the services the members require. The discussion on co-operative economic theories is covered in 2.3 and provides a better understanding on the economic directives that drive co-operation. However, the social reasons behind co-operation in this business form should not be under-played.

2.3 Understanding co-operative economic theories

Various theories have been developed over time to understand how co-operatives enterprises operate. The first of these was developed by Emelianoff, as cited in Torgeson (1997: 5), who viewed co-operatives as representing its members and that it is not itself an “acquisitive economic unit”. This model of pure agency was too simplistic to account for the complexities of decision-making and governance by the members (principles) and the management function carried out by the directors (Torgeson, 1996: 7). A further model to explain the behaviour of agricultural co-operatives was developed by Helmberger and Hoos in 1962 (Ortman and King, 2007: 49), who based their model on the neo-classical theory of the firm.

In this model, the co-operative's objective is to maximize the benefits to the members by maximising "the per unit value or average price by distributing all earnings back to members in proportion to their patronage volume or use" (Ortman and King, 1997: 50). This model was further refined over time.

Later changes in the economic environment led economists to develop three methods to analyse organizations and how they operate in the market. These focus on institutions and their constraints and not on profit-maximizing. They are collectively called new institutional economics (NIE) and consist of transaction costs economics (TCE), the agency theory and property rights analysis (Ortman and King, 2007: 51).

Transaction costs were first described by Coase and defined as the costs associated with "organizing and transacting exchanges" (Ortman and King, 2007: 52) on the market place. These costs would include costs to search for information and the costs of this information, costs involved in bargaining and decision-making and those associated with policing and enforcing. These costs are influenced in varying degrees by social, legal, political and economic institutions (Ortman and King, 2007: 52). The transaction costs are influenced also by problems such as opportunism (where one party seeks to gain a benefit over another), holdup (when one party seeks to exploit another on the basis of its relationship to an asset/commodity). Legal tools such as contracts become a necessity in the market place to secure each parties' rights and obligations which adds to transaction costs.

Co-operatives are formed when a gap exists in the market for needed goods and services at affordable prices and good quality. In order to operate in a more efficient manner in the market place, people will co-operate and, in doing so, they are able to share costs. Through this mode of self-help, individuals who could previously not participate efficiently in the market place are able to do so as a collective. So for a co-operative, transaction costs become a critical factor in the business. Staatz, as cited in Torgeson (1996: 7), notes that NIE "links the minimization of these transaction costs with the creation and design of different forms of organization and contracting". The more established a co-operative the higher would be its transaction costs. However, these are still competitive for the individual producer/supplier who is now able to share these costs with the other members.

In smaller co-operatives these transaction costs are rarely quantified and often neglected as members lack the business skills training. This lack of foresight causes many problems amongst the members after the enterprise has been established. Many of the co-operatives are unable to manage the internal conflicts that arise due to a lack of clearly defined rights, obligations (e.g. working conditions such as wages, working hours etc.) and property rights which lead to member dissatisfaction and withdrawal. The benefit of paying the transaction costs associated with putting in place the necessary contracts and policies is that it could prevent many co-operatives from failing.

Transaction Cost Economics helps to identify all the costs associated with a particular transaction and these costs can then inform the most appropriate institutional form for that transaction. As mentioned above, in the case of the small and emerging co-operatives in South Africa, the analysis of transaction costs is given little importance. The desire to establish a co-operative is based in most cases on the desire to address a common need or provide a common service, with little consideration being given to the financial advantages or implications of co-operating in this way. Furthermore, the co-operative business form is being touted in many circles as the only solution to self-help. It is only after incorporation that members start to quantify the costs of doing business together. This lack of foresight is supported by the fact that formation of a co-operative does not require any planning or thinking around the economic viability of the enterprise. An analysis of the transaction costs is not relevant to the decision to form a co-operative for the majority of co-operatives that are currently being established. However, for established and successful co-operatives these could be argued play an important role in the decision to collaborate as the elements associated with TCE are necessary to ensure the business's economic viability.

Agency theory is grounded in the agent–principal relationship that exists where one individual is appointed to act on behalf of another. Problems in this relationship arise when the agent no longer represents the interests of the principal but own interests (Ortman and King, 2007: 54). In the case of a co-operative, this becomes relevant in the situation where managers are appointed from outside to manage the business of the co-operative. Co-operatives are known to experience greater principal-agent problems because the entity is not for profit driven, “lacks capital market discipline” and ownership is not fixed (Ortman and King, 2007: 54). This problem however, is relevant only for more established co-operatives that are able to afford the services of a seasoned manager. As stated above, the management

role in smaller co-operatives is carried out by one director who also happens to be in most cases the initiator/driver behind the establishment of the enterprise.

Demsetz, as cited by Torgeson (1997: 6), defines property rights as being able to use and to have control over how an asset or resource and that these need to be clearly defined and enforced where there is an agreement between parties (Ortman and King, 2007: 55). Cook notes that property rights are important for the sustainability of co-operatives as they can provide it with internal stability (Ortman and King, 2007: 56). The approach of property rights also provides clarity on the difference between patronage as a basis for ownership and control in the co-operatives, as opposed to an investment (Torgeson, 1996: 6). Transaction costs, such as legal costs, are involved in establishing and securing these property rights (Torgeson, 1997: 7).

The notion of property rights is relevant in cases where the co-operatives are established and able to purchase/lease property. In South Africa, this is more applicable in the case of agricultural co-operatives where operations are dependent on equipment and land rights. These property rights do not only secure the value and financial viability of the co-operatives but it also ensures that operations can be carried out. Secured property rights also ensure that the holdup problem and opportunistic behaviour is avoided when co-operators engage with other market players. In the case of the holdup problem, owners of equipment or processing plants may force producers to accept lower prices for their crops and vice versa, the producers could holdup the plant owners to secure higher prices where there are no other local producers. This problem is avoided by the producers purchasing the equipment that will put them in a more secure position to engage in the market (Ortman and King, 2007: 56).

In the case of smaller, emerging and subsistence level operations the property rights theory is also relevant. In the situation where the co-operatives have their own business premises and equipment, the property rights seem to be clearly defined, i.e. that it vests in the entity. In the three case studies, all three operate from business premises provided by either the local municipality or a non-governmental organization. They have limited rights to the property and this sometimes impacts negatively on their development. In the case of Sizameni, they have little control over the electricity supply to their business. The complex from which they operate often suffers from power cuts and this affects them negatively as they are unable to run the business. During one of the visits to the co-operative the complex had one of these

power-cuts and they could not work for most of the day. In the case of Rossdav, their limited property rights prohibit them from placing visible signage to market their business outside the building complex. They have a prime location in the heart of Pretoria but are unable to capitalise on it by making their business visible from the road. In addition, space requirements for businesses may change over time. Both Rossdav and Sizameni are facing the challenge of not having enough space to grow their operations. In other instances where members bring their own equipment into the business and if the property rights are not clearly defined problems arise which negatively affects the business e.g. when the member leaves he/she takes the equipment along or the equipment is not available for the use by other members.

Two additional approaches to understand the internal organization discussed by Torgeson, include the local or group public goods theory (club theory) and the game-theoretic approach. Club theory, developed by Buchanan, as cited in Torgeson (1996), presupposes the existence of ideal conditions for the control and use of a common property. It is this common property that is the public good as members have equal access and this access/use does not interfere with the rights the other members have to that asset. The ideal conditions necessitate limiting the membership size (Torgeson, 1996: 6). This theory is more applicable in the agricultural sector for which these theories were developed. In the case of a wine-making co-operative, all suppliers of inputs/grapes have access to the assets of the co-operative which would be the wine processing plants and bottling plants. Membership in these cases will be limited by the production capacities of the facilities/public goods. Club theory cannot, however, be used to analyse co-operation in all conditions (Torgeson, 1996: 7). Torgeson (1997) states that the willingness of the members to agree on how the benefits and liabilities are to be shared is also important to a theory of co-operation and that failing to recognize the need to secure earnings can also adversely affect a co-operative.

2.4 Co-operatives and poverty reduction and job creation

Poverty is defined by the UN in terms of “whether households or individuals have enough resources or abilities today to meet their needs” and measures this according to an income threshold of US\$1 a day (absolute poverty) (Birchall, 2003: 1). Through co-operating, poor people are able to improve their conditions by gaining economic advantages (Birchall, 2003: 7). As a collective, they are able to pool limited resources and in this way are able to participate in formal markets. This need to survive is often the impetus that drives people to

co-operate with one another and to formalise this undertaking by establishing a co-operative. In order to co-operate, people should have some resource (Birchall, 2003: 5) or skill. Subsistence level co-operatives would probably not reduce the financial poverty of its members, but could assist by reducing non-financial poverty (Birchall, 2009b: 43). This is evident in two of the co-operatives in this research. Members do not earn a big salary but the co-operatives provide them with an opportunity to learn new skills and to learn gain business experience. Birchall (2003) reports on the Bangladesh Co-operatives Milk Producers Union in which it was found that co-operatives have a role to play in poverty reduction. In this study, the farmers' earnings increased ten-fold, lifting the house-hold earning above the poverty line (Birchall, 2003: 36). However, as mentioned elsewhere in this research, co-operative success is dependent on external institutional support. Without this support co-operatives established by poor people will fail to grow.

Numerous studies have been conducted proving that co-operatives can play a role in job creation. This is due to its nature of “self-determination and entrepreneurial association” (Barberini, 2009: 13). Co-operatives provide more than 100 million direct jobs worldwide. This number does not include the number of people who are self-employed, those that are indirectly employed and the induced employment numbers (Chavez-Hertig, not dated: 1). Co-operatives do not only provide employment but are considered amongst the best employers (Chavez-Hertig, not dated: 5). Co-operative members are also inclined to ensure continued employment as opposed to increased wages or increased profits. The worker co-operative model is established by people who have a joint need for employment. Co-operatives that maintain an operational status are able to provide members who were previously unemployed, with a small income. In the case of Rossdav, it provides employment to 4 people who was previously unemployed, Sizameni provides employment to 2 people who were previously unemployed and Sisiziwe provides employment to 6 people (3 previously unemployed and 3 school-leavers) and an additional 5 seasonal jobs. The benefits of the co-operative model for poverty reduction and job creation and mobilisation of large numbers of people makes it of interest to governments.

Governments have a key role to play in co-operative development that goes beyond ensuring the creation of a conducive environment in which co-operatives can thrive. In many instances, governments are more proactive in supporting co-operatives and this may interfere with the autonomy of the co-operative. Finding the right balance where governments can

continue supporting co-operatives, but still allow autonomous entities to develop, is important. In developing countries, a thriving co-operative movement aids in the poverty alleviation efforts of the government and the movement needs the assistance of government to ensure that an environment is created in which the enterprises can thrive (ICA & CCA, not dated: 23). However the creation of this enabling environment should go beyond legislative requirements to encourage registration, but should also include support measures that will provide targeted support as the enterprise grows. The establishment of the co-operative should not be seen as an end in itself, but as the means through which members can secure the goods and services they need (Barberini, 2009: 38, 39).

Unfortunately, in South Africa it has become evident that government views the registration of the co-operative as the end in itself. All measures have been taken to ensure that registration processes are simple, cheap and easy, so that co-operatives can be easily established. However, further development assistance is poorly articulated, implemented and monitored. The current registration trends testify to the fact that government has succeeded in creating a conducive environment in which co-operatives can be registered, however as noted in the interview with the CIPC Interviewee (Interview, 6 September 2013), about 80% of these registered co-operatives are not operational, so it is unlikely that the majority of the co-operatives are able to play a role in poverty reduction. Section 2.5 provides an overview of co-operative development in South Africa since 2005.

2.5 Co-operative development in South Africa since 2005

2.5.1 Legislative and policy reforms

The mandate of the first democratically elected government in South Africa was to “redress the inequalities” in the political, social and economic spheres. In keeping to this mandate government has worked to develop the legal framework for the transformation of the economy of the country (DTI, 2014). These efforts have included amongst other the Broad-based Black Economic Empowerment (B-BBEE) Strategy, the B-BBEE Act (No. 53 of 2003 and later amended by the B-BBEE Amendment Act No. 46 of 2013) and also the set of co-operative policy documents. “Broad-based black economic empowerment means the viable economic empowerment of all black people ..., in particular women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies” (DTI, 2013c: 4). The primary objective of the B-BBEE Act is to promote the transformation of the economy and to increase the participation of black people

in the national economy (DTI, 2014). The B-BBEE Act recognises that co-operatives also have a role to play in promoting its objective it being a vehicle through which potentially large numbers of people can engage in economic activities.

The Co-operatives Act in its preamble states that a “co-operative movement can play a major role in the economic and social development of the Republic of South Africa, in particular by... facilitating broad-based black economic empowerment” (DTI, 2005: 3). In order to ensure this, one of the purposes of the Co-operatives Act is to promote greater participation of black people in co-operatives and another to provide support programmes for co-operatives owned by black people. These two purposes contained in the Co-operatives Act and black economic empowerment strategies that are developed through the B-BBEE Act, that may have reference to co-operatives, clearly positions co-operatives as an economic empowerment model in South Africa. However, care should be taken to ensure that they do not erode away or conflict with the principle of Voluntary and Open Membership of co-operatives. This principle states that co-operatives should not discriminate on the basis of race.

Legislative reforms in the co-operative sector were also informed by the fact that prior to 2005, co-operative development and support fell within the mandate of the Department of Agriculture. As a consequence of this the majority of co-operatives that were developed and supported were mainly agricultural. The legal framework that preceded the current Act and which governed co-operatives from 1981 to 2005 was the Co-operatives Act No. 91 of 1981. In 2001, the mandate to promote and support co-operatives was transferred from the Department of Agriculture to the Department of Trade and Industry (DTI). The intent behind this was to ensure that co-operatives in all sectors of the economy were promoted and supported. In 2005, under the guidance of the DTI the Co-operatives Act No. 91 of 1981 was repealed by the Co-operatives Act No. 14 (the Act), of the same year. The Act sought to recognise co-operatives in all sectors of the economy and to provide support to emerging co-operatives.

The Act lays down a clear strategic approach to the promotion and development of co-operatives for the country. The law and co-operative strategy, the Integrated Strategy on the Development and Promotion of Co-operatives (the Strategy) were based on the National Co-operatives Development Policy (the Policy) that was developed in 2004. These three documents have ensured the creation of an environment favourable for the promotion and

development of co-operatives. In 2007, the Co-operatives Banks Act No. 40 of 2007 was promulgated for the purpose of regulating and supporting co-operative banks. In 2013, the Act (No. 14 of 2005) was amended by the Co-operatives Amendment Act No. 6 of 2013 (the Amendment Act). In addition to the different acts, various regulations to operationalize the provisions contained in them have been developed.

The Strategy clearly outlines the roles and responsibilities of local, provincial and national government structures to promote and support co-operative development. In order to comply with the political directive to support co-operative development provinces, districts and local municipalities ensured the inclusion of co-operative support programmes in the development plans and strategies. At provincial level co-operative development strategies were developed that led to the design of co-operative support programmes that are being implemented at the various levels. At district and local levels, co-operative development programmes were included in Integrated Development Plans (IDPs) and Local Economic Development plans. In many instances, provincial co-operative programmes are being implemented by provincial development corporations or agencies. Some of the national departments who are actively involved in co-operative development include National Treasury, Departments of Agriculture, Forestry and Fisheries, Minerals and Energy, Arts and Culture, Labour, Social Development, and Higher Education.

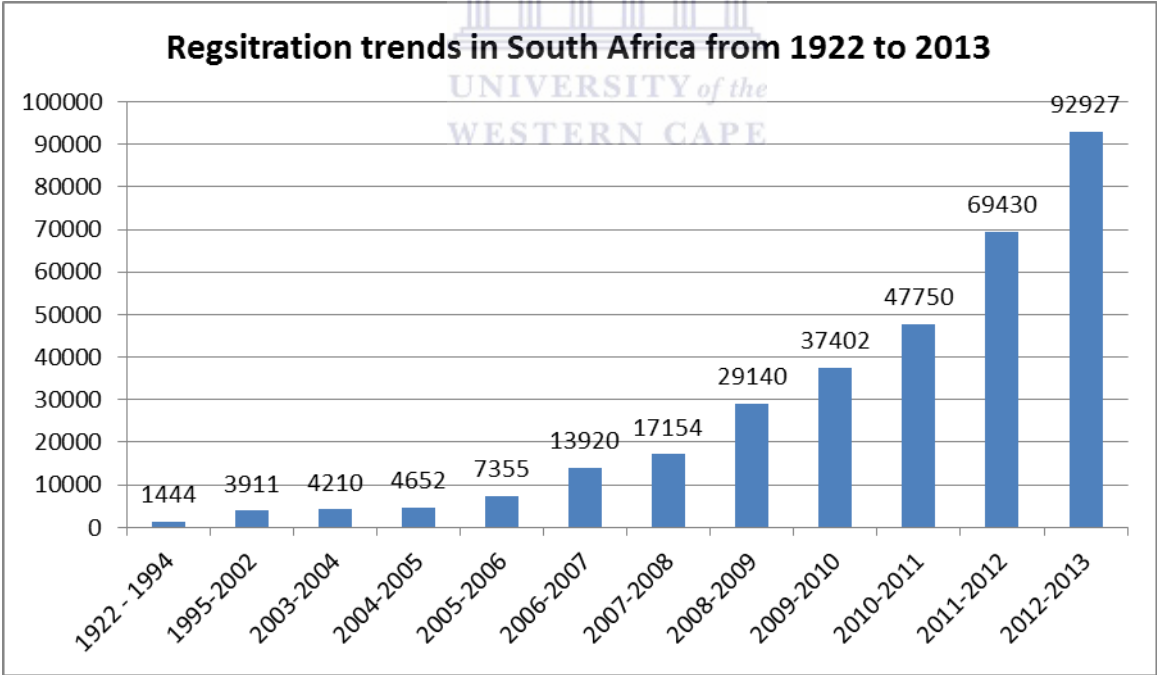
National Treasury, through its Co-operatives Bank Act No. 40 of 2007, established the Co-operatives Banks Development Agency. This agency has, to date, promoted and supported the establishment of two co-operative banks, namely Ditsobotla Primary Savings and Credit Co-operative Bank and OSK Koöperatiewe Bank Beperk. The Department of Higher Education is currently in discussions to establish a Co-operative Training Academy for the country. The DTI initiated two key programmes, one to provide financial support to co-operatives (Co-operative Incentive Scheme) and the other to provide non-financial support/training through its Small Enterprise Development Agency (SEDA). The various other national government departments have initiated and implemented programmes to promote and support co-operatives in their sectors. Multi-national organisations, such as the International Labour Organization (ILO), donor governments such as the Canadian International Development Agency and the Flemish Government, international co-operative organizations such as the German Co-operative and Raiffeisen Confederation (DGRV) have all supported the Government of South Africa's efforts to promote a co-operative movement

in South Africa. The impact of the legislative reforms that have taken place since 2005 is evidenced mainly through the registration trends of co-operatives in the country.

2.5.2 Registration trends

To date, more than 90 000 co-operatives have been registered in South Africa. Figure 2 provides a diagrammatic presentation of registration trends from 1922 to the beginning of February 2014. Up until 2005, only 4652 co-operatives were registered. Since 2005, more than 88 000 additional co-operatives have been registered. This is evidence both of the success government has had in its strategy to promote the proliferation of co-operative since the transfer of the co-operative mandate to the DTI and also of the desire amongst economically active people to co-operate as a means of supplying their own needs. However, this drive to promote co-operatives without ensuring that there are effective support programmes in place, has led to a series of challenges that has made the co-operative business form a less than desirable vehicle to engage with in the market.

Figure 2: Co-operative registration trends in South Africa



Source: DTI, 2012 and CIPC (Gideon Schutte)

Regrettably, notwithstanding these large numbers, the number of co-operatives that are making a positive difference in the lives of their members is dismally small. With the exception of a small handful of financially successful co-operatives, the majority of co-operatives in South Africa are survivalist businesses (DTI, 2009: v). The registration trends

provide little information on the actual status of co-operatives in the country. However, the various studies carried out over the years have painted the same dismal picture of a struggling co-operative sector.

2.5.3 Status of the co-operative movement in South Africa

The co-operative movement includes all co-operatives that exist in a country (Münkner, 2005: 101). In South Africa, as mentioned previously in this paper, the Act allows for four levels of co-operation namely, primary, secondary, tertiary and a national apex. Some other countries with more established and successful co-operatives have only a primary or secondary level of co-operation. These levels of co-operation are meant to develop organically over time as the co-operative movement develops, but in South Africa, there has been a rush to get to the top and this has resulted in the development of stringent criteria for the establishment of the national co-operative apex. These criteria will ensure that, notwithstanding the reasons by certain interested parties to achieve the highest level of co-operation in the country, membership within this body is representative of a larger community of players in the movement and not only a small select group.

The desire to be the top level structure has been largely driven by a need to be the “spokesperson” for the movement and to gain access to development assistance meant for co-operatives. In South Africa there have been, so far, two co-operative organizations that were established in a top-down fashion. Both of these professed to be the “national/apex” organizations representing the interests of all co-operatives in South Africa. The support by government for the establishment of these organizations was driven partly by its need to identify with one representative structure with whom it could engage on co-operative issues. Regrettably, in both instances this “experiment” failed. The organizations were neither representative of a large enough constituency and proved to be concerned only with their own interests. Money was clearly a motivating factor that drove the establishment of these organizations. The leadership also lacked the skills and competency to hold these positions but managed to do so mainly through their political affiliations. Very little of the development assistance/finances meant to benefit co-operatives channelled through these “representative” structures over the years has reached its intended targets.

The entities also tout themselves as the “movement” but are rarely representative and their internal management leaves them open to a lot of internal conflict and unhappiness from their

membership. Membership lists of these bodies are also difficult to secure. As the formation of these entities is not driven by the membership and as they are mainly funded by government, they tend to lack accountability to members. This support by government for the establishment of these “representative” bodies has been a dis-service to the co-operative movement. It takes years to correct these mistakes as, once in office, it is difficult to replace the leadership of these organizations as they have access to the financial resources. Too much political interference, wrong motives, lack of management competencies, lack of a clear understanding of the co-operative identity and potential is largely to blame for the failure of these entities to deliver on their mandates or to actually play a meaningful role in supporting the development of a viable co-operative movement in South Africa.

Statistical information on the co-operative movement in South Africa beyond the basic information contained in the database of the Registrar of Co-operatives is not readily available. The majority of the co-operatives do not file annual financial returns so it is not possible from the information kept at the office of the Registrar of Co-operatives to make any marginally accurate determination about the status of the co-operatives and their actual contributions to employment creation. If we were to use the definition of operational as set out in the Act, i.e. *to have had an Annual General Meeting (AGM) and to have filed the annual returns*, then less than 1% of co-operatives would be considered operational. In an interview conducted with the CIPC Interviewee he stated that the percentage of co-operatives who file their financial returns “is not even a percentage. We get approximately 200 financial statements for the year and there are more than 65 000 co-operatives registered, so it is a very small percentage” (Interview, 6 September 2013). To define the operational status of a co-operative in these narrow terms ignores the reality on the ground where thousands are running a going concern but have neglected to file their financial returns.

The co-operatives who do file their annual returns are the more established and successful co-operatives and they contribute less than 0.5 % to the GDP of the country. The CIPC Interviewee notes that the contributions from the larger number of smaller, emerging co-operatives would not make a substantial increase in the percentage contribution to the GDP of the country. According to him:

about 80% of the contributions are captured, if I must guess, because plainly the big ones are compelled by their members to submit the financial returns. In the total

turnover, it won't make much of a difference. I can't see that the figures would double. Say for example we say co-operatives contributed R8 billion of the turnover, it won't become R16 billion even if we received the others (Interview, 6 September 2013).

The co-operative movement in South Africa spans the spectrum from well-established co-operatives, mainly in agriculture through to subsistence level operations. The majority of co-operatives are small subsistence level enterprises that struggle to survive in the market. Many of the ones that are operational, like Sisiziwe, rely on government support through grants and procurement opportunities to survive. These types of co-operatives have limited skills and produce products that are specified by the supplier, like linen and school uniforms. They also often have secured suppliers and these arrangements are often also fostered by the government departments supporting them.

Others, like Sizameni, who produce value products, such as leather goods, and who are not able to access government procurement opportunities, struggle to survive in the small local markets in which they operate. Some of the challenges they experience are customers refusing to pay market related prices for goods and services and also competition from local competitors. More established co-operatives like Rossdav have a more select market and the quality of the products helps secure customers. Rossdav also benefits from a more competent management structure and higher skills levels. Co-operative support is provided at all three tiers of government and this is discussed in more detail below.

2.5.4 Co-operative support programmes

At an international level, co-operative support programmes are guided firstly by Recommendation 193 (R193) that was adopted by the United Nations in 2003. South Africa became a signatory to R193 in 2002. The R193 acts as a guide to government, the co-operative movement, the employers and labour movement on matters relating to co-operative identity and support. The government of South Africa has been guided by R193 in developing its own policy documents, namely Co-operative Policy (the Policy), Integrated Co-operative Development Strategy for South Africa (the Strategy), Co-operative Act No 14 of 2005 (the Act) and the Co-operative Amendment Act No 6 of 2013 (the Amendment Act). The Strategy clearly outlines the roles and responsibilities to all spheres of government, the business community, labour movement and co-operative movement to support the development of co-operatives. The DTI Interviewee noted that one of the successes of the

current national policy environment in South Africa has been the drafting of the Act that provides the legal framework for co-operatives. However, the Act had many gaps that were addressed through the Amendment Act.

2.5.4.1 Co-operative support at a national level

At a national level, co-operative development and support programmes are spear-headed by the Department of Trade and Industry. There are a number of other national sector departments and their agencies who also offer assistance to co-operatives for instance; National Treasury through its agency, the Co-operatives Banks Development Agency, provides support to co-operative banks and financial co-operatives and the Department of Labour, through its agency the National Youth Development Agency, assists youth co-operatives. The DTI has put in place a range of support interventions for co-operatives and has also made its existing enterprise support programmes available to co-operatives. Its key co-operative support programme is the Co-operatives Incentive Scheme (CIS) through which eligible co-operatives are able to access 100% grant funding up to a sum of R350 000.00. Co-operatives can also access the Black Business Supplier Development Programme that is a cost-sharing grant, the Export Marketing and Investment Assistance scheme and the Isivande Women's Fund (DTI, 2013b: 1).



According to the DTI Interviewee, who directs the Co-operatives Development Unit, the Co-operatives Incentive Scheme (CIS) programme needs to be re-evaluated as co-operatives are not being set up for the proper purposes. She states that:

DTI has to rethink CIS seriously because co-operatives are not being set-up for the purposes that co-ops need to be set up, that common bond or for the service or needs of individual businesses/entrepreneurs. At the moment there are start-ups and people are applying for CIS just for start-ups and for nothing else. So I really think that the whole issue around CIS needs to be re-thought or re-worked so that it really supports the objectives of a co-op and not be seen as a easy way to get money (Interview, 3 October 2013).

Co-operatives can also access the assistance offered by DTI agencies such as the Industrial Development Corporation (IDC), the National Empowerment Fund (NEF) and the Small Enterprise Development Agency or SEDA (DTI, 2013b). The national co-operative capacity

building and training programme was provided by SEDA. Some new support interventions that are planned include a dedicated co-operative training academy, the establishment of a Co-operative Tribunal, the Co-operative Development Agency and the promotion of secondary marketing and supply co-operatives to assist the ailing co-operative sector. Government has sought to fast-track its support initiatives to the sector as we are faced by growing unemployment and poverty levels.

The co-operative training programme also needs to be reviewed. The training that was provided focussed largely on very basic and generic co-operative training that included modules on how to register a co-operative, how to start up a co-operative, and the principles and values of co-operatives. This met with some success but, as noted by the CoT Interviewee, who is the executive manager for the enterprise development programme in CoT, it has been over-done. He suggests providing co-operatives with sector specific training that will empower them more effectively. At provincial level, support is provided by the provincial departments and branches of national departments and their agencies.

In addition to the support provided by government departments a number of multi-national organizations have also supported co-operative development initiatives in South Africa. Some of these include the United Nations (International Labour Organization and United Nations Office for Project Services), the German Co-operative and Raiffeisen Organization (DGRV), Canadian International Development Agency, the Danish Co-operation for Environment and Development, etc. Support ranged from the provision of technical assistance to the implementation of co-operative programmes in various provinces. Other key co-operative development stakeholders include organizations within the labour movement, such as the National Union of Mineworkers, Federation of South African Trade Unions and Congress of South African Trade Unions. These organizations have provided technical input to the development of the policy documents and also implemented co-operative programmes. Tertiary training institutions also support co-operative development through the provision of co-operative training programmes and co-operative research.

Within the co-operative movement there are various co-operatives and organizations that support co-operative development that play a critical role in ensuring that co-operatives not only recognize but implement the notion of self-help by finding solutions to the challenges that members are experiencing. In addition, these organizations are ensuring that the voice of

the thousands of nameless and voice-less entities are being heard by government institutions that forge policy directives, too often in ignorance of the reality on the ground. These include secondary and tertiary level co-operatives, business associations such as Business Unity South Africa, and the Agricultural Business Chamber, Co-operative and Policy Alternative Center (COPAC), South African Federation of Burial Societies and South African Housing Co-operative Association. At provincial level co-operative promotion and development is spearheaded by the nine DTI provincial counter-parts, the Departments of Economic Affairs (or as they are otherwise known within the province).

2.5.4.2 Co-operative support at provincial level

The provincial Departments of Economic Development, with the support of the DTI, lead co-operative support programmes within their respective provinces. Each department has been tasked to develop a co-operative strategy to guide co-operative development and support programmes. To date the Northern Cape, Limpopo, KZN, Eastern Cape and Gauteng provinces have finalised their strategies. The Western Cape, Free State and North West and Mpumalanga provinces have prepared drafts. Support is also provided by various provincial development agencies. The Integrated Co-operatives Development Strategy for the Gauteng Province (Gauteng Strategy) was finalised in 2010 by the Gauteng Department of Economic Development.

The Gauteng Strategy was based on the Gauteng Co-operative Development Policy (Gauteng Policy) of 2007. The programmes in the Gauteng Strategy are aligned to the key objectives of the Gauteng Policy which calls on existing policies and strategies to be aligned to national legislation and policy, to target the unemployed and poor (women, youth and disabled), to support broad based black economic empowerment, to support co-operatives sector, and to provide clarity on the role of government in supporting genuine co-operatives and the co-operative movement. The Gauteng Strategy has four key strategic principles, namely, developing a common approach across sectors (focussing on job creation, poverty alleviation, sustained economic growth), developing sustainable co-operatives, linking to existing value-chains and growth sectors and co-ordinating support (Department of Economic Development, 2010: 7). The province has also identified 6 key co-operative sectors that have a high growth and job creation potential as it can more easily secure access to procurement opportunities and linkages to supply chains for co-operatives. The six co-operative sectors are agriculture and

agro-processing, manufacturing, retail, construction, logistics and transport and tourism (Department of Economic Development, 2010: 11).

The Department of Economic Development's co-operatives programme is being implemented by Gauteng Enterprise Propeller (GEP) whose mandate it is "to provide both non-financial and financial support to SMMEs and co-operatives in Gauteng". The objectives of the Co-operative Support Programme are to support economically sustainable co-operatives that will support the economic growth of Gauteng, help co-operatives become more competitive so that they can access markets, and promote the participation of more black persons (women, youth and persons with disabilities) in co-operatives (GEP, not dated : 1). In terms of the national Strategy, district and local municipalities are responsible for co-operatives programmes at local level and these are to be integrated into Integrated Development Plans (IDPs) (Department of Economic Development, 2010: 6). It should be noted that co-operative development in the various provinces are supported not only by the lead department, namely the Departments of Economic Development, but by the various provincial departments, various government development agencies and other stakeholders mentioned in 2.5.4.1 above. At local level, co-operative programmes are spear-headed by the local municipalities.

2.5.4.3 Co-operative support at local level (CoT)

The role of district and local municipalities in supporting co-operatives is clearly outlined in the national Strategy. The inclusion of co-operative support initiatives in IDPs ensures implementation of the national policy objectives is achieved. This then makes them responsible for business infrastructure and other support services. The Gauteng Policy states further that their programmes must link up with support measures of national and provincial government, establish administrative capacities to support the implementation of the Gauteng Strategy, provide specific minimum support that is required, ensure co-operative development is aligned with local economic development plans, IDPs and poverty eradication plans (Department of Economic Development, 2010: 6).

The IDP for CoT, for the period 2011 to 2016, was developed in 2011. The intent of the IDP is to "link, integrate and co-ordinate development plans" of CoT (CoT, 2011: 15). The local level developments plans need to align with the various provincial and national development plans. Co-operatives are to be provided with skills development and incubation support (CoT, 2011: 104). At least 50% of the beneficiaries of the co-operatives supported are to be

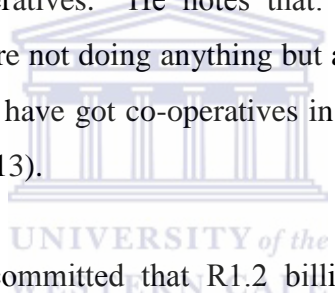
women and 40% youth (CoT, 2011: 104). CoT has 5 co-operative support initiatives contained in its IDP. These fall under the Strategic Objectives of Economic Growth and Development and Sustainable communities and are listed in the Table 1 below.

Table 1: IDP Co-operative programmes

	Project name & description	Beneficiaries & Responsible Department
1	<p><u>Project:</u> Training and Capacity Building:</p> <ul style="list-style-type: none"> • Training, capacity building and marketing support for broiler production and hydroponics. 	<p><u>Beneficiaries:</u> Indigent households.</p> <p><u>Responsible Department:</u> Agriculture and Environmental Management</p>
2	<p><u>Project:</u> Sustainable Agricultural Villages Programme:</p> <ul style="list-style-type: none"> • Rooiwal project & Onverwacht projects: training and capacity building and entrepreneur development. 	<p><u>Beneficiaries:</u> co-operatives and members of the community (particularly the indigent); 50 jobs to be created</p> <p><u>Responsible Department:</u> Agriculture and Environmental Management (CoT, 2011: 161)</p>
3	<p><u>Project:</u> Trade development programme:</p> <ul style="list-style-type: none"> • Export support to SMMEs and co-operatives. 	<p><u>Beneficiaries:</u> 50% women, 40% youth, 10% people living with disabilities.</p> <p><u>Responsible department:</u> Department Economic Development (CoT, 2011: 162)</p>
4	<p><u>Cooperative development programme:</u></p> <ul style="list-style-type: none"> • Support provided to co-operatives. 	<p><u>Beneficiaries:</u> 3000 Co-operative members per annum (50% women, 40% youth and 10% people living with disabilities)</p> <p><u>Responsible department:</u> Department Economic Development in partnership with University of Pretoria, Institute of Business Advisors, SEDA and Productivity South Africa.</p>
5	<p><u>Projects for women</u></p> <ul style="list-style-type: none"> • food security projects (inputs and equipment) 	<p><u>Beneficiaries:</u> women owned co-operatives</p> <p><u>Responsible department:</u> Health and Social Development (CoT, 2011: 167)</p>

	<ul style="list-style-type: none"> • job creation projects (technical training and market access) 	
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The Co-operative Development target (4000 co-operatives supported) in the IDP will be realised through the local Co-operative Development Programme. The programme is driven by five key initiatives: orientation workshops, basic management training, advanced management training, mentorship and leadership development (CoT, not dated: 10). Through the Co-operative Development Programme, procurement opportunities were made available to over 40 co-operatives in a sum totalling more than R3 million (CoT, not dated: 10). During the 2009/10 financial year, CoT reported that it supported 531 co-operatives (CoT, 2011: 93) and during the 2012/2013 financial year they supported 4000 co-operatives (CoT, interview). The CoT Interviewee is of the opinion that more support could have been given to co-operatives in the LED programme of the municipality. However, the municipality is improving its support to co-operatives. He notes that: “we have got a number of co-operatives that are dormant that are not doing anything but at least they are co-operatives that can be able to do something. We have got co-operatives in waste that are doing a wonderful job” (Interview, 10 September 2013).



The previous Mayor for CoT committed that R1.2 billion of the municipality’s capital expenditure must be for co-operatives. In support of this, the supply chain management department wants each department in the municipality to report on their co-operative programmes and the number of jobs created through them. This is a clear indication that the municipality recognises the job creation potential of co-operatives. However, the internal planning processes and policies work against the planned objectives and intentions. Firstly, there is no clear strategy in place to support co-operatives, they are supported randomly, procurement policies exclude the participation of co-operatives, and internal payment procedures to small businesses do not take into account the realities under which these enterprises operate, such as lack of cash-flows and inability to source bridging finance, etc. The three case studies that will be analysed are all in the manufacturing sector in the CoT and are all worker co-operatives in which the “members pursue the objective of optimally utilising their labour” (DTI, 2013a: 12). All benefit to some extent or another from local support interventions. In each case the person responsible for the establishment of the co-operatives was interviewed and assisted in the data collection process.

2.5.4.4 Challenges to co-operative development

The more common challenges that are discussed here can be grouped according to external (political, institutional support and markets) and internal challenges (internal competencies in the areas of technical and business management, product or service, capital acquisition). Government has an important role to play in co-operative development that extends beyond ensuring that an enabling policy and legal framework is in place. Co-operatives for the poor need external institutional support to assist in their establishment and operation. However, when government gets involved in establishing co-operatives and in interfering in their internal decision-making processes, problems arise.

In KwaZulu Natal, the provincial government, in accordance with the national directive to promote and support co-operative development, promoted the establishment of co-operatives who could benefit from the school feeding schemes programme. This was a noble attempt to support co-operatives. However, no existing co-operatives were targeted but new co-operatives were established and the member selection process was determined by government. Inevitably, the lack of group cohesiveness led to internal problems (Beesley et al, 2013: 257). Solidarity amongst the members is not something that can be forced but it something that develops through some conscious effort (COPAC, not dated: 1). Once the co-operatives were established, the co-operative members were still not allowed by virtue of their participation in the school feeding scheme, to make any changes to the membership. This totally ignored the democratic member control principle and that of voluntary and open membership. From this, it is clear that government should not attempt to control co-operatives but should allow them to develop on their own.

The country lacks a properly articulated co-operative development programme that has been informed by the needs on the ground. The two key programmes that were initiated at national level was the provision of financial assistance through co-operative incentives and co-operative training. The incentives are only able to target a small number of co-operatives and the training programmes are dismally inadequate to address the training and capacity constraints within the majority of the co-operatives. In addition, many institutions that are meant to support co-operative development lack the necessary internal capacities to plan effective programmes that can make a positive impact on the co-operatives. In addition to the government institutions that are supporting co-operative development there are very few non-government or co-operative organizations that can support this development. Unfortunately

too, a large portion of the government financial support meant for co-operatives has been “hi-jacked” in a sense by the “national apex” organization and as a result other organizations that could have made a positive difference in the development of co-operatives in the country have been side-lined.

Access to markets is another key challenge for most co-operatives. This is exacerbated by the fact that co-operatives fail to see the need to carry out market research to ascertain the viability of a business idea before establishing the co-operative. This research is ideally carried out at the business planning stage, before incorporation, but in the case of the majority of co-operatives in South Africa, a business plan is developed only after incorporation. Many fail to recognize that the business plan is a valuable tool that can assist in business management and planning. They view it simply as a document that needs to be prepared when funding is sought. In the case studies only two of the three co-operatives has a business plan.

Internal challenges that are experienced include shortage of technical skills, lack of business management skills, low literacy levels (Beesley et al, 2013: 258), and a lack of financial resources. In one of the case studies, some of the members had very low literacy levels and struggled to complete the questionnaire. The low skills levels affect sales and the economic viability of the enterprise when members produce products that are of poor quality. Competency in management is one of the key success factors in a co-operative (COPAC, 2008: 13). Managers need to implement the decisions of the members and so it is important that they have the necessary skills to manage the business effectively as it affects all the members. Another challenge that many worker co-operatives experience is that they are initiated by a group of people that is too large to be supported by the economic activity of the enterprise (Phillips, 2003: 20). This is because people hold unrealisable hopes that membership in the co-operative alone can address their unmet needs and aspirations without any regard to the economic viability of the enterprise. External agents may also dictate membership numbers and criteria as a precondition to accessing assistance (Phillips, 2003: 30).

The problem of capital acquisition is a problem shared amongst co-operatives (Harris, 1996: 18). The majority of the co-operatives in South Africa are established by people who are unemployed and have little skills (Philip, 2003: 20) and limited resources to fund a business

enterprise. These are established with the expectation that government will provide the funding or contracts. External assistance is limited and available to enterprises that can prove their viability. However, the lack of training, capacities and management skills makes it virtually impossible for many of the new emerging co-operatives to access the finance that is available. Co-operatives also lack the internal financial competencies to develop alternate financing mechanisms for their business ventures.

From the above it is clear that much more co-operative development assistance is needed in South Africa to assist the growing number of co-operatives that are struggling to survive. However, the dismal performance of the co-operative movement is countered by the drive amongst economically active people to establish co-operatives that cannot be explained solely by the availability of the DTI's co-operative incentive scheme.

2.6 Conclusion

The co-operative model has a long history not only globally but also in South Africa. Research has shown that they are a model of solidarity that can compete efficiently in the capitalist market. This model that is based on internationally recognised values and principles and its purpose, to provide a service to its member, differs it from the capitalist business forms that are purely profit-driven. The co-operative is able to create jobs that are more secure than capitalist business forms and in the current global crisis, the job security they can potentially offer the large numbers of unemployed people should not be ignored. They are viable business forms that can satisfy the social and economic needs of their members and impact positively on their local environments. The model has already proven itself successful, offering 100 million plus jobs globally and has proven that it can impact positively on poverty levels.

Since 2005, the regulatory environment for co-operatives in South Africa has developed in leaps and bounds but the institutional support organizations are still lacking. What South African co-operative stakeholders and development practitioners need to address are the many challenges that prevent economically active people from managing these in a way that can provide long-term livelihood security for the members and the surrounding communities. Many programmes have been initiated to support co-operatives some of whom have succeeded and some have been less successful. However, the enormous potential of the business form to create jobs, increase wealth and reduce poverty, as evidenced from the

experiences in other countries, should urge government and co-operative stakeholders in South Africa to continue seeking the solutions that will ensure that the co-operatives achieve higher levels of success.



CHAPTER 3: THEORETICAL FRAMEWORK

3.1 Introduction:

The chapter has been divided into three main sections. The first part identifies and discusses the various Local Economic Development theories and also elaborates on the various LED practices both at global and national levels. The second part includes a discussion on co-operatives that looks at both the theoretical underpinnings of the co-operative business model and how this is translated into practice. Lastly the chapter will discuss how co-operative enterprises impact on LED by creating jobs, improving the livelihoods of people within the localities, providing new products and services etc.

3.2 Local Economic Development (LED)

There is at present no uniform definition of the concept of Local Economic Development (LED) at both an international as well as at a national level (Hindson & Vicente, 2005: 4). It is, however, clear that LED is a mainly bottom-up developmental approach. Bins and Nel (1999: 391) state that the development theories of the past and the focus on global markets, as opposed to national markets, were unable to reduce poverty or inequality. In the light of that, what was needed was a development approach that started at grassroots level and that was driven by local initiatives (Nel & Humphreys 1999: 1). Similarly, in South Africa, increasing levels of poverty and unemployment led to a re-thinking of development strategies for economic growth that could lead to a more equitable distribution of wealth. However, it is also clear that both top-down and bottom-up development policies have a role to play (Nel & Humphreys, 1999: 3).

Earlier development theorists felt that strategies for development in Africa needed to focus on self-help and community reliance, but that these local initiatives would still be affected to some degree by the world economy (Bins & Nel 1999: 393-395). Economic activity cannot operate in isolation of local, regional or national markets and the survival of LED activities depends on their ability to apply these self-help strategies that still operate within the capitalist system (Bins & Nel, 1999: 395). The sustainability of these types of local development initiatives will only be achieved if LED considers economic, social and environmental development (Meyer-Stamer, 2006: 12).

3.2.1 Defining Local Economic Development

Internationally, there are various interpretations of LED. This is not to say that any one concept is right or wrong as the practicality of what works and what does not, differs from one place to another. In South Africa, development practitioners and academics differ in their understanding of LED. In this section, I provide an overview and discussion of some of the key LED theories and practices, both globally and locally.

The World Bank defines LED as a strategy that includes various role-players such as local government, the private and not-for-profit sectors, and the local community which provides these role-players with an opportunity to collaborate in order to improve the local economy. In addition, LED can improve the competitive advantage of local economies, thereby encouraging inclusive and sustainable growth (DPLG 2006: 5). Increased competitiveness and economic growth can promote redistribution through vehicles such as small and medium enterprises (SMEs) and job creation initiatives. In its interpretation, LED includes planning, economics, and marketing disciplines, the provision of infrastructure, real estate, and the finance functions of local government (World Bank, not dated: 4). This is a fairly comprehensive view but it could be expanded by a recognition of the role external markets could have on the competitive advantage of any local community and that, for this reason, a multi-level approach would be more beneficial.

Helmsing's (2003: 69) definition shares some similarities with that of the World Bank in that he also supports an LED model that is multi-actor; however, his definition is broader in that it is also multi-sector and multileveled. He argues that the success of LED depends on the ability to engage various role-players and that LED initiatives must also take into account what is happening in global markets. He also asserts that the main aim of LED is the development of the economic base of a locality. Helmsing (2003) rightly points out the importance of stakeholder engagement processes in LED. However, this should be coupled with accountability in the implementation of LED plans that are reported and reviewed on a regular basis. LED practices on the ground are driven by well-established LED fora; however too often the success of these fora are measured by the number of meetings held/attended, and not by the achievement of the outcomes of the LED plans. Integration or coordination of the various organizations' LED goals is also difficult to achieve. Having a multi-level approach to LED will significantly contribute to the coordination of local LED at district and provincial levels.

Bins and Nel (1999), however, support a narrower and more simplistic view of LED than that espoused by the World Bank and Helmsing. They assert that LED only involves local governments or community-based organisations who collaborate to maintain existing business activity and employment. They argue that the “principal goal of LED is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural, and institutional resources” (Bins & Nel, 1999: 392). Although there is some merit in focussing available resources and effort on what is working, this is a rather narrow view to adopt. It makes the economic viability of a locality reliant on a set number of economic initiatives that are currently working and fails to allow for diversification or a multiplicity of activities that, in the long run, could spread the risk. It also fails to recognise that economic empowerment goes beyond simple job creation.

Nel and Humphreys (1999: 1) hold the view that LED is a strategy that involves local stakeholders who use the available local resources to either “modify or expand local economic activity”. Both the views of Bins and Nel and Nel and Humphrey fail to recognize the point made by Helmsing that local markets must take into account all external markets because these will impact on them. For this reason, LED needs to be a much more inclusive process, involving multiple stakeholders at different levels.

Bartik (2003: 1, 2) argues that LED is the capacity of the local economy to create wealth for the people in the locality and that this is only possible if the available labour and resources are used more productively. He notes that LED affects all functions of government and, in reality, LED policy only refers to special activities that are implemented by either public or private groups in order to promote economic development. For Bartik (2003: 3), the most common barriers to LED are limited availability of land, lack of skilled labour, high land costs, lack of capital and funding, opposition by locals, a limited number of major employers and traffic congestion. He finds that for LED policies to impact on job creation they need to support existing or new businesses to add to the local economy’s “export-base” or to substitute for local “imports”.

Policies that only support the expansion of businesses whose sales do not impact on either cannot lead to increased job creation as these new sales would come from reduction of sales from other local businesses (Bartik, 2003: 5). The additional view offered by Bartik on the type of businesses to promote and support, offers a more economically viable and sustainable

means of identifying small enterprises to support. This level of expertise and economic analysis is often lacking in LED planning. Fiedeldei (2004: 2) states that LED is aimed at stimulating the growth of the local economy by making better use of local resources in order to create more jobs and promote new businesses. Its activities include those that help markets work better and it also provides a platform where supply and demand are matched.

The Department of Provincial and Local Government (DPLG, 2006a: 9-10) adopted the view that LED is about using local resources and energy to “build up local economic growth and development”. Its success lies in its ability to create a platform and an environment for the coordination of inputs of various local players in order to achieve outputs that can benefit the entire community (DPLG, 2006a: 9). In its LED Framework, the DPLG (2006a: 7) states that LED is “an outcome of actions and interventions resulting from local good governance and the constant improvement and integration of national priorities and programs in local spaces”. It notes that the roles of local municipalities in developing local economies should be directed towards the “provision of infrastructure and quality and reliable services, managing spatial policies, land-use regulation and development applications, managing service tariff policies, managing a progressive property tax system and marketing the territory” (DPLG, 2006a: 19). The DPLG’s definition of LED here looks beyond the role-players, goals and objectives to the outcome of the various inputs and processes. It correctly states that Local Economic Development is achieved through those processes that link the local stakeholder and the locality within which they operate, taking into account its environment, people and resources.

In contrast to the development approach adopted by the previous writers and organizations noted above, Meyer-Stamer supports a more radical market oriented approach, arguing that “LED is about business and competitiveness” and that it is only justified in so far as it “remedies market failure”. He states that these local initiatives that are supported through LED strategies should help make markets work better rather than distort markets. In his view, the aim of LED is to assist businesses with problems such as barriers to entry, lack of information and high transaction costs. In this way, LED strategies assist in the creation of a favourable business environment. LED should not be about running businesses which should be the role of the entrepreneur, but should focus on reducing the risks associated with running a business. Meyer-Stamer (2006) also points out that LED is an on-going and long-term activity that will involve various types of projects, activities, and different stakeholders at various stages of implementation. This is a very narrow view of LED that is lacking in

several respects. However, the emphasis that he places on support to businesses and market challenges is often lacking in LED developmental approaches. With most development plans and approaches, the emphasis is often on the number of new enterprises created, and not really on sustaining, growing or developing these new or existing enterprises.

Notwithstanding the number of LED approaches, there are no clear guidelines that can describe the complexity of the relationships of LED (Rogerson, 2010: 469). For the purposes of this paper, the writer has adopted an LED approach that has a developmental approach, as opposed to Meyer-Stamer's purely market-oriented view of LED. Going beyond the outcomes based definition of LED, a successful model of LED will look at all the various elements that could impact on economic development within a locality. According to Rogerson (2010), LED should seek to achieve economic, social and ecological sustainability, something that is lacking in most of the views above. Elements of an LED model should therefore be multi-stakeholder and should include stakeholders from within the economic, social and ecological spheres to ensure that sustainability of all three is maintained as they are inter-dependent.

It should recognize that a local market cannot function independently of external markets and therefore should include stakeholders at different levels and it should be multi-sector (private, public and community). Finally, the objective of LED should be clearly defined, i.e. to improve the economic potential within a locality by creating jobs, increasing wealth and improving competitiveness. One final point to conclude with is to recognise that LED is an on-going and long term activity that will involve different stakeholders as the various LED initiatives are rolled out. In order to achieve LED, there are various LED activities which are discussed next.

3.2.2 Types of LED activities

In recent years, the growing academic interest, sharing of knowledge and experiences and the increase in the promotion and support by national government has ensured that LED activities are more homogeneously defined in South Africa. Helmsing (2003: 69, 70) identifies three main categories of LED initiatives. First, he describes LED as community economic development that will "facilitate household diversification of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability". Second, LED is listed as enterprise development. However, he sees survival-based micro enterprises as

forming part of community economic development. The third LED category is that of locality development which “refers to overall planning and management of economic and physical development of an area”. Meyer-Stamer (2006: 7) identifies a fourth type of LED activity, namely the promotion and facilitation of business networking, which includes informal meetings, mentorship schemes and cluster initiatives. These four different activities are presented in Figure 3.

Figure 3: Categories of LED Initiatives



Source: Adapted from Helmsing (2003) and Meyer-Stamer (2006)

Bins and Nel (1999: 390) identify LED activities in poorer countries as falling within Helmsing’s first category due to “limited technology, resources and external support”. As a result of its poverty alleviation angle, LED activities in South Africa in the past fell within this category as the intent was mainly to address the immediate needs of poor and marginalised people. These “projects” (e.g. vegetable gardens, brick-making projects) were not intended as sustainable enterprises (Meyer-Stamer, 2006: 10). It could be argued that many of these new enterprises that are supported in South Africa under current LED policies would fall under Helmsing’s category one, as they are small, survivalist enterprises with very little business know-how, limited resources and little chance of success in the absence of continued business development support services. Many are initiated without proper understanding of the local market and also with little appreciation and understanding of the impact regional or national markets may have on their businesses. There is also little

compliance with relevant regulations pertaining to the industry in question that affect its ability to engage regional market opportunities.

Current LED activities in South Africa focus mainly on the promotion, support and development of new enterprises (Meyer-Stamer, 2006: 4). According to the World Bank, the promotion of new enterprises includes the provision of business advice, technical assistance and the provision of information and resources. These are needed to ensure that budding entrepreneurs are assisted to establish themselves as either sole traders, partnerships, co-operatives, or community enterprises (World Bank, not dated: 25). After 2005, the promotion and support to co-operative enterprises were included in IDP plans of local municipalities. The co-operative case studies fall in Helmsing's Category 2 LED activities. Under Helmsing's category two type LED activities one could also include the attraction of companies to the locality. These could be "local companies, external investors and start-up companies" (Meyer-Stamer, 2006: 3). More detail on enterprise promotion and LED in South Africa is discussed in section 3.3 below. The discussion focuses not on all enterprises but focuses specifically on co-operatives.

Locality development (Category 3 LED activities) will include activities to improve the environment for businesses or that will promote private sector development (Rogerson, 2010: 474). These category three initiatives are central to LED as they ensure an environment that is conducive to enterprise creation and development (Meyer-Stamer, 2006: 6). For the World Bank (not dated: 27), these type of initiatives would include the investment in hard infrastructure, or the "built environment" and investment in soft infrastructure, that is geared toward "improving the commercial environment for businesses". Many LED initiatives in recent years have moved from enterprises development to infrastructure investment, such as trading stalls and ablution facilities for informal traders. In some municipalities, the trading stalls have been successful, but in others, these were left vacant after a while.

Three important factors impact the implementation of these LED initiatives. The first is locality, the second financial resources, and the third implementation framework. The first acknowledges that LED activities are located within municipal boundaries, which tie these activities to municipal budgets and mandates. This makes local economies "organically and irrevocably linked to the district, the province, the national economy and indeed the global

economy” (Cohen, 2010: 14). For enterprise development type LED activities, this means that market forces outside the designated LED boundary lines may influence the businesses.

LED furthermore has a pivotal role to play in globalisation by “maximising local potentials”. In order to attract new investors and businesses it is also important for local economies to go beyond its own borders in order to market and sell itself (DPLG 2006b: 10). LED plans should therefore be looked at in relation to national and provincial laws and policies such as telecommunications deregulation, financial regulations, environmental standards, taxation, land and property laws, national government infrastructure investment plans (World Bank, not dated: 8).

Rogerson (2010: 465) states that the trend towards decentralisation of resources is one of the reasons why LED planning has now become a part of international development planning. In the past, LED projects were dependent on government funding which made them dependent on prevailing policies and the availability of financial resources (Nel & Humphreys, 1999: 4). This affected the sustainability and ownerships of such development projects, especially in the case of community economic development LED activities. For this reason, the success of LED initiatives at local level depends to a large extent on extensive consultative processes that incorporate the interests of local players (SALGA, 2012: 3). For this reason, it is critical to secure the buy-in of relevant local stakeholders at all levels of LED activities to ensure that proper planning and budgeting precedes implementation. Funding is linked closely to ownership of these LED initiatives, but the ownership is disassociated from the interest groups who are to benefit from the LED activity, so when the funding dries up, the people who benefit from the activity are left stranded.

Internal organizational policies have often hampered development progress because organizations are reluctant to fund initiatives jointly and seek rather to fund their own independently so that they can get the credit for the work done. In addition, many LED initiatives have failed to succeed when partner organizations have failed to implement the segments of the initiatives that required their support. Some of the challenges were lack of buy-in at higher levels within the organization, lack of capacity, resources and change in appointed representatives on the LED fora.

This problem with funding has led to the application of various funding mechanism for LED in South Africa. Joint ownership or implementation between local government and development partners has proven to address the problem to some extent, but once the development partners leave, local municipalities fail to take ownership of the projects. Transferring of funds for LED to local development fora to ensure implementation has also not proven successful and have had their own share of problems. Local Economic Development Agencies were also established in the past, but without sustained external support and continuous internal capacity building, this model too was unsuccessful in South Africa.

LED practices in the past were project focussed, that was largely managed by local LED practitioners in local government. Some of the challenges of this project-centred approach were the lack of knowledge and local capacities that ensured the dismal success rates of these projects. Buy-in from local role-players and beneficiaries were also difficult to secure as these projects were often considered as government projects and the LED practitioners as the people responsible for the implementation of the projects. Sustainability was also clearly not a factor that could have been ensured in the project based approach to development. In smaller centres, LED still tends to be project-based, while those in larger centres are increasingly focussed on creating appropriate institutional market enabling frameworks (Cohen, 2010: 3). "Notwithstanding the move to a different approach to LED, it is noted that the reality on the ground has changed very little" (Cohen, 2010: 3). As noted earlier in this paper, LED is an on-going and long-term activity and planning should be done accordingly. Sustained efforts to promote LED initiatives impact on long term poverty alleviation efforts and community development. This is discussed in more detail in section 3.2.3 hereafter.

3.2.3 LED, poverty alleviation and community development.

The discussion on LED should, of necessity, include a discussion on LED and poverty alleviation and community development. Patterson (2008: 7, 8) notes that the LED Guidelines to Institutional Arrangements (2000) and South Africa's Draft LED Policy adopted a more community-orientated approach, thereby putting emphasis on a pro-poor orientation which sought to benefit previously disadvantaged people and marginalized towns and regions. In support of its poverty alleviations strategy, the DPLG established a LED Fund that was available for municipalities to support poverty alleviation and job creation efforts (Patterson, 2008: 8). The DPLG (2006b: 1) acknowledged that there was a growing agreement that LED

elements should include initiatives to address poverty alleviation. It also stated that there was a general belief that LED and other initiatives that are designed to promote job creation and improve business confidence will necessarily have an effect on the levels of poverty (DPLG, 2006b: 8).

Where the focus is on community projects, it becomes reasonable for the distinction between LED and poverty alleviation to become blurred. In fact, Patterson (2008: 40) argues that local authorities seem to confuse poverty alleviation with economic development. Project-type LED initiatives of the past focussed on projects that addressed the economic needs of the poorer section of the population. These initiatives were not focussed on the creation of sustainable businesses but served as a means of channelling additional government support to people in need. As Meyer-Stamer (2006: 10-11) states, these “poverty alleviation projects” were “supposed to stimulate self-help.”

Meyer-Stamer (not dated: 1) argues that LED is not community development. He states that “community development is about solidarity and self-help groups, mutual assistance and voluntary work to help the disadvantaged and solve health, education, housing and other problems”. He notes that this confusion between community development and LED is one of the reasons LED initiatives suffer in developing countries (Meyer-Stamer 2003: 5-6). However, some analysts view LED and community economic development as interconnected. For example, Bins and Nel (1999: 393) supports the view held by Helmsing that LED includes community economic development. In this instance, LED is dependent on community-based initiatives that use indigenous skills and whose aim is mainly to support survivalist activities and not necessarily to engage on a global level. Further details on LED practices in South Africa are detailed below.

3.3 LED practices in SA

In South Africa, unlike in other countries, LED is a statutory obligation of local governments (Meyer-Stamer, 2006: 2). LED development in South Africa has been guided by a host of policy documents such as: The Constitution (1996), The White Paper on Local Government (1998), The Municipal Systems Act (2000), The LED Guidelines to Institutional Arrangements (2000), Refocusing Development on the Poor: LED Policy Paper (2001), The Draft LED Policy (2002), The National Spatial Development Perspective, The Policy Guidelines for Implementing LED in South Africa (2005), The National Framework for LED

in South Africa (2006) and The Integrated Sustainable Rural Development Strategy and Urban Renewal Strategy (Cohen, 2010: 5,6).

The concept of “developmental local government” was introduced in the White Paper on Local Government for 1998 (White Paper) (DPLG, 2006a: 9). This shift in policy arose as the market-led approach was failing large numbers of the population as the “trickle-down” approach of development was not materialising the expected benefits. This policy approach ensured a more interventionist approach by government to support economic development at all levels (DPLG, 2006a: 16). The White Paper defines developmental local government as “Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives”.

Prior to the adoption of the Policy Guidelines for implementing LED in South Africa (2005), municipalities had a much more hands-on approach to LED activities. LED was seen as an activity to promote local economies, specifically through the identification and direct support to community driven projects. In many municipalities, this approach is still evident in the Integrated Development Plans (IDP) and LED plans. This “community and pro-poor orientated approach to LED” was geared to support initiatives at local level that promoted jobs and which were able to respond to the impact that national and global economies had on local economies (Patterson, 2008: 7, 8). This approach required long-term government support and funding. However, government officials, often the drivers of these projects, lacked the capacity to manage these projects on a long-term basis and community members were often incapable of working together to manage these projects on their own. The management of these projects also required skilled people that municipalities were short of, with the result that once a project faced difficulties, it was often dropped and replaced by a new project.

With the adoption of the DPLG’s National Framework for LED (NFLLED) in 2006 there was a move away from a dependency on government to provide jobs directly through these LED activities. Under the NFLLED, government’s role became that of a mediator to secure the “economic and social conditions” that could lead to employment opportunities. Government’s role is to create a platform for stakeholder engagement in the process of identifying and implementing strategies and programmes to support local economic

development and to create “an environment for investment through the provision of infrastructure and quality services” (Patterson, 2008: 8). The NFLED aims to support the development of sustainable local economies through integrated government action (DPLG, 2006: 3). The framework promotes a strategic approach to the development of local economies and a shift away from narrow municipal interests focussed only on government inputs into ad hoc projects (DPLG, 2006: 3).

LED activities in South Africa have a strong spatial focus. The LED Guidelines to Institutional Arrangements (2000) identify the boundaries of metropolitan and district municipalities as the territorial limits for local economies for two reasons. The first is that they contain within them the “critical mass of economic activity” that can ensure the creation of viable economies and second, that state and economic activities are likely to come together within a municipal area (Hindson & Vicente, 2005: 11). This approach assumes that the economy within any given municipality operates in isolation and that the role of LED is to develop these (Cohen, 2010: 14). This approach does not take into account the reality of the location of the municipalities within the district and regional context and the interaction of enterprises beyond these defined spatial borders. It also fails to recognize the impact of external markets on the local markets and the fact that the viability of some local economic initiatives could expand beyond local boundaries.

Poorer municipalities, for example, that lack the necessary natural, financial and human resources to successfully initiate and sustain viable LED activities, may find it difficult to develop LED initiatives that can make a meaningful contribution to the local economy. They would be incapable of supporting economic growth through exporting goods, due to a lack of resources. Import substitution of locally produced goods and services will also be affected by the inability of the local businesses to generate the necessary economies of scale so they can compete with established businesses and encouraging people to buy locally produced goods may also be difficult (Nel & Humphreys, 1999: 10).

In reality, there are very few self-contained local economies. Economic value chains bridge municipal boundary lines and offer businesses marketing and business opportunities and allow them to compete, not only with other local businesses, but also with businesses along the value chain (Cohen, 2010: 13). Linkage with these value chains allows businesses that would otherwise not be able to sustain their operations at local level to engage with

businesses on the value-chain that are outside their localities. These value chains are best managed at higher levels (district/regional levels) through integrated regional development approaches. Stand-alone approaches, i.e. LED confined to municipal boundaries (especially in the case of poorer areas), are prone to lead to the promotion and support of isolated small business activities that may not be able to succeed in the changing market economy in the long term.

The NFLED states that municipalities should focus on the “provision of infrastructure and quality and reliable services, managing spatial policies, land-use regulation and development applications, managing service tariff policies, managing a progressive property tax system and marketing the territory” (DPLG, 2006: 19), although government should also be clear on what LED can realistically achieve (Nel & Humphreys, 1999: 10).

In South Africa, the key driver of LED is the local municipality, although this does not mean that the municipality should be the gate-keeper to initiatives launched by the local partners. The role of municipalities in each case may vary from a hands-on to a more minimalist approach. Municipalities differ in their approaches to LED, but in general, a municipality may act as a co-ordinating body. However, Nel and Humphreys (1999: 9) point out that even though the mandate to promote LED lies with local authorities, they lack the necessary capacities and resources to carry out this mandate. This lack of internal capacity is a serious gap when it comes to supporting entrepreneurship and creating jobs in the informal economy, and through micro-enterprises (DPLG, 2006b: 6). In addition, the municipalities also lack human resources to manage and implement their LED plans. Too often, every new development initiative which does not have a “home” or designated person is assigned to LED. This leads to LED offices managing a diverse range of projects under the auspices of LED, further exacerbating the capacity constraints within LED offices.

LED programmes and activities are often coordinated through LED fora, Section 21 companies, community development trusts or partnership agreements. The success of LED initiatives depends on its ability to coordinate the inputs of the various stakeholders. It is important to ensure that these LED structures are all inclusive and represent all the relevant interest groups. These fora may also include stakeholders within the informal economy, survivalist enterprises, community projects, private companies, social enterprises and co-operatives (DPLG, 2006: 7 & 9). However, the size of these structures can impact on the

functional operation of the forum and the achievement of its objectives. In many instances, these structures have proven to be a hindrance rather than a facilitator of LED activities.

Proper coordination, reporting and meeting procedures should be in place to ensure that participants see the value in their participation that will ensure their continuous support of the process. As drivers of the process, municipalities need to ensure that they respect the participation of all members and that all participants have the necessary decision-making power in these structures. Lack of decision-making power reduces the effectiveness of the structure and may eventually lead to participants withdrawing from the process. Stakeholder engagement should also be a dynamic process that allows for different stakeholders to participate in LED activities at various stages of implementation.

The final point on the implementation of LED in South Africa relates to the funding of LED activities. The World Bank (not dated: 22) notes that an LED strategy should have a budget. Patterson (2008: 11) states that in general LED activities are not provided with the necessary funding and often needs to secure funding from charitable donations and public funds. Funding is often sourced from local and international non-governmental organizations and donors. Another way to ensure proper funding of LED activities is to manage the coordination of development programmes and projects that target small business development in a particular area. Development partner organizations, seeking to work with the municipalities to support LED, may be encouraged to provide complimentary activities for a particular LED activity and, in so doing, ensure that all elements of the LED activity is provided with the necessary technical support.

In the next section, the research moves beyond the general theories and practices of LED and LED initiatives in South Africa and delves into more detail into one specific initiative, namely enterprise development, with a specific focus on co-operative development and its role in LED.

3.4 LED and co-operatives

Co-operative enterprises form part of the social and solidarity economies. There are competing definitions of the social economy. According to Kawano (2013) it forms part of the third system of the economy, the first being the private/profit-oriented system and the second the public/planned system. This third system is driven by the values of self-help and

mutual aid and has a social purpose. The enterprises that fall within this system are collectively organized and have social aims as opposed to being profit driven (Kawano, 2013). The “solidarity economy is a voluntary process organised through collective struggle and conscious choice to establish a new pattern of democratic production, consumption and living that promotes the realisation of human needs and ecological justice” (Copac, 2011: 5).

The solidarity economy is about basing economic activity on the values of “solidarity, participation, cooperation and reciprocity” (Cborowaik, not dated), in contrast to the capitalist practices of competition for self-gain. Its aim is to change the social and economic systems from the capitalist systems to a system that puts people and the environment first. It spans across the first, second and third systems in the economy (Kawano, 2013). The social and solidarity economies, both bottom-up development approaches, offer an alternative solution to the capitalist mode of production and consumption that drives many economies and that have failed to address the growing development challenges that they are faced with (Kawano, 2013). Co-operative enterprises form part of the social and solidarity economies. There are competing definitions of the social economy. According to Kawano (2013) it forms part of the third system of the economy, the first being the private/profit-oriented system and the second the public/planned system. This third system is driven by the values of self-help and mutual aid and has a social purpose. The enterprises that fall within this system are collectively organized and have social aims as opposed to being profit driven (Kawano, 2013). The “solidarity economy is a voluntary process organised through collective struggle and conscious choice to establish a new pattern of democratic production, consumption and living that promotes the realisation of human needs and ecological justice” (Copac, 2011: 5).

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Within the context of LED, enterprise promotion and support has the potential to improve the local economy by creating jobs and increasing wealth. The World Bank, in its report on LED, notes that growth in the local economy is supported mainly by existing small-and medium-sized businesses (World Bank, not dated: 23). This includes co-operative enterprises. The decision to co-operate is often based on an imperative to find a solution to a given need. Through co-operating to address economic and social needs, people and businesses are able to pool limited resources to create the necessary economies of scale to participate in the local economy.

Co-operating also opens up new market opportunities for members by providing an opportunity to engage at higher economic levels within a given market; it promotes indigenous knowledge and skills, empowers members economically and socially, lowers financial risks, transfers skills, and promotes business innovation, and may lower transaction costs (Göler von Ravensburg, 20: 38). An added advantage to co-operatives that are established at local level is that, as all members are normally located in the same area, they are in most cases equally affected by changes in the economic, social and environmental environment. As they are affected by these changes, they share common needs and aspirations that can be met through the jointly owned enterprise.

In the NFLED, government recognises the role that co-operatives have to play in LED. SALGA (2011, 1) notes that the focus of LED should be to develop co-operatives as they have the potential to improve buying power and provide a means of collective marketing. For this reason, municipalities should include co-operative support in their LED strategies. Many municipalities have specific programmes to support co-operative development. The City of Tshwane's (CoT), support programmes to co-operatives is provided in its Integrated Development Plan (IDP). The IDP makes specific reference to skills development and support to co-operatives, support to agricultural co-operatives and the provision of export assistance. Through these initiatives, the CoT plans to support the creation of 50 new jobs, and to provide support to 3000 co-operatives members. This "support" is however not clearly defined and may not even have any meaningful effect on the co-operative enterprises. According to the representative from the CoT who was interviewed, this support could include participation in general information workshops that the municipality may organize.

The government has created many different support interventions for co-operatives, such as the availability of procurement opportunities. The importance of this specific example is that these huge government tenders/contracts were in the past often outsourced to big companies that had the resources and manpower to deliver on them. Co-operatives offer an alternative to these big companies and, in turn also ensure that a larger number of people benefit from the outsourcing opportunities that are available from government. Sisiziwe is one of the many co-operatives that secured a procurement contract through government. In this way, the co-operative was able to provide new job opportunities for 11 (5 are seasonal jobs) people.

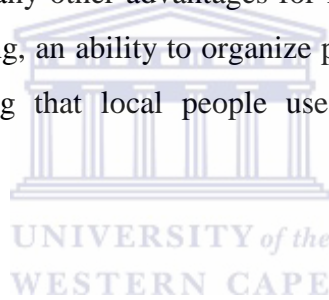
Some analysts could argue that this distorts the market or creates a protected market for these enterprises. This may be the case, but until these emerging enterprises are independent, they will require this level of support to grow and develop. Over time, with the development of skills and internal competencies to engage competitively on the free market, these enterprises will be able to stand independently of this support. However, like all other small businesses, co-operatives need to be provided with the necessary business and market linkage support that will enable them to operate in the market successfully and this is being provided through the preferential procurement opportunities that are being provided.

Through co-operation with other co-operatives at secondary levels, co-operative business networks are established that have the opportunity to greatly increase the economic potential of the individual enterprises. The advantage of co-operatives to other entities in the context of LED is that the entities are group enterprises made up of people or businesses that would have a closer tie to the community than other business forms that are owned or managed by individuals. In addition, these enterprises are not motivated by profit, but by the needs of the individual members, so the chance of the entity relocating outside a locality where the majority of the members are located at any given time is less likely. These entities have both an economic dimension (promoting the economic interests of its members) and a social dimension (the sociological factors relating to the group formation and group dynamics) (Münkner, 2005: 62).

Globally co-operatives offer jobs to more than 1 billion people. Co-operatives are not profit driven but are driven by the needs of the collective, so whenever a co-operative experiences challenges that could affect jobs or income, members find solutions for the group to ensure that everyone is treated fairly. For this reason, they are more likely to forego any economic

advantage gained to ensure that a member's basic needs are met. For example, during the current global financial and economic, the Mondragon Co-operative Corporation has lost very few jobs and has maintained a workforce of 84 000 people in its network of 111 co-operatives. The organization is more flexible than most other enterprises, and when times are hard, the members decide how best to weather hard economic times, such as cutting wages and dividends instead of jobs (Tremlett, 2013). Whereas most companies cut jobs to weather the crisis, the MCC cuts salaries and if one of the co-operatives has an over-supply of labour, members are transferred to other co-operatives within the group, so as member/owner driven vehicles co-operatives enterprise have the opportunity to secure jobs much more than for-profit driven business models. In the case studies, 17 (5 seasonal) new jobs were created by the co-operatives in the study area and these new jobs ensure an increase in local buying powers that had a resultant impact on local businesses in CoT.

The co-operative business has many other advantages for LED that include respect for local cultures, values and ways of living, an ability to organize people and encourage participation in decision-making and ensuring that local people use local resources more optimally (Saxena, 2012: 3).



3.5 Conclusion

LED is a multi-stakeholder, multi-sector and multi-level process that desires to grow a local economy using local resources for the benefit of local people. There are four recognized categories within which LED activities fall and the one of most interest to this discussion is enterprise development, as most local growth is dependent on small and medium enterprises. However, the implementation of these types of activities results in a linkage to the other LED type activities. Co-operatives are enterprises that have proven that they can reduce poverty, provide jobs and make a meaningful contribution to local economies, if successfully managed. Their nature integrates them more securely into localities and the communities in which they operate. They offer a meaningful way to get economically active people to participate in the local economy.

The development of the co-operative movement in South Africa over the last 8 years has seen many new changes that have led to a rapid growth in the number of co-operatives. However, notwithstanding the establishment of a conducive environment for co-operative development, the movement has been struggling. Realistically, many of the co-operatives that exist are

survivalist enterprises who make a very limited contribution to the country's GDP. Notwithstanding this, they offer new job opportunities, alleviate poverty and increase the wealth of the members. These contributions may be small at present but they should not be ignored as they make an impact on the lives of their members who were previously unemployed. These members now have local purchasing powers that impact on local businesses in the area.



CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

The chapter outlines the research design and methodology that was adopted in carrying out the research process. The objective of the research process was to determine whether co-operatives can promote local economic development in the Tshwane Local Municipality. The research was designed in order to ensure that the data collected was able to provide information that could address the research question through the use of various research tools and methods. The chapter also notes the limitations of the research process and provides information on the ethical considerations that guided the research process.

4.2 Research Design

Research design is the strategy that is adopted to ensure that the various components of the study are brought together in order to ensure that the research problem is addressed (USC, not dated). The key objective of the research design process is to avoid a situation where the evidence collected is not able to address the research question (Sage Publications, not dated a: 27). It includes the identification and selection of data sources, the use of measuring instruments for design, construction and piloting, gathering of data, data documentation, data capturing and editing and, data analysis and interpretation (Mouton, 2009). A researcher may adopt either a quantitative or qualitative research design or a mixture of the two but whichever method is adopted the data is collected using particular tools and processes where each has its own strengths and weaknesses (Mays and Pope, 1995: 109). For the purposes of this study a qualitative multiple case study design was adopted.

This design was chosen as an in-depth exploration was necessary to understand the perceptions of the people in the case study and how that informs their decisions. A case study is a detailed study of a problem that is in contrast to large-scale statistical surveys (USC, not dated a). A body of research may focus on a single case or may include two or more cases. Including more than one case allows comparisons to be made, theories to be developed and generalizations to be proposed (Leedy, 2010: 137). The depth or quality of information that was needed necessitated the use of a small data pool to ensure that the research was not hampered by time or financial constraints. In this instance three case studies were Rossdav Manufacturing Co-operative, Sizameni Construction Production Primary Co-operative and Sisiziwe Skills Development Co-operative were chosen as the three case studies.

4.3 Research methodology

Research methodology describes how the researcher goes about answering the research problem and looks beyond the methods or techniques used to the logic behind them. The researcher discusses why the various methods or techniques were chosen instead of others to provide information on how the research process unfolded for future reference purposes (Limat, not dated: 8). The methods and techniques used and discussed below includes the sampling methods, desktop reviews of existing policy documents, questionnaires and semi-structured interviews.

4.3.1 Qualitative research

Qualitative research design is focused on “how people feel, what they think and why they make certain choices” (British Library, not dated). The objective in conducting qualitative research is to understand reasons and motivations, to understand the context within which a problem occurs and to learn about current “trends in thought and opinion” (Snapsurvey, not dated). Smaller pools of respondents are identified from which to gather the information than that used in quantitative research design. The research is concerned more with the quality/depth of the information than the quantity (Oatey, not dated). Qualitative research is criticised for being “an assembly of [anecdotal] and personal impressions, strongly subject to researcher bias” and it is therefore difficult to reproduce the results as the research is so personal to the researcher (Mays and Pope, 1995: 109).

Qualitative research design is also used in cases where a small number of examples can be used to effectively research a particular matter (USC, not dated a). Mouton (2009) proposes that qualitative research designs are used typically for case studies of companies or organizations where the number of cases is fewer than 50. This research design is also used where in-depth descriptions are needed and where exploratory or descriptive questions to address research studies are preferred as was the case in this research.

4.3.2 Quantitative research

Quantitative research is an approach led by the gathering of large amounts of data to measure views and perceptions from a statistical and numerical perspective (British Library, not dated). This research design seeks to quantify data taken from a sample and generalise the result to a population. The data is collected from a large group in which people are randomly selected (Snapsurvey, not dated). The tools used in quantitative research design include

closed questionnaires, surveys (British Library, not dated) and polls. The data collected are in the form of numbers and statistics (USC, not dated b). The aim is to quantify and collate the data collected into statistical models in order to explain what has been observed through the study (USC, not dated b).

One of the disadvantages of quantitative research design is the rigidity of the data gathering process, which makes it an inappropriate strategy to use where contextual interpretation impacts on the analysis of data gathered. As the information is gathered through pre-set answers determined by the researcher, it cannot provide information on the respondents “behaviours, attitudes and motivations” (USC, not dated b). The research is also often not carried out in the real world but in an artificial setting to ensure that there is a measure of control over the research process (USC, not dated b).

4.4 Sampling method

Sampling is the process of selecting samples for the research study (Leedy & Ormrod, 2010: 146). Purposive sampling explains the technique used to identify interviewees or people who are familiar with the subject matter and who are also willing to participate and to share their knowledge (Tongco, 2007:147). The bias contained within purposive sampling adds to its efficiency, and use of this sampling method also ensures, to some degree, the quality of the data (Tongco, 2007: 147). The non-probability/purposive sampling technique was adopted to ensure that co-operatives that can assist in addressing the research question are selected. For the purposes of this study, it was necessary to select a sample that lived in circumstances relevant to the phenomenon being studied (May and Pope, 1995: 110). The purposive sampling selection process was applied as the group needed to be identified according to the specific purpose of the research and on the most value that they can add to the research. By using this method there is no guarantee that each segment of the population will be represented in the sample (Leedy & Ormrod, 2010). This sampling technique is also useful where the sample group consists of the same characteristics as was the case in this research.

The co-operative case studies were selected because they could assist in the exploration of a pattern of behaviour that could assist in answering the research problem (May and Pope, 1995). They are all three located in the City of Tshwane (CoT) and have been operational for at least one year. They were selected based on their location within the CoT, as the aim was to investigate the impact of co-operatives on LED in CoT, their operational status and

willingness to participate in the study. The fact that they are all in the same sector, namely manufacturing, was not a determining factor in the selection process. The co-operatives were selected from a database provided by the Department of Trade and Industry. Due to the small number of members in each co-operative, the intent was to include all co-operative members in the study sample. However, some members declined to participate in the study.

For the purposes of this study, the selection of the eight interviewees was based on their participation and experience in co-operative development and promotion, and also their involvement in LED activities. The researcher is familiar with the key organizations involved in co-operative development and promotion and was able to identify relevant people within these organizations and to secure their participation in the research study. The interviewees include representatives from the Department of Trade and Industry (DTI), specifically the Co-operative Development Unit, the Companies and Intellectual Property Commission (CIPC), the German Co-operative and Raiffeisen Confederation (DGRV), the Co-operative and Policy Alternative Center (COPAC) and the City of Tshwane (CoT) metropolitan municipality, specifically the LED Unit. In addition to the organizations listed above, the managers of the three co-operatives were also included in the list of people to be interviewed as they were able to provide the necessary additional background information on the co-operative case studies.

4.5 Sample size

A sample of three co-operatives was chosen to ensure that a pool of respondents was available from whom sufficient information could be collected and verified in order to answer the research question. Having more than one co-operative allowed for comparisons to be made across the three that also added to the veracity of the findings of the research question. Co-operative activities span a wide spectrum and due to the small number of case studies, it was necessary that they be similar in nature, namely workers co-operatives, in order to ensure that any generalisation drawn would be considered probable.

As stated in 4.4 above a total of eight interviewees were selected from within the co-operative stakeholder organizations listed above and the three co-operative case studies. The organizations were chosen based on the role they play in the co-operative and LED landscape that is relevant to the study. The selection of interviewees from the various organizations was based on the wealth of experience and knowledge they have in the co-operative or LED fields

and their willingness to participate in the study. The process by which data was collected from the study samples is explained below.

4.6 Data sources

Both primary and secondary data sources were used in the study. Primary data was generated through questionnaires and in-depth interviews. Secondary data sources included policy documents and government development plans that were sourced.

4.6.1 Questionnaires

A questionnaire is a tool that is used in the collection of data in research studies and is more often associated with quantitative research studies (Kirklees Council, not dated: 1). It is however a common way of collecting qualitative data (Quality in Study Support, not date: 1). It was used in this study as a means of gathering sensitive data from a larger pool of people within the three case studies instead of using focus groups or more time-consuming interviews. The usefulness and efficacy of a questionnaire relies on its design. It is important therefore that those questionnaires that serve as primary data sources are well planned, worded and structured to ensure that the respondents can clearly comprehend what information is required from them. It is important also that the purpose of the questionnaire is related to the objectives of the study (Kirklees Council, not dated: 1). Questionnaires may contain either open or closed questions where the former allows the respondent to provide more detailed information that is needed in the case of in-depth investigations into a problem or question. In the case of closed questions respondents are required to select from pre-set answers that have been identified by the researcher. Open questionnaires are usually more appropriate in the case of qualitative research where the respondents opinions and perceptions are sought, whereas structured or closed questionnaires are more often used in the case of quantitative research (Kirklees Council, not dated: 1).

Questionnaires are a practical and cost efficient data gathering tool and they can be carried out by people other than the researcher without affecting the validity of the information and the results can be easily quantified and analysed (Libweb, not dated). Mays and Pope (1995: 109) state that it is also difficult in the research process to ensure that the “questions, categories and language” is understood by all respondents in the same way. In designing a questionnaire the researcher brings in his or her own perceptions of what is important within a given context and may neglect to include more relevant information (Libweb, not dated).

In order to ensure that the tool is effective it becomes important to pilot/test the questionnaire. Piloting the questionnaire will ensure that the respondents clearly understand the questionnaire, errors are removed, routing errors are addressed and also assists the researcher in estimating the time required for the completion of each questionnaire (Kirklees Council, not dated: 5). Piloting a questionnaire is also useful to ensure that ambiguous questions are avoided and to ensure that questions that do not provide the required responses are revised (Van Teijlingen and Hulley, 2002). In the study a draft questionnaire was prepared and piloted with a representative from one of the case studies. After piloting the questionnaire some revisions were made that included editing of questions to make it simpler and the questionnaire was divided into two parts for the different respondents. The questions were grouped according to more appropriate sub-groups that were informed by the research questions. Two different questionnaires were finally designed, namely questionnaire (Part I) and questionnaire (Part II). Please see Annexures A and B for the questionnaires used.

Part I was geared towards gathering general information on the enterprise, that included its incorporation details and information on its economic activity; information on the members/employees since the date of incorporation; information on the governance aspects of the co-operative and information on the business environment. The design was based on information gathered from a study conducted by the United States Overseas Co-operative Development Council (US OCDC) (Mellor, 2009). This questionnaire was submitted to the co-operative managers who had access to the necessary information. All three managers from the three co-operatives provided information for Part 1. As this information required some research into their records, they completed these independently and submitted these to the researcher at a later date.

Part II was designed to gather information from co-operative members. The information sought, related to their membership (position and duration), the reasons why they joined the co-operative and any expectations they held, their participation in the co-operative (financial, economic and social), the benefits of membership and their participation in the local economy. The questions were kept as simple as possible to ensure that information could be easily sourced and supplied. In addition, use was made of “yes/no” type answers which could solicit responses more easily than explanatory-type questions. In total 20 members from all three co-operatives participated in the study. Collection of this data followed two processes that were informed by the managers of the co-operatives. In the first, the researcher and an

interpreter took the respondents through the questionnaire, clarifying any areas of uncertainty and to interpret the questionnaire in a preferred language where needed and in the second instance co-operators completed the questionnaires independently.

All respondents were informed at the start and end of each process (verbally and via the letter of consent to participate in the study) that their privacy would be protected. In the case where members were taken through the questionnaire, the researcher explained how their anonymity was to be secured. In the first instance all questionnaires were provided in unsealed envelopes which the respondents could then seal once they had completed the questionnaire, secondly that their names were written on a separate sheet of paper that was later to be removed from the completed questionnaires by the researcher, thirdly that each person would be assigned a code that only the researcher was familiar with and finally that the researcher was bound by the ethical standards of the University of the Western Cape in conducting the study. A second method of collecting data for this study was through the facilitation of semi-structured interviews with selected interviewees.

4.6.2 Interviews

According to Frey and Oishi (1995) as cited in Oatey (not dated), an interview is "a purposeful conversation in which one person asks prepared questions (interviewer) and another answers them (respondent)". By using interviews as a data collection tool the researcher is able to guide questions to gather the information that is sought (Oatey, not dated). The success of an interview as a data collection method depends on the communication skills of the interviewer. A skilled interviewer will be skilled at structuring interview questions, will have the ability to listen, and will be able to encourage the interviewee to respond to questions asked (Newton, 2010).

Interviews can be unstructured, these are really observations or structured, similar to a questionnaire (Newton, 2010). The interviews that were used for the purposes of this study are semi-structured. In order to ensure that relevant information was gathered, open-ended interview questions were prepared and responses guided through the interview process (Newton, 2010). Interviews are useful as they help provide an in-depth understanding of the issues under discussion, help the researcher understand the thoughts and perceptions of interviewees and also provide a human element to what is normally impersonal data (Evaluated,

not date). However they can be very time-consuming to carry out, expensive and are more labour intensive as they need to be transcribed (Evaluated, not dated).

Semi-structured interviews were conducted with representatives from the Department of Trade & Industry (DTI), the Companies and Intellectual Property Commission (CIPC), the German Co-operative and Raiffeisen Confederation (DGRV), the Co-operative and Policy Alternative Centre (COPAC), the City of Tshwane (CoT) municipality and the managers of the three co-operatives. In each case only 1 interviewee was chosen per organization.

The DTI Interviewee is a director in the Co-operative Development Unit. The CIPC Interviewee works in the CIPC Corporate Compliance and Disclosure Regulation unit but he worked previously in the office of the Registrar of Co-operatives. The DGRV Interviewee is the co-operative training officer at the DGRV. He has been a member of a co-operative for many years and has a wealth of co-operative experience. The COPAC Interviewee is a co-operative development academic and practitioner and has been heading up COPAC's offices for many years. The CoT Interviewee is the Executive Manager of the Enterprise Development Programme in CoT that includes co-operatives, SMMEs and informal enterprises. He worked previously in the Co-operatives Development Unit in the DTI.

The interviews sought first to establish the Interviewees understanding of LED, as the substance of the interviews related to the role of co-operatives in LED. Information was sourced on the LED programmes that may have been implemented and the availability of secondary data on these programmes. Through the interview the researcher also tried to determine the opinions on the role of co-operatives on job creation, employment generation and poverty reduction. These insights proved invaluable as they are also supported in many cases by written evidence and other case studies. It was also noteworthy to get the Interviewees opinions on the various challenges co-operative experience in their development and promotion and to get an idea of the recommendations they would make to address the challenges co-operatives experience. Semi-structured interviews were also conducted with the managers of each of the three case studies. In this way, the researcher was able to gather additional information and insights from these co-operative managers.

With the exception of the interview that was conducted with the representative from the DGRV, all the interviews were digitally recorded and later transcribed. Due to some

technical problems, part of the interview with the DGRV was not recorded and only captured in writing. The list of questions that guided the interview process is attached as Annexure C. The data that was captured through the questionnaires and the interviews was processed and systematically analysed.

4.7 Qualitative data processing and analysis

Qualitative data analysis is a continuous process that occurs throughout the data gathering process until the point when the research is to be finalised (University of South Alabama, not dated: 1). In the process the researcher seeks to capture the contextual setting of the people who provided the data (Sage Publications, not dated a: 321) and in this way is able to provide a more human element to the research process. There are some key differences between qualitative data analysis and quantitative data analysis. The main difference is the fact that in the case of quantitative data analysis numbers are analysed in contrast to the analysis of text in the case of qualitative data analysis (Sage Publications, not dated a: 321). Quantitative data analysis also focuses mainly on factors that are able of being quantified whereas qualitative analysis focuses on meanings (Sage Publications, not dated a: 324). In the process of qualitative data analysis, data is documented and collected, then organized into concepts, relationships or commonalities are identified, results are corroborated and a final report prepared (Sage Publications, not dated a: 325).

The data that was collected through the interviews was transcribed and coded for ease of analysis. The data that was collected via the questionnaires were captured in an excel spread sheet for easier referencing, analysis and comparisons to be identified across the three case studies through a process of discovery (Sage Publications, not dated a: 322). The data gathered from the case studies were grouped into information clusters that sought to address two of the three objectives of the study, namely to assess the economic and social impact of co-operatives on the livelihoods of the members, and to evaluate the economic impact of the co-operatives on LED in the City of Tshwane.

The information was analysed to identify comparisons across the case studies and to identify common patterns that could assist in answering the research question (Leedy & Ormrod, 2010). The information gathered through the interviews with the interviewees was analysed to identify common experiences and perceptions in the area of co-operative development and support programmes and also the most common recommendations for further development.

4.8 Data verification

A researcher ensures the reliability of the research process by ensuring that the data has been appropriately captured and stored so that the results can be verified later by subsequent researchers (Mays and Pope, 1996: 110). The data can be verified by several means. In the first instance, all the questionnaires that were completed by respondents were completed in their own handwriting and these have been coded and filed for future reference purposes. This information has been captured on Excel spread sheets to assist in the analysis process. The information on the Excel spread sheets can be verified against the hard copies of the questionnaires that have been filed. All digital copies of recorded interviews have been saved and are readily available for subsequent analysis by any independent observers (Mays and Pope, 1995:110). The transcripts that have been made of these can be verified against the original recorded interviews. Within qualitative research design bias of the researcher does play a factor and should be acknowledged.

4.9 Reflexivity

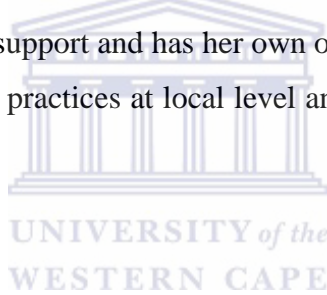
Reflexivity involves an acknowledgement by the researcher of his or her own biases that may impact on the research process (University of South Alabama, not dated: 12). Inherent in this research process was the researchers own awareness that her own beliefs and experiences in the field could impact on the research study. In an effort to minimise this effect every effort was made in the research analysis to ensure that the data captured and analysed would not be compromised by too much of her subjectivity (Reflexivity, 2014). However, the researcher acknowledges that her involvement in the research will have some kind of effect on the research (Anderson, 2014) and that her background and position will affect every aspect of the research (Robert Wood Johnson Foundation, 2014).

4.10 Limitations

One of the limitations of the study is that it was only possible to interview one person from each of the key stakeholder organizations, namely the DTI, CIPC, CoT, DGRV, COPAC and one representative from each of the three co-operatives, namely Rossdav, Sizameni and Sisiziwe, due to time and financial constraints. It would have been beneficial to the study if more views and differing inputs could have been included in the study had the study not been limited by these restrictions. Another key limitations was the reluctance of respondents to provide detailed information where requested. This can in part be attributed to a lack of education that was evident amongst some respondents. An effort was made to assist them in

completing the questionnaires more fully but there was a reluctance to acknowledge their own limitations by seeking such assistance. Some respondents were also reticent about providing financial information. The researcher is aware that there is this general reluctance amongst small business people to discuss the financial status of the businesses. Therefore to avoid this problem, questions were couched in a way that did not require information on actual amounts but simply an indication of percentages of such amounts. However, even this attempt was not able to secure the provision of the information. The information that was supplied was reliant on honesty and the willingness of respondents to provide the information needed. The researcher has no reason to believe that any of the respondents would not have been honest in their responses.

A further limitation is the researcher's own influence throughout the research process, in the drafting of the research problem/question, the preparation of the questionnaires, the interview processes and data analysis process. The researcher has many years of experience in the field of co-operative development and support and has her own opinions on the subject matter. She also has some experience of LED practices at local level and this would have some impact in the research process.



4.11 Ethical statement

Throughout the data capturing process, respondents were informed in writing and verbally that their privacy, anonymity, integrity and confidentiality would be maintained. In respect of the key stakeholders, their permission to quote them in the study was sought and this will be verified before publication of the final research study. All respondents were also advised that this was a voluntary process. Some members declined to participate in the study. Every effort was made to ensure that the research was conducted in accordance with the ethical and professional guidelines as specified in the disciplinary association of the Institute of Social Development of the University of the Western Cape and the intellectual property rights of other authors was respected throughout this research.

4.12 Time frame and location of the study

The study was conducted over a period of 6 months in the City of Tshwane municipality. One respondent was interviewed in Cape Town. The co-operatives were visited at their business premises and follow-up visits were made to conduct the interviews with the managers and to collect the completed forms. After the first interview with a key informant

the researcher decided to interview the remaining respondents outside of their workplaces as this provided more privacy and less interruptions.

4.13 Conclusion

The research process was designed to ensure that information was sourced that could assist the researcher in answering the research question by addressing the following specific objectives: assessing the economic and social impact of co-operatives on the livelihoods of the members, assessing the economic impact of the co-operatives on LED in the City of Tshwane; and finally, to formulate a set of recommendations that could be used to guide the implementation of the National Co-operative Strategy and provide lessons for other co-operatives. A qualitative research design was appropriately used as it allowed in-depth research of the issues and allowed the researcher to gather opinions and perceptions from respondents that are critical to a research of this nature.

The methodology that was followed ensured that the most appropriate methods and techniques were used to aid in ensuring that the data collection, recording and analysis was carried out in a way that was able to assist the researcher in answering the research question. The methodology adopted also ensured that data was recorded and stored correctly and that the research findings could be validated by subsequent researchers. However, the design process has short-comings that are acknowledged and which do not necessarily detract from the validity of the findings. The research process was an informative and learning experience that aided the researcher in addressing the research question. The detailed analysis of the data captured is outlined in Chapter 5.

CHAPTER 5: FINDINGS AND ANALYSIS

5.1 Introduction

The chapter provides an analysis of the empirical data that was collected in the study. As indicated in Chapter 4, a qualitative research strategy was adopted to ensure that detailed information was captured that indicates how the respondents perceive their participation in the co-operative and to determine why they make certain decisions. The data was analysed in order to address the three objectives of the study, namely to assess the economic and social impact of co-operatives on the livelihoods of the members, to assess the economic impact of the co-operatives on LED in the City of Tshwane and to formulate a set of recommendations that could be used to guide the implementation of the National Co-operative Strategy and provide lessons for other co-operatives.

The chapter includes an overview of the study area, its location, key economic activities and sectors and demographic information. Information on the various co-operative development support programmes are provided together with information on the LED programmes in the CoT. The primary data that was collected was organized and categorized as follows: information on membership, benefits of membership, employment, training and capacity building, participation in the co-operative, markets and local purchasing trends. The categorization of that data from the three case studies was done to show connections and similarities or differences that occur across them. Information collected through the in-depth interviews and survey questionnaires will be used to augment the findings and provide information on perceptions of key co-operative development stakeholders in the country.

5.2 Demographic information of CoT

The CoT is one of the three metropolitan municipalities located in Gauteng and one of 6 in SA. Gauteng is the smallest of the nine provinces but has a population of 11.19 million people constituting 22.4% of the country's population. The province has an area of 17 010 km² and it makes a contribution of 33% to the GDP of the country. South Africa's wealth was originally founded on gold and 40% of the world's gold reserves are found in Gauteng province (CoT, 2011: 32). CoT is the largest metropolitan municipality in South Africa, covering an area of 6368 km². CoT is divided into seven planning regions (CoT, 2011: 8). Table 2 below provides demographic information on CoT. The city of Pretoria which is

located within the CoT, is the administrative capital of the Republic and is dominated by government and a diplomatic corps of foreign representatives.

Geographically the CoT is very diverse, including both rural and urban areas in its make-up. Development within the different areas differs significantly with poorer over-populated previously disadvantaged areas alongside large regional open spaces and environmentally sensitive areas.

Table 2: Demographic information for CoT

Total population*	2,9 million
New CoT area – estimated total households	748,179
Estimated total informal households	99,468
Unemployment*	24.2%
No of indigent households (22)	82 100
Poverty levels*	27.86%

Source: CoT, Integrated Development Plan, 2011-2016, pages 17-19

*RSA. Parliament: City of Tshwane General and Regional Overview

The municipality contributes 27% to Gauteng's GDP, with major contributions coming from sectors such as government, social and personal services as well as finance and business services. CoT contributes at least 9.2% to the national economy (City of Tshwane, not dated: 5). In addition, 40% of South Africa's automotive output is produced in the municipality. The municipality also has a strong tourism sector that contributes to job creation and investment (RSA, 2013: 1) but it is driven by a largely service-based economy with government and financial services being the principle sectors (City of Tshwane, not dated: 5). The average annual household income is R182 822 and each working person supports on average 4 people (RSA, 2013: 8). The majority of poor people in CoT live in previously disadvantaged areas (RSA, 2013: 19).

5.3 LED initiatives in CoT

In order to stimulate economic growth, development and transformation the CoT seeks to enhance competitiveness, support job creation, skills development and poverty alleviation. This it will do through the development of SMMEs and co-operatives, the development and promotion of export markets, by attracting and facilitating investments and supporting business retention, by regulating businesses and informal traders and promoting sector

development and economic planning (CoT, not dated: 7). The municipality's strategic approach for LED is based on investment facilitation, entrepreneurship and enterprise development (CoT, not dated: 8). The key job drivers that have been identified include: the development of strategic partnerships, investment in fixed capital, facilitation of foreign direct investment, skills development, the procurement of local goods and service and the by seeking to diversify the local economy (CoT, not dated: 8). In addition to the aforementioned the CoT has identified 9 priority sectors. These are the automotive and components sectors, tourism and tourism-related services, agriculture and agro-processing, the aerospace and manufacturing sector, the knowledge and green economies sectors, business process outsourcing, mining and mining beneficiation sectors (CoT, not dated: 8). The CoT has committed itself to support 3000 SMMEs and 4000 co-operatives over the next 5 years (CoT, not dated, 4).

The CoT Interviewee indicated that most of CoT's LED programmes have been successful. The economic development programmes focus on SMME, co-operatives and informal traders. One of the programmes to support LED has been the incubation programme. He stated that:

When we are talking about the incubation programme, we have established more than 3 incubators in the city, where we accommodated SMMEs that will graduate after a period of 3 years. So from there, because the main important thing is that we maintain their standard of doing business or improve their standard of doing business in terms of providing them with equipment in terms of bringing the new technology, how they can do their best in terms of their work (Interview, 10 September 2013).

He stated further that through the LED programme:

We saw a positive impact in terms of alleviating poverty and then dealing with the issue of unemployment. And then the other issue in terms of dealing with the social impact is to take people from the street or from other illegal activities that is happening in our communities like crime and then other things selling drugs and then everything. But because of these programmes we managed because if you are creating a space for a person maybe to sell his tomatoes, I mean you are taking that person from a difficult situation (Interview, 10 September 2013).

However, he indicated that co-operatives have not yet been benefiting from the incubation programme. Co-operatives were supported mainly through capacity building programmes. The CoT Interviewee noted that the co-operatives in waste management “are doing a wonderful job”. However, when asked whether co-operative development was an important component of the LED programme he stated “it was not, to be honest it was not enough” (Interview, 10 September 2013). According to the COPAC Interviewee, integrating co-operatives into LED should be more than business as usual. From his point of view:

it is really about elaborating an approach to the local that is based on the particularities of the co-operative and associative form. It’s about thinking through the synergies that they have and they bring into local development. It’s about thinking through scale and marrying all of this of course to social need. So I think what I am saying is that if you were to look around the world today to find a co-operative and more broadly mutual and associative approach to local development it will either be a social economy or the solidarity economy (Interview, 5 November 2013).

These comments highlight the need to recognize the difference between the co-operative business model as opposed to other capitalist enterprises and that this should result in a different development approach. Furthermore he also states that co-operatives and other enterprises that form part of the social and solidarity economies, are key drivers of local development in cases where different approaches to development are sought. A co-operative development programme has been aggressively advanced in South Africa by government, the co-operative community and development community over the last 10 years. These developments have culminated in a number of guiding policy documents, support interventions and development programmes to support co-operative development in the country.

5.4 Profile of case studies

5.4.1 Rossdav Manufacturing Co-operative (Rossdav)

Rossdav is a leather goods manufacturing primary co-operative located in business premises provided by the CoT in the city centre. The co-operative designs its own patterns and does the assembly and stitching of the final products. The co-operative produces leather items such as handbags, belts, wallets, file covers, key-holders, shoes, etc. According to the Rossdav Interviewee the products benefit the local community because they are durable, in demand

and affordable as people are able to buy from the manufacturing plant. The co-operative was founded in 2009 during the time of the crisis experienced in the textile industry. The group started out with 5 members who were already skilled business people who decided to co-operate together and set up the co-operative. The co-operative has maintained the same number of members.

The co-operative was capitalised by the member's once-off contribution which was used to purchase the necessary equipment. No annual membership fees are paid. The co-operative received no external funding but have made applications for funding as they would like to expand their business operations. Members also contribute skills and experience to the enterprise. They were provided with technical assistance and marketing assistance by the South African Bureau of Standards (SABS). The co-operative's 5-year plan is to manufacture products for companies such as Woolworths, but this will necessitate establishing co-operation agreements with other co-operatives in the leather manufacturing industry.

The manager of the co-operative has been in the leather manufacturing business for many years and his products are of very high quality. The co-operative produces items that are in many cases of very high quality. The key challenge the co-operative is experiencing is the lack of finance to secure new machines and the inability to break into the market to target retail stores. Moreover, the local custodians of the infrastructure (business premises) are hampering the health of the co-operative as they have neglected to supply signage outside the premises that will give the co-operative more visibility. From the researchers observations the co-operative seems well-established and managed professionally by competent leadership and management.

5.4.2 Sisiziwe Skills Development Co-operative (Sisiziwe)

Sizamani is a primary co-operative that was founded in 2010 by a group of 10 individuals. Some of the members were already engaged in the manufacture of linen products prior to the establishment of the co-operative. According to the Sisiziwe Interviewee the reasons the co-operative was started was "to get income and to help our community. They want some things they must not go to town, they must get everything near" (Interview, 3 September 2013). The co-operative manufactures upholstery, leather handbags, sews cushions and carpets etc., and provides sewing training and cleaning services. The co-operative has been provided with business premises by the CoT in Hammanskraal. The co-operative's premises are visible

from the main road, but the co-operative has not taken advantage of this by ensuring that their signage is up. Members did not make any financial contribution on joining the co-operative. One respondent indicated that “another contribution” was made and a second that some money was paid to the co-operative but to cover the costs of the person who was probably doing the marketing. No annual fees are paid by members.

The co-operative managed to secure a 4 year contract with the Department of Social Development to supply school uniforms. The Sisiziwe Interviewee stated that the 5-year plan is to grow the co-operative and to be in bigger premises. According to her “in the next 4 to 5 years we want to see ourselves in a big factory” (Interview, 3 September, 2013). In order to realise these plans and to secure more work they have already commenced plans to set up a secondary co-operative with 4 other primary co-operatives in the area. She stated further that by co-operating or working together with other co-operatives: “We think maybe that if we apply for the job, they can give us a job because we are together” (Interview, 3 September 2013).

The manager of the co-operative is a skilled seamstress and has provided sewing training for various other organizations and has also trained the other members in the co-operative. However, the co-operative needs some assistance in quality control. However, like any other businesses, they have to contend with competition from other local suppliers. According to the Sisiziwe Interviewee:

The problems and challenges is the Indians and Chinese. When we make curtains, let me give an example. When we make curtains and if you say I want the curtains I give you a price and I ask you a deposit and then the Indians and Chinese, many many many, these people that are coming from outside, they say I got curtains here. I can give you then you can start paying next month, then the customer they leave. It's a big challenge, we lose the customers (Interview, 3 September 2013).

The researcher's observed that this co-operative requires additional assistance to ensure that it manufactures products for which there is a wider market. It manufactures very common products that are readily available at retail outlets at more prices, such as curtains, pillows and linen etc. Quality testing of the products is also something that needs some attention.

5.4.3 Sizameni Construction Production Primary Co-operative (Sizameni)

This co-operative was initiated by two women who were already working in the manufacturing business. As the demand for their products grew they decided to establish a co-operative. According to the Sizameni Interviewee:

We were working in a firm. The owner of the firm said he's no more interested in the work. Which is whereby he gave us the machines. We were sewing where we were working and he then, he just said take these machines. We started little by little, then we saw look we can do it, we can do it. Then when the work become plenty we started doing the co-operative (Interview, 5 September 2013).

The co-operative was registered as a primary co-operative in 2009 and its main business is to repair and manufacture upholstery, handbags, pillows and carpets. At the present moment, the co-operative has 10 members. Four of them work consistently in the co-operative and a fifth works inconsistently. According to the Sizameni Interviewee there are 5 "silent partners". These are members who are not working in the co-operative as there is insufficient work and who have gone off to seek employment elsewhere. However, they are still interested parties and the understanding is that if the co-operative secures work that the 4 active members cannot carry out alone that the "silent partners/members" will be called in to assist. These "silent partners/members" do not benefit financially from the co-operative while they are not working for it. As a worker co-operative, the members only benefit on the basis of their employment in the co-operative.

Members did not make a once-off contribution to capitalise the business but do make financial contributions to buy material for the co-operative when there are no funds. They also do not pay annual fees to the co-operative. The co-operative does not market its products and services very effectively. The items that are produced have no branding or marketing material, namely tags to indicate that it was produced by the co-operative. The co-operative requires technical assistance from SABS to ensure that they produce items of a much higher quality. They seem to rely on word-of-mouth to secure clients. Signage is also absent from the outside of the premises and also on the door of the co-operative. The co-operative's 5-year plan is to grow in size (increase in employees); to relocate to bigger business premises and to be manufacturing goods for retailers such as Woolworths and Edgars. The key challenges that the co-operative is experiencing is a lack of work, having to haggle over prices

with clients who do not want to pay the quoted price for services/products and lack of financial support to purchase a machine with which they can manufacture wallets and purses.

At Sizameni, the researcher observed that the co-operative has a lot of potential. They have managed to get a local person to mentor them in their business. Additional technical skills training is also needed to ensure that the quality of the items manufactured is improved and that the co-operative diversifies its products range. During the study the researcher introduced the manager of Rossdav with the manager of Sizameni and hopefully this will lead to a long-term collaboration between the two co-operatives that will be mutually beneficial.

5.4.4 Membership

The success of a worker co-operative depends, amongst other things, on the members' skills, education, willingness to participate in the activities of the co-operative, and a common need or aspiration. According to the definition of a co-operative, persons may decide to co-operate because they have a joint economic, social or cultural need and a desire to form a democratically controlled and owned enterprise. Members in the three co-operatives listed a number of reasons for joining the co-operative.

Table 3: Reasons for joining the co-operative

	Rossdav	Sisiziwe	Sizameni
Business growth	<ul style="list-style-type: none"> Enhancement of the business of the co-operative (to create jobs) For the growth of the business 		
Job creation	<ul style="list-style-type: none"> to find a job 	<ul style="list-style-type: none"> To secure employment To get an income 	<ul style="list-style-type: none"> Being responsible for own income Build own work Create jobs
Markets	<ul style="list-style-type: none"> Access to markets 		
Funding	<ul style="list-style-type: none"> Access 		

	government grants		
Pooling of resources	<ul style="list-style-type: none"> Benefit from the advantage that the diversity of resources offers 		<ul style="list-style-type: none"> Be stronger by working as a collective
Concern for the community		<ul style="list-style-type: none"> To help out the community 	<ul style="list-style-type: none"> Assist the community
Skills development		<ul style="list-style-type: none"> To provide skills so that people could sustain themselves To gain experience and to put learned skills to practice 	<ul style="list-style-type: none"> Being passionate about design Help others who are unemployed by providing training Enhance own skills
Business skills development		<ul style="list-style-type: none"> To learn more about business 	<ul style="list-style-type: none"> To gain more knowledge about the business

Source: Fieldwork survey, September, 2013

As can be seen from Table 3 above, the common reason across all three case studies is that of job creation. This is contrary to the views expressed by the DTI Interviewee who stated that most co-operative are established to access the DTI incentive. The unfortunate belief of many members in worker co-operatives is that this expectation will be achieved simply by virtue of their membership. Members fail to recognize that if they do not have the necessary skills or experience securing employment, even as a collective, can be a tough challenge. According to Philip (2003: 20), most co-operatives in South Africa are set up by unemployed and people with low skills levels. In addition to these challenges another common problem amongst co-operatives is that they start off with more members than the co-operative can realistically support (Philip, 2003: 20) especially in cases where the co-operative wants to address the challenge of unemployment in the community. The reality of this can be seen in the cases of

Sizamani where more than 50% of its members are silent partners/inconsistent members due to the shortage of work.

For Rossdav, 75% of the respondents felt that their expectations were met. The reasons cited by those whose expectations were not met is that the business is still in its infancy and has not yet realised the objective of job creation and because the markets were not yet open (Fieldwork survey, Pretoria, September, 2013). In the case of Sisiziwe 71% indicated that joining the co-operative met their expectations. One of the reasons the respondents noted for being dissatisfied was because the co-operative was not able to secure a tender from government which left the co-operative struggling on its own (Fieldwork survey, Pretoria, September 2013). In the case of Sizameni, just over 33% felt that their expectations were met. Reasons for dissatisfaction include lack of a market and lack of equipment and fabrics (Fieldwork survey, Pretoria, September 2013). The membership breakdown per co-operative is as follows:

Table 4: Membership of Rossdav Co-operative

Year	No of members	No of women	No of youth (35 & under)
2009	5	3	0
2010	5	3	0
2011	5	3	0
2012	5	3	0
2013	5	3	0

Source: Fieldwork survey, September 2013

Table 5: Membership of Sisiziwe Co-operative

Year	No of members	No of women	No of youth (35 & under)
2010	7	6	3
2011	7	6	3
2012	7	6	3

Source: Fieldwork survey, September 2013

Table 6: Membership of Sizameni Co-operative

Year	No of members	No of women	No of youth (35 & under)
2013	10	9	4

Source: Fieldwork survey, September 2013

As stated earlier, not all the members are active in this co-operative. Some have gone out to seek employment as there is not enough work available from the co-operative's business operations. According to the Sizameni Interviewee: "The ones who are constantly working, we are 5 I think. The other 5 are silent partners but they are still interested. When we were 5, 4 of us are here then this one is in and out" (Interview, 5 September 2013). This behaviour is supported by a study that was conducted by COPAC (2005: 18) where it was noted that if the co-operative is not able to sustain economic activity and therefore address the needs of the members for an income then the members are likely to leave the co-operative.

5.4.5 Employment

All three co-operatives are worker co-operatives who seek to provide employment to their members. Rossdav provides employment to all 5 members. In this co-operative not all the members are involved in the manufacturing. Some are involved only in the management of the co-operative. In contrast the members of the two other co-operatives, are all expected to engage in the manufacturing side of the business with little if any effort being placed in the business management of the co-operative. In Sizameni, some of the members do not actively participate in the co-operative as the work available and income generated cannot sustain all 10 members. Only 4 members work continuously, 1 works inconsistently and the rest have gone to seek employment elsewhere. This trend amongst certain co-operatives, to overburden the co-operative with labour it cannot sustain, as mentioned earlier, was noted by Philip (2003: 20). The Sizameni Interviewee indicated that: "We sometimes don't have work at all. And when we don't have work, there's no money and food" (Interview, 5 September 2013). In the case of Sisiziwe, they were able to secure a contract with the Department of Social Development. This contract does provide some relief for the members.

Both Rossdav and Sisiziwe have both employed additional people (non-members) in their co-operatives. An additional 3 employment opportunities were provided by Rossdav in 2009, and together the two co-operatives offered an additional 9, 6, 8 and 9 employment

opportunities during 2010, 2011, 2012 and 2013, respectively. No further information regarding the duration of the employment opportunities offered was made available, except in the case of Sisiziwe where the key respondent interviewed noted that its additional jobs were seasonal.

Table 7: Employment statistics of non-members: Rossdav

Year	No of employees	no of women	no of youth (35 & under)
	3	2	1

Source: Fieldwork survey, September 2013

Table 8: Employment statistics of non-members: Sisiziwe

Year	No of employees	no of women	no of youth (35 & under)
2010	6	5	3
2011	3	2	1
2012	5	3	2
2013	6	2	2

Source: Fieldwork survey, September 2013

The total employment opportunities offered by the three co-operatives to its members and non-members is as follows:

Table 9: Total employment opportunities offered

Year	Rossdav	Sisiziwe	Sizameni
2009	8		4
2010	8	7 (6)	4
2011	8	7 (3)	4
2012	8	7 (5)	4
2013	8	7 (6)	4
Average per year	8	7 (ave. 5 seasonal jobs per year)	4

Source: Fieldwork survey, September 2013

This shows that the co-operative is able to sustain existing jobs and to create new ones. Additional information on the new jobs created (both permanent and seasonal) is provided in Table 10.

Table 10: Total new jobs created

Activity prior to joining the coop	Rossvav**	Sisiziwe	Sizameni*
School		3	
Unemployed	1	3	2
Self-employed	3	1	3
Employed elsewhere			4
Employees	4	5***	
New jobs made available	4	6 (5 seasonal jobs)	2

Source: Fieldwork survey, September 2013

Notes: * 1 member did not participate in the study
 ** 1 member's questionnaire was not submitted
 *** average number of seasonal jobs

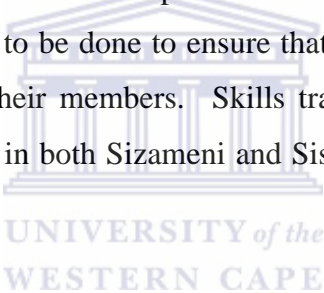
The information provided in Table 10 shows that the three co-operatives were able to generate new jobs when they were initiated and were able to sustain these over the years. However, the nature of these jobs is something that needs further elaboration. The potential of co-operatives to create jobs is recognized globally. The statistics of the ICA on the employment opportunities that are provided by co-operatives indicate that co-operatives provided employment to 100 million people globally. Closer to home, one of the more well-known local co-operative success stories, the Heiveld Co-operative Limited offers employment to 100 people (COPAC, 2008: 79) and in Kenya the Kenyan Co-operative Union benefits not only its 60 000 member farmers but have created positive impacts downstream through 200 000 jobs (COPAC 2008: 33).

The DTI Interviewee supports the view that co-operatives that are managed correctly can achieve sustainability that can aid in job creation and poverty reduction. She states that: "If it is done correctly, then yes, it will still be sustainable, it has a massive future in terms of creating jobs" (Interview, 3 October 2013).

The German Co-operative and Raiffeisen Confederation (DGRV) Interviewee supports the view that sustainable co-operatives, like other small businesses, can provide employment to large numbers of people. In his view:

When you look at the impact of small business in generating employment, even in countries like America, when the small businesses are stable, they become employers of many people, more than the big conglomerates. So even in South Africa, if these smaller co-operatives, as businesses, they can grow they can even be able to bring employment which is not far from where the people stay in the rural areas. It can reduce the migration of people to big cities but make those local areas also be creators of employment (Interview, 28 August 2013).

What is clear from the above statistics and from the researcher’s observations of the operating conditions of the three case studies is that co-operatives do have the potential to create jobs in South Africa but that more needs to be done to ensure that co-operatives are able to provide decent and sustainable jobs for their members. Skills training and business training were observed as key elements lacking in both Sizameni and Sisiziwe. Rossdav could be assisted through market linkage support.



5.4.6 Benefits of membership

Members benefit from a co-operative in proportion to their participation in the co-operative, be this economic or social benefits, they are only gained when members participate in the all activities of the co-operative. In addition to the employment potential of the co-operatives as noted in 5.5.5 above, Table 11 provides information on additional benefits of membership in the co-operative that was revealed through the survey that was conducted.

Table 11: Benefits of membership

	Rossdav	Sisiziwe	Sizameni
Economic	<ul style="list-style-type: none"> • sharing of resources • business expansion • banking risk reduced • support services from government 	<ul style="list-style-type: none"> • an income 	<ul style="list-style-type: none"> • an income

	<ul style="list-style-type: none"> • market access 		
Social	<ul style="list-style-type: none"> • working as part of a team • interchange of business skills • firm goal and discipline • interchange of knowledge and ideas 	<ul style="list-style-type: none"> • understand more about business • training 	<ul style="list-style-type: none"> • participation in exhibitions • attend meetings • gain knowledge • freedom to design own products
Improvement in standard of living	0%	71% agree	66.6% agree
Able to support family members	5 people	22 people	41 people

Source: Field survey, September 2013

Table 11 indicates that all three case studies members gain both economic and social benefits from their participation in the co-operative. It is important to recognize that the social benefits of co-operation sometimes far exceeds the economic benefits and the importance of acknowledging the social impacts is critical when measuring the success of a co-operative. As noted by Birchall (2009b: 43) co-operatives that are at a subsistence level would struggle to lower the financial poverty of members, but may reduce the non-financial poverty. In many countries the success of co-operatives is measured in terms of its social impact and not turnover (COPAC, 2008: 6). This is because co-operatives are both economic and social institutions. However, co-operators measure the impacts mainly in terms of economic benefits and seldom realise the impacts of the social benefits that they gain. In Table 11 above, members of Rossdav acknowledged that they gained more social benefits than the other two co-operatives, but they have failed to recognize or acknowledge the impact it has had on their lives. For Rossdav the fact that membership did not improve their standard of living can be attributed to their belief that this did not happen as there was no change in their financial positions before and after joining the co-operative.

The absence of a positive economic change can indicate that this new collaboration did not necessarily bring in new skills (technical or business) that could lead to new business ideas

and opportunities for the members. It could also indicate that the production output of the members and employees has already reached its maximum and that collaboration did not lead to an increase in production output. The Rossdav Interviewee indicated that the business was looking at securing a contract with one of the big retail stores but this would only be possible if they can show that they have the production capacity to secure a national contract. They are still in discussions on how to achieve this without placing the business at too much risk. One suggestion was to collaborate with other co-operatives in the leather goods manufacturing sector.

In the case of Sisiziwe and Sizameni, where members indicated that they gained an income as a benefit of their membership, 71% and 66.6% respectively, agreed that there was an improvement in their standard of living. This could also be attributed to their belief that this could only be attained through the economic benefit that was gained. In Sisiziwe more than 85% of members were previously unemployed and in the case of Sizameni, more than 22% were previously unemployed. In the case of Sizameni of the more than 33% who were *self-employed* together with the more than 44% who were *employed elsewhere*, more than 44% felt that membership improved their standard of living.

Table 11 also shows that co-operation is able to provide economic benefits not only the members but also their dependents. While Rossdav, Sizameni and Sisiziwe only employ 24 people, they support a larger group of 68 family members. What this suggests is an assessment of the impact of co-operatives should not only look at the membership figures of the co-operatives but also give recognition to the larger group of family members who benefit from the co-operative. Studies on successful co-operatives throughout the world have supported this finding. In Kenya, it was found that each of the Kenya Co-operative Union's 60 000 members supported a household with on average 8 members that means that 480 000 people benefit from the co-operative (COPAC, 2008: 33). In order for a co-operative to reach the levels of success to allow it to achieve these benefits, it requires a number of support interventions, including training and capacity building.

5.4.7 Training and capacity building

Training and capacity building of members is important to ensuring the success of a co-operative. It is for this reason that education and training is one of the key principles of co-operatives. As noted earlier in this study, of the success factors of the Mondragon Co-

operative Corporation (MCC), one of the more well-known co-operative success stories globally, is education (Flecha and Santa Cruz, 2011: 158). Unfortunately the majority of co-operatives in South Africa are established by people with low skills levels (Philip, 2003: 24). Co-operatives have a duty to provide training to their members. It is especially important that new members are provided with induction training. In addition to the in-house training and information that is provided to members on the business of the co-operative annually (100% of members of Sizameni and 86% of members from Sisiziwe) additional training support is also provided by co-operative development stakeholders. Table 12 lists the training and capacity building programmes members attended.

Table 12: Training support

	Rossdav	Sisiziwe	Sizameni
Technical skills training	75% have attended	86% have attended	55.5% have attended
Description of courses	<ul style="list-style-type: none"> • Leadership & management • exhibitions • pricing • computer skills • communication skills 	<ul style="list-style-type: none"> • marketing • <i>Dress-making</i> • <i>Italian dress-making patchwork</i> 	<ul style="list-style-type: none"> • Advertising marketing • financial course • how to run a business • <i>hand bag making</i> • <i>Italian dress-making</i>
Co-operative training	25% have attended	28.5% have attended	66.6% have attended
Description of courses		<ul style="list-style-type: none"> • marketing 	<ul style="list-style-type: none"> • Business structure • co-operative concept and governance • financial management

For a co-operative, as for any other business technical skills training and business training is very important. However, this needs to be relevant training that will impact positively on the business operations and members' development. From Table 12 above it can be seen that

Rossdav members had not attended any formal technical skills training relating to the manufacture of leather goods, but the members are skilled in their craft and also offer training to one another and their employees. They have attended several business training courses. Sisiziwe and Sizameni benefited from some technical skills training. However, based on the researcher's observations, Sisiziwe needs to diversify its product range and could perhaps use the patchwork skills training they received to do so.

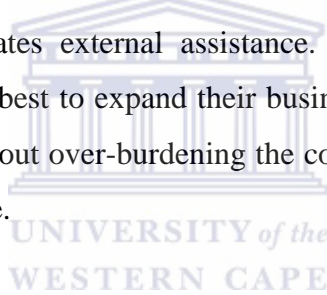
Sizameni has benefitted from technical skills training but an assessment of the products they manufacture reveals that more technical skills training is required to develop their skills. They do actively seek to diversify their product range by manufacturing special orders for clients. In all three co-operatives, members brought prior skills to the enterprise and transferred these skills to other members. This is supported by research which shows that in a lot of co-operatives members bring prior skills and experience to the co-operative as well as gain skills through their participation in the cooperative (COPAC, 2005: 32). However the finding that the skills levels in the co-operatives are low is supported by Philip (2003).

All three co-operatives have attended business training courses. Rossdav has seemingly recognized the importance of proper business training skills, unlike Sisiziwe and Sizameni, who are clearly at a greater disadvantage for this lack. Business training should go beyond simple marketing training. If we look at the example of training in costing/pricing, this is something that has a direct and immediate impact on the economic viability of a business. However, many small businesses, including co-operatives, fail to understand and properly apply costing skills in their businesses. Entrepreneurs often may not see the importance of proper costing when balancing that with the need to retain a client even if that is not an economically sound business decision.

For example, in an exchange that the researcher observed between the Sizamani Interviewee and a client a business decision was made to reduce the cost of an item without proper planning. A client walked in and discussed the price for the manufacture of an item. When questioned later on if she had costed the reduced price correctly, the Sizameni Interviewee did not fully understand or comprehend basic costing principles. For her it seemed that retention of the client was more important than determining whether they would be making a profit from this service. This bartering for lower prices is one of the challenges cooperative members face and in this instance, proper costing becomes more important. She noted that:

Like this person when I was telling him it's [manufacture of leather lounge suite covers] R7000.00 he said "no it's too much, it's too much". I have to go down a little bit then we come to an understanding. So now that is the biggest challenge. Yes, that's the biggest challenge, people don't want to pay.

In a study that was conducted by COPAC in 2008 on successful co-operatives, they found that one of the key factors in successful co-operatives is the quality of leadership in the board of the co-operatives and the management (COPAC, 2008: 13). The lack of sound business management practices critically impacts on the development of co-operatives. Bearing this in mind a correlation can be drawn from the more successful Rossdav co-operative that has benefited from more business management training and is now able to exercise sound business management practices and that of Sisiziwe and Sizameni, who lack these skills. This lack of skills is a key capacity constraint that impacts on the ability of Sisiziwe and Sizameni to improve their economic outputs. In the case of Rossdav, the key constraint is access to additional markets that necessitates external assistance. They also need some strategic business support to identify how best to expand their business operations while retaining the quality of their products and without over-burdening the co-operative with excess labour that cannot be sustained into the future.



Training and capacity building programmes have failed to address the capacity constraints co-operatives experience. Providing targeted practical business and technical skills training to co-operatives and small businesses then they would stand a better chance of success. The CoT Interview noted that:

As a municipality we are working in terms of targets, to say this year we have got 3500 targets for co-operatives, but the support is the thing that we are not happy about. Because when you organize a workshop and you have 100 people/co-operatives whatever it is called a support. You see it's called a support. Work-shopping, giving them information on procurement or whatever, it is called a support so it is recorded as co-operatives support. But in terms of the impact it doesn't show anything because we are hoping to say that if we are saying that these are the coops that we supported (Interview, 10 September 2013).

Another factor that impacts on the success of a co-operative and the benefits that members gain from the co-operative relates to the members' participation in the co-operative.

5.4.8 Participation in activities of the co-operative

Member economic participation is one of the seven principles of co-operatives which rightly places it as one of the important elements that guide co-operation. Participation in the activities of the co-operative ensures that a member, as an owner, is empowered to make decisions that affect his/her interests in the enterprise. Table 13 below outlines members' participation in their co-operatives.

Table 13: Participation levels of members

Activity	Rossdav	Sisiziwe	Sizameni
Participation in members meetings	100%	14.2%	66.6%
Participation in all activities of the co-operative	100%	43%	89%
Attendance of Annual General Meetings (AGMs)	75% of members attend (1 respondent did not provide an answer)	No response or unclear what an AGM was	No formal AGMs

Source: Fieldwork survey, September 2013

From Table 13 above it is evident that Rossdav places a high value on members' participation in all aspects of the business. It can also be concluded that members in Sisiziwe and Sizameni do not fully appreciate their rights and responsibilities of membership. Low participation levels in decision-making and participation in economic activities of the co-operative impacts negatively on the success of the co-operative. This in turn impacts on the benefits that members hope to get from the co-operative. What this could suggest is that members may not clearly appreciate the idea that they are business owners. If members understood clearly that they were business owners they would have a vested interest in the success of the business and would seek to participate more fully in all aspects of the business.

These low levels of participation in Sisiziwe and Sizameni would then suggest that training on the concept of co-operatives is needed within these two entities. In the case of Sizameni, low levels of participation in members' meetings and economic activities can also be attributed to the fact that 50% of the members are "silent partners" whose interest in the co-operative is limited. The low levels of participation in members' meetings can signify that these "silent partners" are not performing their responsibilities as members and that they have transferred the burden of ensuring the success of the co-operative onto the shoulders of other members. According to the CIPC Interviewee:

the majority of members must participate. You don't get something like a silent partner. If you are effective economically then it is to your advantage. People benefit in terms of what they used and the extent of the business they did [with the co-operative] (Interview, 6 September 2013).

The low level of participation in the activities of the co-operative in Sisiziwe may suggest that work in the co-operative is not constant for all the members. The absence of Annual General Meetings (AGMs) in Sizameni and Sisiziwe is of some concern. AGMs are the key decision-making tool that empowers members in a co-operative and the lack of AGMs seems to suggest that members are disempowered. Even highly successful co-operatives such as the Kenyan Co-operative Union (KCU) that was started in 1950, recognise that the General Meetings are the most important decision-making body and in fact two are held each year (COPAC, 2008: 37). It may also suggest that democratic decision-making is not practised in the co-operative, which according to KCU is the backbone of their organization (2008: 38).

This in turn would then raise the question of ownership in the co-operative. Are the members really owners or simply employees? This lack of formal co-operative business practices puts into question key concerns that could lead one to argue against these being "genuine" co-operatives. That is co-operatives that are founded on internationally recognised values and principles of co-operation.

5.4.9 Marketing

Securing a market is linked to the quality of the products and services that are offered. Many small businesses, like emerging co-operatives, automatically assume that if they have a product or service to offer, irrespective of the quality, they can secure a market. Very little

planning and market research is carried out to ensure that they have a marketable product or that there is a need for the services and products in the immediate/local market. In the effort to support emerging enterprises government may seek to create 'false' markets for these emerging enterprises in an effort to assist them, through offering procurement opportunities. However, in the long run this tends to exacerbate the problem of dependency that small and emerging enterprises have on government support and fails to prepare them to face the free market economy within which most businesses operates.

All three co-operatives target their local markets. The location of the co-operative, signage and branding plays an important part in the marketing of the business. With the exception of Rossdav, the other two co-operatives do not seem to understand these marketing concepts sufficiently to use it to their advantage. Rossdav is located in central Pretoria in premises provided by the CoT. One of the challenges they have with these premises is that they are not allowed to place their signage outside the building. They rely on word-of-mouth and exhibitions to market the products. They have a brand by which people can identify their products in the market-place.

Sizameni is located in the township of Mamelodi at a local non-governmental organization facility and has limited marketing capacity and visibility, and relies mainly on word-of-mouth by existing clients. When the concept of branding was discussed with the manager the researcher observed that this concept was not understood very well. However, the co-operative is working on manufacturing products such as handbags that can clearly be identified with the co-operative in the local market.

Sisiziwe, is located in Hammanskraal in premises that are visible from a local main road. However, the co-operative has not taken advantage of its prime location to market itself more visibly. There is no visible signage outside the premises to identify the business or its products. The Sisiziwe Interviewee indicated that the signage had been blown off by the wind. The co-operative has a secure market for the manufacture of school uniforms from the Department of Social Development but this work is seasonal. When the contract work for the year has been completed, the co-operative members actively go out to secure additional work in the local areas. The Sisiziwe Interviewee stated:

I have marketing skills that is why I put the form in the bag. I was just by the school to ask a job. I have 3 schools, I have to go and sign the contract with them for tracksuits and everything. Last time I was not so clever, I was training the prisoners all over North West but I didn't know I could ask them the tenders (Interview, 6 September 2013).

Like all other small businesses, the co-operatives have to contend with competitors in the market. Rossdav produces high quality leather goods that are branded with the Rossdav logo. The key competitors in the market are Packwell, Mongoose and Leather Dr. According to the manager of Rossdav there has been no increase in competitors since the co-operative started operations and the business has been improving in the area. He indicated that they want to secure contracts with stores like Woolworths. The researcher observed that the quality of Sizameni's products is reasonable and that a lot can still be done to improve the quality. The main competitors are local shops and vendors. Notwithstanding this, the manager of Sizameni indicated that the co-operative's business has been growing in the area and that in order to address the competition they have changed their prices and products so that theirs does not look like the other products on the market.

The researcher observed that the quality of Sisiziwe products needs some extra effort and support to ensure that they can sell their products on the open market. Their main competitors are the foreign retailers and retail shops who sell reject items at low prices. The foreign retailers also offer more convenient payment options that the co-operative cannot compete with. The quality of products and services, especially for small emerging businesses that rely on word-of-mouth is crucial to the long terms success of the business. Successful co-operatives around the world recognize that success is dependent on manufacturing products of very high quality (COPAC, 2008: 70). This consistent attention to the quality of products can ensure the retention of existing clients and also help in securing new clients. Market access is a huge challenge for many businesses and so product quality plays an important role in securing new markets or retaining existing markets.

The economic activities of these three co-operatives carried out within their local areas ensures that products, services and local resources are retained in the local area. By providing these products the co-operatives ensure that local people spend their resources in the area and therefore support local job opportunities in the area by supporting the three businesses. The

local spending trends of members and the co-operative businesses can provide some information on the impact the co-operatives have on the local communities.

5.4.10 Local purchasing trends

Local purchasing trends will be used as a tool to evaluate the impact of co-operatives on the economy of the CoT.

Table 14: Purchasing Trends

	Rossvay	Sisiziwe	Sizameni
Personal support to local businesses	100% agree	43% agree	55.5% agree
What businesses are being supported	Mogale Pottery Coop, Leatherwise, Hanniton, Factory Shop, Makulo Hopan, tannery, suppliers of all local raw material, retailers for goods, foam shop, Gezina machines	Local grocer; local fruit & vegetable; local fabric stores, emblem designer and embroider	SOS Village, Lesotho Agency, local retailers, grocers, shoe store, doctor, dentist, local mall
Difference in local spending habits now that a member of the co-operative	50% agree Want to support other co-operatives; buy in bulk and only locally; good interchange of business transactions	57% agree Better spending on groceries; able to buy around, use local transportation services (taxi); pay for crèche; purchase of material and groceries	44.4% agree Can now afford to buy what is desired, discounts from other co-operatives, able to buy new things
Support to another local co-operative	100% agree	100% agree	55.5%
More money	50% inside	100% inside	89% inside

spent inside / outside CoT	25 % outside (material not available in CoT)		1 respondent did not provide this information
Average % of salary spent inside the CoT	No responses provided	28.5% spend <u>about 50%</u> 71.5% spend <u>more than 50%</u>	44% spend <u>less than 10%</u> 11% spend <u>about 50%</u> 11% spend <u>more than 50%</u> 22% spend <u>100 %</u>
Principle market for the co-operatives products and services	Surrounding communities, CoT, Unisa Craft Market, Pretoria Show, Trade Fairs, boutiques, individuals retailers and government	Pretoria, Hammanskraal, at local schools	Pretoria, local shops, free market

An analysis across the three case-studies shows that more than 66% of respondents support local businesses. This ranges from suppliers of the business to local service providers such as dentists and doctor and retail outlets. This shows that this tendency amongst co-operatives members ensures that resources are retained in local communities. Just over 50% of all respondents noted that their spending habits have changed as a result of their membership in the co-operative. The reasons given for this is that respondents were now more inclined to support local businesses given that they themselves are a local business and because some respondents can now afford to support local businesses. More than 80% of all respondents indicated that they would be willing to support another local co-operative. This shows that the respondents support the principle of co-operation amongst co-operatives. By supporting one another, co-operatives assist in the process of building a co-operative movement within their localities.

By establishing a culture of reciprocal support, these co-operatives can start collaborating with one another to establish co-operative enterprises at higher levels of co-operation that can address joint marketing and supply needs and in this way reduce business transaction costs.

By keeping business practices “local” these enterprises aid in ensuring that local economic resources are retained in the locality, transaction costs are reduced for local businesses and knowledge and skills transfer occurs across local businesses making them more competitive in the local markets. The researcher observed that all three co-operatives have taken positive steps towards collaborating with other co-operatives. In the case of Sisiziwe, the Interviewee stated that: “I heard again about the secondary co-operative. I am going to the other co-operatives let’s be together to make a secondary. We think maybe that if we apply for the job, I just think they can give us a job because we are together” (Interview, 3 September 2013). After hearing about Rossdav’s plan for the expansion of their business by securing a national contract with a retailer like Woolworths and the capacity constraints they faced, the researcher informed them that Sizameni was also in the business of manufacturing leather goods. Prior to the completion of the study the researcher was advised that the two managers had already had some meetings to discuss a future collaboration.

Almost 80% of respondents indicated that they spend more money inside than outside the CoT. The reason given for those who spend money outside the CoT was because resources needed were not available in the CoT. This shows that 80% of locally generated resources (resources generated through the businesses) are retained in the CoT. The principle market for all three case-studies is local shops, communities, local retail outlets etc. This practice of small business targeting the local market is supported by research that shows that most start-ups target local markets. They do this because they know the areas and do not have to face high logistical costs associated with transporting and marketing the products (Philip, 2003: 20). In this way local businesses are supported, jobs are retained or created and a positive impact is made on Local Economic Development within the CoT.

5.5 Future role of co-operatives in the South African economy

All of the interviewees share the view that co-operatives have an important role to play in the South African economy. The COPAC Interviewee notes that the future of co-operatives in South Africa is “very exciting” because the development challenge is big and the co-operative alternative will become increasingly important. The inclusion of the solidarity economy in South Africa will create a whole new and interesting scenario that will impact positively on the future of co-operatives in the country. However, he states that:

If you are just going to institutionalise co-operatives in a community and if it is not linked to a wider vision and a wider strategy and with agency from below, you'll end up setting up another form of business enterprise and it won't really meet the requirements of the social, economic and the environmental. It won't have that value-centred practice. So I think again that this question about whether they have a place or not also depends on how they are initiated, this is very, very crucial (Interview, 5 November 2013).

The view of the CIPC Interviewee is that:

Yes, definitely. I believe co-operatives have a role to play as I said previously. The advantage of a co-operative is there are no sleeping partners. You benefit in terms of what you contribute, there is a definite bond and in some cases I don't think there are other options that are a better vehicle (Interview, 6 September 2013).

In his view sleeping partners cannot exist in the co-operative. However, this contradicts the reality of Sizameni where it was indicated that 50% of the members are sleeping partners. His argument seems to be premised on the notion that if a member does not participate in the activities of the co-operative his/her membership will be terminated. However, the reality in South Africa, as shown in this study, is that there are co-operatives with sleeping partners. These sleeping partners/members wish to retain their membership in the co-operative without participating in the activities of the co-operatives for various reasons. The inherent dangers of that are fairly obvious. These members may seek to gain their "rightful" benefits at a later stage without having supported the development of the business. However, in co-operatives, such as Sizameni and Sisiziwe, who do not fully understand and appreciate the importance of members' meetings and annual general meetings, where these matters can be addressed, this remains a potential problem for the future.

According to the DTI Interviewee co-operatives can create a positive economic and social impact on their members if supported properly. She states:

Look at the successes at what happened in the rest of the world. Look at what were the successes in South Africa under the apartheid regime. I mean ...co-operatives were very successful and why can't we create the same for...currently in the new regime to

empower people in rural areas, to empower people that needs empowerment (Interview, 3 October 2013).

Her statement raises the question so many co-operative development practitioners ask and which is revealed by the study. How can we realise the potential of co-operatives in South Africa? The study reveals limited economic and social benefits to the members and jobs which are either seasonal or inconsistent. A lot of research has been carried out in South Africa to show the weaknesses and challenges emerging and existing co-operatives have faced over the last decade. In addition, research that has been conducted on successful co-operatives clearly indicates what the success drivers are. Changes to the current cooperative Strategy in South Africa should try to marry the two together to ensure that the potential of co-operatives are realised in South Africa. What is evident from the study is that the institutional framework that should be supporting the development of a viable co-operative movement in South Africa is lacking in many respects.

The policy documents outline a plan to address some of the country's development challenges through co-operatives. However, the eagerness at grassroots level amongst budding entrepreneurs to form co-operatives has far surpassed the ability of support structures to provide the assistance they need. So many co-operatives, like some of the ones in the case study, have been struggling along to survive in the absence of the institutional support they require. Philip (2003) found that worker co-operatives, like the co-operatives in the study, require either high skills levels or need external technical assistance in order to succeed.

What should be noted in any discussion about the new co-operative movement in South Africa is that many successful co-operative movements around the world have taken decades to reach the levels of sustainability that they now enjoy. Our current co-operative movement is still very young and many co-operatives like the ones in the study are learning to survive and adapt in a business environment that lacks a supportive institutional framework for them. However, the development realities the country faces necessitates that we fast-track the growth of the co-operative movement by learning from the lessons and experiences of the past.

5.6 Conclusion

The chapter presents the findings of the qualitative research study that was conducted. The findings reveal that enterprise development is viewed as one of the core strategies of LED in CoT and that co-operative development and support is included in the CoTs enterprise development programme. However, notwithstanding the national imperative to promote and support co-operative development in South Africa as a means to addressing the growing development challenges in the country, this imperative is not being actioned at local level. In the CoT co-operative development plays a very small role in the LED programme and the support interventions that are offered do not seek to provide the support co-operatives require.

Co-operatives are being supported mainly through capacity building but this programme is flawed as the support may include information sessions that may have no bearing on the sustainability of the enterprises. The findings also show that the most effective co-operative support interventions are those being offered at national level. Provincial and local level support programmes piggy-back on these national led programmes and that at local level, officials are chasing after numbers without ensuring that quality support is being provided.

The study also supports existing literature (Philip, 2003) that reveals that co-operatives whose establishment is driven by social agenda's tend to over-burden the enterprise with labour. These results in enterprises with "silent partners" that are members who wish to retain the membership in the co-operative without participating in the business. It was also revealed that contrary to the belief held by many co-operative stakeholders most people do not join the co-operative to access available funding but to secure jobs. In addition the study reveals that co-operatives are able to sustain and generate new jobs but that the quality of these is not very high. Many jobs are seasonal and sometimes inconsistent. Membership attrition is driven by the shortage of work.

It was shown that co-operatives provide both social and economic benefits to the members. In most cases the social benefits will outweigh the economic benefits. However, co-operative members tend to down-play or they fail to recognize the social benefits that are gained through their membership. In addition, the findings support research that proves that benefits extend beyond the members to include family members.

The importance of capacity building and training to the success of the co-operative was revealed. The two co-operatives that did not have as much business training and capacities, did not fare as well as the co-operative that placed an emphasis on business training. It was shown that skills shortages also affect business potential. The results revealed that in all three of the co-operatives members brought skills into the co-operative that were transferred to other members. These findings are supported by academic research that has been conducted. It also reveals that a lot more needs to be done to stress the importance of training and capacity building within co-operatives in South Africa. Furthermore, this shortage of tailor-made training programmes for co-operatives severely hampers co-operative development in the country.

The principle of Member Economic Participation was revealed to be a challenge in two of the three co-operatives. In these two co-operatives this apathy to participation could be argued to reveal that members do not understand their rights and responsibilities as members and owners in the co-operative. This shows that more training needs to be provided to co-operative members on the management of the co-operative business that should include issues relating to decision-making, members/owners' rights and responsibilities and the importance of members' meetings and Annual General Meetings.

In all three case-studies market access was noted as a problem. All three target mainly their local markets and rely on word-of-mouth. They all face competition from local players in the market. In two of the three case-studies it was argued that the low quality of products added to the marketing challenges. Of the three, Rossdav, is the only co-operative ready to expand its business to regional and national levels. However, working out the production constraints the business faces is the first step in this expansion plans. The local purchasing trends of respondents in the case studies reveals that the majority support local businesses and that therefore the majority of resources generated in the locality stays in the locality. It was argued that in this way local businesses are supported that in turn secures local jobs and potentially also generates new jobs that can impact positively on LED of the CoT.

CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

Local Economic Development is the outcome that is achieved when various stakeholders, at different levels, co-operate to sustainably utilise available resources in a given locality, to improve the economic development of the area for the benefit of the local people. Its objectives are to create jobs, increase wealth and promote competitiveness. The success of LED is achieved by recognizing that local development initiatives cannot always be performed in isolation of external market forces. External regional, national and international markets can impact on local economies and LED planning should take these into account. There are four key activities that drive LED, namely, community economic development, enterprise development, locality development and promotion and facilitation of business networking.

The LED activity that was the focus of this study was *enterprise development* as it included the development of co-operative enterprises. The research question was to determine if the “co-operative business model contributes to Local Economic Development by critically appraising three co-operatives in the City of Tshwane.”²⁵ A qualitative research study was conducted and the information analysed.

Co-operatives have over centuries proven themselves as an alternative to the capitalist business models. Their focus on seeking to address the needs of their members as opposed to being motivated by capitalism has made them an alternative form of doing business for people who have made a decision to collaborate with other like-minded individuals. Flecha and Santa Cruz (2011) point out that often business efficiency is associated with capitalist enterprises and that equity is associated with co-operatives and that a choice needs to be made between the two. However, global co-operative success stories, like Mondragon Co-operative Corporation (MCC) and the Kenyan Co-operative Union, have shown that a co-operative enterprise can compete in a capitalist market without losing its identity.

When the Mondragon project was initiated it emphasized employment and education (Flecha and Santa Cruz, 2011: 158), which later led to the establishment of what is today MCC. In all three case studies job creation was the one common reason that motivated the establishment of the co-operatives. Now, as back in 1943, when the Mondragon project was initiated, the

employment crisis drove people to find alternative solutions to their unemployment that normal capitalist enterprises and government cannot address. Globally, co-operatives provide more than 100 million direct jobs, excluding the self-employed, those that are indirectly employed and the induced employment numbers (Chavez-Hertig, not dated: 1). According to the World Co-operative Monitor, 2032 of the biggest co-operatives globally have an annual turnover of 2,578.5 billion USD (World Co-operative Monitor, 2013: 11).

The Government of South Africa recognises the potential role of co-operatives in addressing the growing development challenges by providing jobs and alleviating poverty levels of the large numbers of economically active people in the population and in doing so, co-operatives enhance black economic empowerment. The B-BBEE strategy in its efforts to redress the inequalities of the past also influenced the development of the co-operative policy documents. The drive to promote and support a new co-operative movement in South Africa was thus born that saw a proliferation of more than 92 000 co-operatives in the last 10 years alone. However, the reality on the ground shows that co-operatives have failed to enhance black economic empowerment in South Africa. The multitude of support measures that are available have largely failed the co-operative movement. It is estimated that more than 90% of the co-operatives registered are not operational (DTI Interviewee), or are subsistence level businesses. In contrast the three co-operatives in this case-study, all 100% black-owned and managed, and economically viable have shown that co-operatives do have the potential to enhance the participation of black people in the economy, but more support is needed to ensure that the thousands of registered co-operatives become economic vehicles that can enhance black economic empowerment in South Africa.

This high failure rate can be attributed to the fact that the majority of co-operatives are initiated by people who lack resources and have low skills levels as noted by Philip (2003). The study has shown that research on successful co-operatives have indicated the importance of education and skilled management in the success of a co-operative (COPAC, 2008). The certainty that the lack of education and skills in a co-operative will lead to its eventual failure, is compounded by the fact that existing co-operative support measures fail to meet the demand for education and skills the majority of co-operative entrepreneurs require. However, this study, like all other reference works cited herein, has shown that there are co-operatives that are functional and that are making every effort to meet their member's needs. These enterprises, driven and motivated by individuals who want to address their economic and

social challenges, are making a small but meaningful contribution to the lives of their members and the communities in which they operate.

6.2 Motivations for co-operating

Co-operators are motivated by various factors to collaborate with one another. One of the key theories that explain this drive to collaborate can be explained by transaction cost economics (TCE). This means that in certain instances the need to reduce the costs of doing business is what drives/motivates people to collaborate with one another. These could be marketing products, costs of seeking employment and the costs of inputs. In the case of Sisiziwe and Sizameni it could be said that the members were driven to collaborate in order to reduce the costs of seeking employment on their own. In the case of Rossdav, individual members (self-employed) wanted to expand their existing businesses and decided to collaborate with one another to reduce business transaction costs such as marketing of products, purchasing of equipment and materials etc.

Through co-operation, these people can now engage more efficiently in the formal market economy. In the case of Sizameni, the co-operative decided to co-operate at a higher level with other local co-operatives in order to empower themselves further. However, co-operating at higher levels does not necessarily guarantee a stronger position in the market. It is important for co-operatives, as vehicles driven not purely for economic gain, to find a balance between their economic and social needs so that they are established in the market place as this special vehicle and are not mistaken for just another capitalist enterprise. Co-operatives should also understand the importance of applying sound business principles to their business operations because if they are not able to produce an economic benefit, they are not able to serve their members or impact on their communities. Sound business training should be a priority for all co-operatives and this is where government has failed many of them, by failing to provide the necessary training that is needed.

Co-operatives are still viewed by many development stakeholders not as enterprises but as some social project through which government support is being channelled to less fortunate people. There needs to be a re-focus on the co-operative as an enterprise, albeit one that is driven by both economic and social goals. In order to ensure that a viable, autonomous and sustainable co-operative movement is developed in South Africa, the support measures need to be adapted to recognize that we are dealing with enterprise development. The following

section will discuss how genuine co-operatives are able to support job creation and reduce poverty.

6.3 Job creation by co-operatives

The study revealed that the three co-operative case studies were able to generate new employment opportunities (both permanent and seasonal), sustain existing jobs and provide members with an income. The study showed that membership did not improve their standard of living of some respondents, but neither were they disadvantaged after joining the co-operative. This information could be used to argue that the co-operatives were able to sustain existing jobs. For other respondents their participation in the co-operative clearly improved their standard of living as prior to joining the co-operative, they were not able to support businesses that they are able to support now. This is because now they are earning a wage. However, whether these jobs that were created were decent jobs requires additional study.

6.4 Co-operatives in LED

Enterprise development is one of the four LED activities in South Africa. This then positions co-operative enterprise development as key to supporting LED. The Government of South Africa recognises the potential of co-operatives to create jobs and reduce poverty in the country by empowering larger numbers of economically active people in the population to participate in the formal economy. LED is operated within the boundaries of district and local municipalities. Notwithstanding the national and global recognition of this potential of co-operatives, local authorities are largely missing the opportunity to assist in the country's development agenda by not developing sound co-operative programmes that are effectively linked to their own local development plans. This can be attributed to a lack of training and competency on co-operatives, lack of human resources and not having a clear strategy at local level on how co-operatives are to be integrated more effectively in the Integrated Development Plans.

The findings show that co-operatives can help achieve LED objectives of job creation and an increase in wealth, although the results of the study reveal that this would be a small contribution. Job creation and wealth creation will lead to economic growth in a locality as a result of support to local businesses through the resources that are generated by the co-operative enterprise. It could be argued that co-operatives could play a bigger role than other capitalist enterprises in economic development within an area, as they are motivated by the

principle of co-operation amongst co-operatives to collaborate and support other co-operatives enterprises.

New revenue streams created by the co-operatives were mainly retained within the municipality. By analysing respondents' purchasing trends, it was revealed that 50% or more of the monies generated through the co-operative remains in the municipality (information from only 2 case studies).

CoT Interviewee indicated that not enough is being done to support co-operatives in the municipality. Support initiatives are not effective or helpful but in some cases purely for information purposes. The municipality has set a very high target for itself, and in this has set itself up to fail the co-operatives. There are a few potential programmes of support that do add some value, but in the main, more can be done.

6.5 Lessons learnt

There are a number of lessons that could be learnt from the observation of the practices of the three co-operatives and the literature. These are as follows:

- 6.5.1 education and training is necessary for the success of co-operatives;
- 6.5.2 managers need to be competent and skilled;
- 6.5.3 labour/membership in a worker co-operative should be determined by the abilities of the co-operative to provide employment;
- 6.5.4 ownership needs to be understood clearly by all members and the importance of exercising ownership rights and responsibilities through participation in decision-making processes must be emphasized; co-operatives require training on decision-making processes to ensure that these are implemented;
- 6.5.5 co-operative members provide skills training to one another and to new members; within the co-operative movement there is a pool of skilled professionals who can assist other co-operatives;
- 6.5.6 co-operatives are keen to collaborate with one another to secure bigger lucrative contracts;
- 6.5.7 finding local mentors to assist co-operatives can be a huge advantage and
- 6.5.8 co-operatives rely heavily on word-of-mouth as a marketing tool.

6.6 Recommendations

Four recommendations have been developed, based on the research, that could inform co-operative development at local level to ensure that co-operatives can play a much bigger role in LED:

- 6.6.1 Ensure that the Co-operative Training Academy provides training support to co-operatives that is accessible and speaks to the enterprise's training needs (conduct training needs analysis prior to training) and that proper recognition is given to business training programmes.

The importance of education and training cannot be over-emphasized. Much more robust efforts are needed to ensure that co-operatives are provided with the necessary education and training that they require to ensure that the entities become more sustainable. Education levels and skills are low in co-operative enterprises as many are set up by people with low skills levels. In order to ensure that efforts to support a viable co-operative movement are realised in South Africa, government needs to direct its efforts towards the provision of targeted training programmes such as business training, that encompasses elements such as marketing, costing, management, sales etc., and skills development. Members bring skills into the co-operatives but additional support is needed to develop these further.

- 6.6.2 Provide technical assistance to local municipalities to assist in the development of a coherent and coordinated co-operative strategy to ensure that co-operative programmes are developed and supported that can make a meaningful contribution to LED through the creation and retention of jobs and creation of wealth.

A more co-ordinated approach is needed at local level that will see local authorities developing co-operative strategies that are linked to local, provincial and national development policies and priorities. In this way resources may be made available for co-operative development support programmes at local level that will ensure that co-operatives are able to make a meaningful contribution to job and wealth creation at local levels. This will also ensure that co-operatives are integrated effectively in economic development agendas and initiatives taking place at local level. In this way co-operatives will not be viewed as ad hoc stand alone "projects" but will be integrated into the fabric of the local communities within which they operate.

- 6.6.3 Reduce the red tape to ensure that all local procurement opportunities are open to co-operatives and not just the usual services such as catering, cleaning and sewing services, etc.

For co-operatives to make an impact on local economies, all local stakeholders must recognize that co-operatives are not only for the poor, but that they are economic vehicles that have a lot of potential. Access to the more lucrative procurement opportunities (e.g. in the construction sectors) will ensure that businessmen and women who have the skills and competencies in these sectors can collaborate in order to secure and effectively implement these big projects.

- 6.6.4 Promotion of social media marketing platforms for co-operatives.

Securing markets for their products is a key challenge for all three co-operatives. Effective marketing strategies can be very costly which could explain why the co-operatives rely on word-of-mouth as a marketing strategy. However, the disadvantage of this is that it is a rather passive strategy. Co-operatives can be taught how to use social media platforms to market their products and services. Cellular phone applications are becoming very popular amongst co-operatives. Developing cellular phone applications will develop the existing word-of-mouth strategy in a more proactive way. Internationally there are many co-operatives that use cellular phone applications to market their products and services. Some of the examples include Supercard Coop, Alternative Food Coop, La Montanita Coop Food Market, Co-op Cabs, Belfast Co-op and Federated Co-operatives.

6.7 Conclusion

Co-operation amongst people has proven for centuries to be a way in which people with similar interests can support one another. The co-operative model has over time, proven that through co-operation, jobs can be created, wealth can be increased, poverty can be reduced and a range of social services can be made available to members and the surrounding community. What the study has revealed is that the three co-operatives in the study were able to impact positively on LED in CoT by creating a few new jobs, sustaining some existing jobs and reducing the poverty of those who were previously unemployed. However, the three co-operatives were only able to make a minimal contribution to LED.

What was observed was that the factors that have contributed to the successes of the various successful co-operatives that were mentioned in this study are lacking in two of the co-operative case studies. These include a lack of education and competent leadership. A third co-operative needs marketing and business expansion support. The importance of co-operatives in the economic and social development of South Africa cannot be over-emphasized. For this reason it is imperative that a supportive institutional framework is put in place that will ensure that these young enterprises succeed beyond the five year life-expectance of most enterprises in South Africa (Copac, 2005: 13) to become vibrant economic players within the social economy and the emerging solidarity economy in South Africa.



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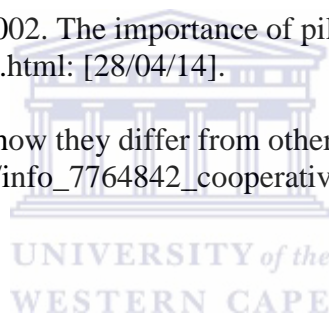
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ANNEXURE A: QUESTIONNAIRE PART I

Masters Thesis: Ursula Titus, 2013
 Institution: University of the Western Cape
 Title: Can the co-operative business model contribute to Local Economic Development? A critical appraisal of three co-operatives in the City of Tshwane, South Africa

QUESTIONNAIRE (PART 1)

Respondent Ref: _____

Date: _____

A		ENTERPRISE INFORMATION		
1.	Name of the co-operative			
2.	Level of co-operation (primary, secondary, tertiary)			
3.	Physical address			
4.	Contact number			
5.	Contact person			
6.	Sector			
7.	Type of operations	1. 2. 3.		
8.	In what year was the co-operative established?			
9.	Is the co-operative affiliated to a higher level (secondary/tertiary/apex)?			
10.	Does the co-operative participate in the activities of this higher structure?	YES		NO
	If not, why not?			
11.	What are the benefits of being a member of this structure (see xx)			

B		MEMBERSHIP/EMPLOYEE INFORMATION			
12.	What has been the member breakdown since the co-operative was established	YEAR	NUMBER OF MEMBERS	NUMBER OF WOMEN	NUMBER OF YOUTH (35 years and under)

13.	How many employees has the co-operative had since its establishment?	YEAR	NUMBER OF EMPLOYEES (PART-TIME)	NUMBER OF WOMEN (PART-TIME)	NUMBER OF YOUTH (PART-TIME)

14.	How many board members does the co-operative have?				

C GOVERNANCE				
15.	Does the co-operative have internal by-laws / policies governing the internal operations?	YES		NO
	If yes, what are they?			
16.	Who is the manager of the co-operative?			
17.	Is there a clear division of responsibility between the manager and the board members? (The manager runs the day to day operations; the board ensures that the policies are implemented)	YES		NO
18.	Does the co-operative have a business plan / annual work plan?	YES		NO
19.	How many General Meetings are held in a year?			
20.	Does the co-operative file annual returns with the Registrar of Co-operatives	YES		NO

D BUSINESS ENVIRONMENT				
21.	Is the co-operative's business improving in the area?	YES		NO
22.	Who are your competitors?			
23.	Have you seen an increase in competitors since the establishment of the co-operative?	YES		NO
24.	If yes, what strategies have you put in place or adopted to address this?			

ANNEXURE B: QUESTIONNAIRE PART II

Masters Thesis: Ursula Titus, 2013
 Institution: University of the Western Cape
 Title: Can the co-operative business model contribute to Local Economic Development? A critical appraisal of three co-operatives in the City of Tshwane, South Africa

QUESTIONNAIRE (PART II)

Respondent Ref: _____

Date: _____

NAME OF THE CO-OPERATIVE: _____

MEMBER PARTICIPATION				
25.	What position do you hold in the co-operative (<i>please circle 1 only; all directors must circle DIRECTOR and not MEMBER</i>)	DIRECTOR	MEMBER	NON-MEMBER/ EMPLOYEE
26.	What is your gender?	FEMALE		MALE
27.	In what year did you join the co-operative?			
28.	What were you doing prior to joining the co-operative?	WORKING SOMEWHERE ELSE	UNEMPLOYED	SELF- EMPLOYED
29.	Why did you join the co-operative / what were you expecting to gain when you joined the co-operative?			
30.	Have your expectations been satisfied?	YES		NO
	If NO, why not?			
31.	What benefits do you get from			

	being part of the co-operative?			
32.	Were you provided with information on the business of the co-operative when you joined?	YES		NO
33.	Did you make a <u>once-off financial/other contribution</u> when you <u>joined</u> the co-operative? Please explain. (e.g is a membership requirement / not able to contribute / contributed in some other way etc.)			
34.	Do you pay <u>annual membership fees</u> to the co-operative?	YES		NO
35.	Do you attend all members meetings?	YES		NO
36.	Do you attend all Annual General Meetings	YES		NO
37.	Does the co-operative offer you training / information <u>on the business of the co-operative</u> on an annual basis?	YES		NO
38.	Have you attended any formal <u>technical skills training courses</u> ?	YES		NO
	If YES, what were they?			
39.	Have you attended formal <u>co-operative training courses</u> ?	YES		NO
	If YES, what were they?			
40.	Do you participate in members meetings regularly?	YES		NO

41.	How many Annual General Meetings have you attended?			
42.	Do you participate fully in all activities of the co-operative?	YES		NO
	If NO, why not?			
43.	Would you say that your membership in the co-operative has improved your standard of living?	YES		NO
44.	If YES, how? (monthly salary, able to access services, higher income levels, etc.)			
45.	How many members of your family would you say benefit from your participation in the co-operative?			
46.	Do you <u>personally</u> support local businesses?	YES		NO
47.	What local businesses <u>are you now able</u> to support as a result of the income you receive from your participation in the co-operative?			
48.	Would you say that your <u>local</u> spending habits are different now that you are a member of the co-operative?	YES		NO
	If YES, how?			
49.	Would you support another local co-operative? (co-	YES		NO

	operation amongst co-operatives)			
	If NO, why not?			
50.	Would you say that you spend more money inside your local municipality or outside it? (Tshwane)	INSIDE		OUTSIDE
51.	If OUTSIDE why?			
52.	What percentage/portion of your salary would you say you spend <u>inside</u> the local municipality?			
	less than 10%	about 50 %	more than 50%	100%
53.	Where is the principle market for the co-operatives products and services?			
54.	Does the products being supplied by the co-operative benefit the community?	YES		NO
	If YES, explain how (e.g. cheaper, not previously available, etc.).			
55.	Any further comments?			

Should you have any queries, please contact Ursula Titus on 0827788674 or at ursula772@gmail.com

Thank you for your participation in this study!!

ANNEXURE C: INTERVIEW QUESTIONS

1. What do you understand by the term Local Economic Development?
2. Does your organisation implement LED programmes?
3. Would you say that these programmes have been successful or not? Could you explain why you think these have been successful or why they have failed?
4. Have you conducted monitoring and evaluation exercises or impact assessments of these programmes? What could you say has been the social and economic impact of these programmes on the livelihoods of the participants?
5. Have you documented your lessons and success stories? Is there some way that other LED practitioners could benefit from your programmes?
6. In the implementation of your LED programmes, has there been a link with co-operatives? In other words, how did co-operative promotion and support fit in with your LED programmes?
7. What do you think of co-operatives in South Africa? What do you think of co-operatives internationally?
8. Do you think that co-operatives in South Africa could play as big a role in employment creation and poverty reduction as our global counter-parts?
9. What do you think have been the successes in the current co-operative policy position and the implementation thereof in South Africa?
10. What do you think have been the failures in the current co-operative policy position and the implementation thereof in South Africa? What suggestions or recommendations would you make?
11. Do you think that co-operatives can create a positive economic and social impact on their members if supported properly?
12. What do you think can be done to provide the support failing co-operatives need to provide this support (refer 11)?



ANNEXURE D: INTERVIEW LIST:

CIPC Interviewee

COPAC Interviewee

CoT Interviewee

DTI Interviewee

DGRV Interviewee

Rossdav Interviewee

Sisiziwe Interviewee

Sizameni Interviewee

