

**THE IMPLEMENTATION OF COOPERATIVE POLICY:
PERCEPTIONS FROM COOPERATIVES IN THE
UMGUNGUNDLOVU DISTRICT MUNICIPALITY
(KWAZULU-NATAL, SOUTH AFRICA)**

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**SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE
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DEVELOPMENT STUDIES), IN THE COLLEGE OF HUMANITIES AT
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Abstract

The thesis explores the evolution of cooperative policies in South Africa and investigates the challenges experienced by cooperatives located in the uMgungundlovu District in KwaZulu-Natal, South Africa. The study adopted a cross-sectional qualitative design with twenty-six conveniently selected cooperatives. Representatives of the participating cooperatives were interviewed face-to-face using a semi-structured questionnaire. This generated detailed empirical data that elucidated the challenges facing cooperatives in the uMgungundlovu District. These cooperatives operated in rural, poverty-stricken, underdeveloped locations. The study found that a number of challenges including a lack of finance, access to inputs, land, transport, market, income, knowledge, and skills hindered the success of these cooperatives. Unfortunately, many of these cooperatives are small in terms of membership and employees. As a result, they have not led to employment creation or local economic development in the uMgungundlovu District.

The study also found that a majority of the participant cooperatives in the uMgungundlovu District cannot survive without ongoing government support. The study concludes that the dependence of these cooperatives on government support makes them non-viable, unsustainable, and not conducive to local economic development. The thesis recommends that the government redefine its relationship with the cooperative sector by focusing on creating an environment that fosters the growth of cooperatives rather than being at the forefront of the formation and support of cooperatives. This thesis argues that the nature of government's relationship with cooperatives is essential in changing how cooperators perceive cooperatives. It recommends changing the perception that cooperatives are a government development programme, or a means to access government funding. Government needs to make it clear that cooperatives are member-owned, self-sustaining business entities.

Although the literature suggests that networking is central to successful cooperative activity, this research indicates that participant cooperatives from the uMgungundlovu District do not engage in any meaningful networking activities. In the uMgungundlovu District, it was found

that cooperatives are not only dependent on government funding; they are not intent on establishing collaborative relationships with other cooperatives. On the contrary, they regard other cooperatives as rivals, competing for government grants and hence many do not trust or collaborate with other cooperatives. In addition, cooperatives are located in extremely poor and underdeveloped environments. The competition among cooperatives for access to funding is therefore high. Furthermore, networking with other cooperatives is difficult in the uMgungundlovu District for a number of reasons (namely, vast geographical distances between cooperatives; the competition for government tenders; the political and religious differences in the local community; and lack of experience and skills in governing cooperatives).

The study proposes a renewed emphasis on educating and capacitating cooperatives to value and engage in productive networking activities. To facilitate cooperation among cooperatives, it is recommended that training and support offered to cooperatives is tailored towards emphasising the values and benefits of networks. This can be achieved through the provision of support to groups of cooperatives in order to create networking opportunities that will foster collaboration among cooperatives.

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Declaration 2: Publication

Okem, A. E., and Lawrence, R. (2013). "Exploring the Opportunities and Challenges of Network Formation for Cooperatives in South Africa". *KCA Journal of Business Management*, Vol. 5(1), 16-33.

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Acronyms

ANC	African National Congress
CBDA	Cooperative Development Bank Agency
CDA	Cooperative Development Agency
CAK	Cooperative Alliance of Kenya
CFIs	Cooperative Financial Institutions
CIPC	Companies and Intellectual Property Commission
CIS	Cooperative Incentive Scheme
CPR	Common Pool Resource
EDTEA	Department for Economic Development, Tourism and Environmental Affairs
DoE	Department of Education
DTI	Department of Trade and Industry
ICA	International Cooperative Alliance
IFOs	Investor Owned Firms
IDPs	Integrated Development Plans
KZN	KwaZulu-Natal
LED	Local Economic Development
NDA	National Development Agency
NGOs	Non-governmental Organisations
RBSA	Reserve Bank of South Africa
SACCO	Savings and Credit Cooperative
SANACO	South African National Apex Cooperative
SAPs	Structural Adjustment Programmes
SEDA	Small Enterprise Development Agency
SMMEs	Small, Medium and Micro-sized Enterprises
TCT	Transaction Cost Theory

CHAPTER 1

BACKGROUND TO THE STUDY, RESEARCH OBJECTIVES, RESEARCH METHODOLOGY AND THESIS OUTLINE

1.1 Introduction

This thesis explores the South African government's policy endeavours since 1994 to establish prosperous black-owned cooperatives. It establishes and considers the perception of black-owned cooperatives operating in the uMgungundlovu District Municipality (KwaZulu-Natal) regarding their own cooperatives and the benefits, or lack thereof, of cooperative activities. The study undertakes an empirical analysis of black-owned cooperatives in the uMgungundlovu District in order to gain insights into challenges facing cooperatives. This introductory Chapter presents the background to the research topic. More specifically, it presents a brief socio-economic background in order to contextualise the location of cooperatives in South Africa. The research objectives of this study are elaborated upon, and the research methods adopted are discussed and justified. The final part of the Chapter presents and summarises the structure of the thesis.

1.2 Background to the Research Problem and Justification for the Research

The history of South Africa is tainted by intense oppression and unjust treatment by a small white minority of a predominantly black majority. Although this had been the reality in the country since the arrival of white settlers in the 17th century (South African History Online, 2013), the coming into power of the Afrikaner-led National Party in 1948 made unequal and separate development official government policy. This policy stance was evident in statutes such as The Bantu Education Act (Act 47 of 1953), The Group Areas Act (Act 41 of 1950), The Population Registration Act (Act 30 of 1950), The Reservation of Separate Amenities Act (Act 49 of 1953), and The Bantu Authorities Act (Act 68 of 1951). The primary policy objective of these statutes was to construct a framework of separate development for the different racial groups in South Africa in which white South Africans were at the apex of political, economic and societal privilege while black South Africans were at the base.

Policies such as The Group Areas Act (Act 41 of 1950) resulted in the balkanisation of South Africa into different racial groups. The Group Areas Act prevented black South Africans from residing in urban areas and relegated them to areas known as the Homelands. According to Beinart (2012), the Homelands served as labour reserves for the country's burgeoning industrial and mining sectors during the apartheid years. Homelands were devoid of proper infrastructure development, had only minimal basic services and experienced high rates of migration that worsened the already poor socio-economic conditions (Beinart, 2012).

The implementation of The Bantu Education Act (Act of 1953) institutionalised the provision of substandard education to black South Africans. Among other things, Bantu education was tailored towards equipping black South Africans with the basic skills required for menial tasks, considered the only suitable jobs they were capable of performing. The consequences of such racial discriminatory policies were ever-increasing poverty levels, high-income disparity between races, unemployment and underdevelopment in the Homeland territories (Finchilescu and Tredoux, 2010).

In response to increasing pressures from some local and international anti-Apartheid communities, the Apartheid government embarked on the relaxation of some of its draconian policies in the 1980s. This paved the way for the country's first multiparty elections in 1994 that brought the African National Congress (ANC) into government. The years following the demise of Apartheid were years of optimism. There were high hopes that the new democratic government would achieve equitable development (Seekings, 2010; Asaf, Cato, Jawoko, and Rosevear, 2010). With great enthusiasm, black South Africans took over the reins of power and appeared poised to redress the inequality that characterised the country's convoluted history. Such sentiments are evident in statutes such as the 1994 Reconstruction and Development Programme (Republic of South Africa, 1994).

Compared to most African economies, South Africa has an advanced economy (Deutsche, 2014). However, behind the façade of a productive economy is a mass of unemployed and a poverty-stricken population. Using the upper-bound poverty line¹, data from Statistics South

¹ South Africa has three sets of poverty lines recommended for the study of poverty in the country. These are: "the food poverty line (FPL), lower-bound poverty line (LBPL) and upper-bound poverty line (UBPL) – to be used for poverty measurement in the country. The FPL is the level of consumption below which individuals are unable to purchase sufficient food to provide them with an adequate diet"

Africa show that 45.5% of South Africans were poor in 2011 (Statistics South Africa, 2014a). This high level of poverty has been attributed to the skewed distribution of the country's resources, and is regarded as a vestige of apartheid that the democratic regime still is unable to redress adequately. Besides the high levels of poverty, high-income inequality continues to be a persistent problem (Magruder, 2012). With a Gini Co-efficient of 0.7, South Africa remains one of the world's most unequal societies regarding income distribution (Statistics South Africa, 2013).

In addition to high levels of poverty and income inequality, unemployment continues to be an intractable challenge. According to Statistics South Africa (2014b), 25.2% of South Africans were unemployed in the 1st quarter of 2014. This figure represents an increase of 4.9% between the 4th quarter of 2013 and the 1st quarter of 2014 (Statistics South Africa, 2014b). In the first quarter of 2015, unemployment stood at 26.4%. The incidence of poverty is more nuanced in places like KwaZulu-Natal, especially its rural areas where poverty has been accentuated by the scourge of the HIV/AIDS pandemic (Karim, Kharsany, Frohlich et al., 2011). The above shows that after 20 years of democratic rule, the optimism that characterised the transition to democracy has not materialised for many South Africans who continue to live in abject poverty. This has resulted in the rising number of South Africans who have become disillusioned with the capacity of government to deliver development programmes as evident in the rising number of service delivery protests (Alexander, 2010; Managa, 2012). These protests are increasingly becoming violent. According to Jelani (2011:12), violent protests increased from 41.66% in 2007 to 55.64% in 2011.

In short, challenge of alleviating poverty, unemployment and high inequality confronted the ANC when it took over government in 1994. To tackle these challenges, the democratic regime adopted various policies and programmes aimed at job creation, wealth redistribution, and poverty alleviation.² Cooperatives were identified as one of the mechanisms for meeting these challenges. The Cooperative Development Policy for South Africa of 2004 reiterated the call for economic transformation. In line with its policy of economic transformation, the focus of the democratic regime is on emerging black-owned cooperatives (Republic of South Africa, 2013).

² Policies such as the Broad-Based Black Economic Empowerment and the Employment Equity Act fall into this category of policies,

The ANC-led government's promotion and support of cooperatives was premised on the conviction that cooperatives are strategically placed to create income-generating opportunities for communities in rural areas far removed from the formal economy³. In addition, the policy regards cooperatives as entities that can stimulate economic development and provide employment opportunities in the very location where communities resided (Mago, Mazise, and Hofisi, 2013). These objectives and anticipated benefits of cooperatives informed the adoption of The Co-operatives Act (Act 14 of 2005).

According to Section 1 of The Co-operatives Amendment Act (Act 6 of 2013), a cooperative is defined as “an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles” (Republic of South Africa, 2013:5). The above definition of cooperatives implies that cooperatives can tackle issues of poverty and unemployment since their primary goal is to address members' socio-economic needs. In addition, cooperatives are poised to address the challenge of income inequality through the income opportunities they create for cooperators. Furthermore, the social and economic benefits of cooperatives trickle down to communities where they operate through the opportunities they create. Effectively, cooperatives are positioned to address challenges of unemployment, inequality and poverty. In principle, this makes them an ideal development tool for the democratic government.

The establishment of a strong cooperative sector has been at the forefront of government policies and programmes since 1994. However, a number of studies have concluded that to date, cooperatives have not been able to bring about meaningful socio-economic transformation in and for their communities (Gadzikwa, Lyne and Hendriks, 2007; Ortmann and King, 2007; Mthembu, 2008; van der Walt, 2008; Department of Trade and Industry, 2009; Dlamini, 2010; Satgar, 2011; Department of Agriculture Forestry and Fisheries, 2011; Twalo, 2012; Genesis Analytics, 2014; Khumalo, 2014). Such studies believe that the success of cooperatives depends on the expansion of government support. The concluding arguments of these studies are that increased government support will enable cooperatives to address problems that have precluded them from being successful. In line with this view, the

³ Members of cooperatives are referred to as cooperators. Wherever the term is used in this thesis, it refers to members of cooperatives.

government has rolled out several support structures and programmes for cooperatives. My study explores the validity of such findings with specific reference to cooperatives in the uMgungundlovu District, KwaZulu-Natal (South Africa).

According to various annual reports of the Department of Trade and Industry (DTI), the government has put in place numerous programmes and support mechanisms for furthering its policy objective to create prosperous cooperatives, especially among previously disadvantaged communities. Support has been provided by government throughout the country at national, provincial and local levels. For example, special funding has been dedicated to establish and support cooperatives. Education and training programmes have been designed and offered across the country. Community members have been assisted with drafting business plans and submitting application forms for government funding towards the establishment of cooperatives. Agricultural cooperatives have been equipped with farming implements and resources. (Department of Trade and Industry, 2010a; 2010b; 2011; 2012a; 2012b; 2012c).

More recently, the government re-emphasised its commitment to the cooperative sector in the in 2015 State of the Nation Address where President Jacob Zuma observed that the government "...will promote the establishment of agri-parks or cooperatives and clusters in each of the 27 poorest district municipalities to transform rural economies" (Republic of South Africa, 2015). To actualise this, the government committed to setting aside "an initial funding of R2 billion has been made available for the agri-park initiative" (Republic of South Africa, 2015). The goal is that the fund will enable the emergence cooperative clusters that will ultimately be beneficial to member cooperatives through the provision of market opportunities as well as secondary agricultural activities.

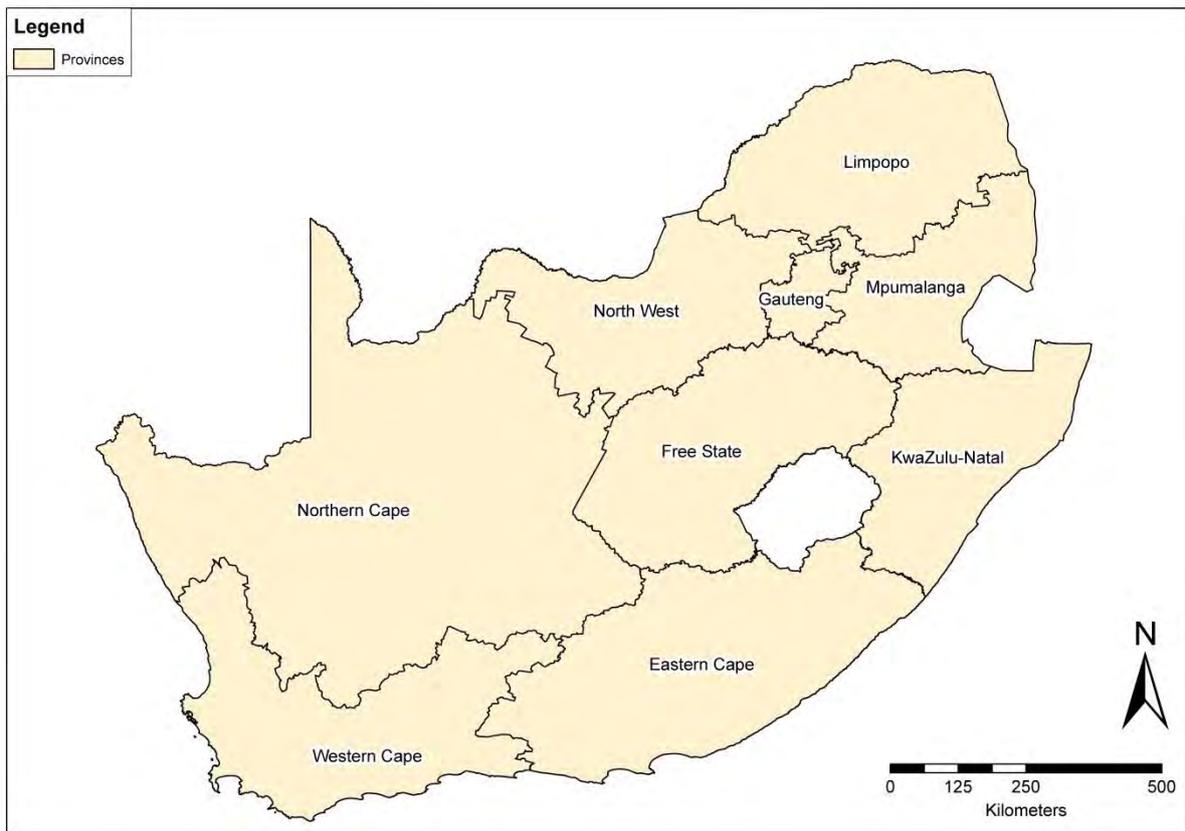
Despite intense government support, cooperatives in South Africa remain largely weak and continue to underperform (Department of Trade and Industry, 2009; 2012a; Steinman and Rooij, 2011). This is evidenced by 12% survival rates of cooperatives established in democratic South Africa (Department of Trade and Industry, 2010a:9; Steinman and Van Rooij, 2011: vii). According to Derr (2013), the Department of Trade and Industry (2012a), and the Department of Agriculture, Forestry and Fisheries (2012), most cooperatives in South Africa are unable to sustain any significant performance beyond the first year of registration. In addition, only a few have been able to create sustainable employment. Furthermore, it is

noteworthy that the survival of many cooperatives in South Africa is dependent on continued government support (Department of Trade and Industry, 2009). This is counterproductive given that instead of being the vehicle of development that they are meant to be, cooperatives continue to rely on government resources. This demonstrably disappointing outcome informs the background to my research problem. The study takes a closer look at cooperatives in established uMgungundlovu District since 1994 and investigates the issues facing these cooperatives.

1.3 Context of the Study

The study focuses on black-owned cooperatives in the uMgungundlovu District Municipality in the province of KwaZulu-Natal (South Africa). KwaZulu-Natal has the highest number (N=111962) of cooperatives in the country (Department of Trade and Industry, 2012a:35). This figure constitutes 26% of the country's cooperatives. KwaZulu-Natal is one of the nine provinces of South Africa (see Map 1). The province has an estimated population of 10,645,400. It has large expanses of fertile agricultural land and an active industrial sector. The province comprises one metropolitan municipality (eThekweni) and 10 District Municipalities (namely, iLembe, Amajuba, Ugu, Sisonke, uMkhanyakude, uThukela, uMzinyathi, uThungulu, Zululand, and uMgungundlovu).

Figure 1.1: Map of the Nine Provinces of South Africa



Source: Gijsbertsen, B. (2009).

According to the uMgungundlovu District Municipality (2014) itself, uMgungundlovu is a vibrant district municipality. It has a total population of 1,017,763 spread across seven local municipalities.⁴ About 60% of its population live in and around the capital city of Pietermaritzburg (located in the Msunduzi municipality). However, the remainder live mostly in rural and informal settlements (uMgungundlovu District Municipality, 2014:12). Table 1.1 below presents an overview of the socio-demographics of each of the seven Local Municipalities in the uMgungundlovu District.

⁴ The seven municipalities are Msunduzi, uMshwathi, uMngeni, Mpofana, Impendle, Mkhambathini and Richmond.

Table 1.1: Overview of Local Municipalities in the uMgungundlovu District Municipality

	Richmond	Msunduzi	Impendle	uMshwathi	uMngeni	Mkhambathini	Mpofana
Total Population	65,793	618,536	33,105	106,374	92,710	63,142	38,103
Working Age (15-64)	61,7%	68,4%	55,8%	62%	67,4%	63,5%	65,7%
Elderly (65+)	4,7%	5%	6,5%	5,2%	8,3%	4,8%	4,2%
Dependency ratio	62	46,2	79,1	61,2	48,4	57,6	52,3
Growth rate (2001-2011)	0,4%	1,12%	-1,34%	-0,19%	2,27%	0,67%	0,34%
Unemployment rate	26,3%	33%	45,1%	24,9%	23,9%	26,8%	23,9%
Youth unemployment rate	33,2%	43,1%	56,2%	31,5%	32%	34,1%	29,3%
Matric aged 20+	21,7%	33,7%	22,2%	21,3%	29%	20,6%	25,6%
Higher Education aged 20+	4,2%	13,1%	3,6%	4,7%	15,5%	5%	5,7%

Source: Adapted from Statistics South Africa (2011)

As can be seen from the Table above, more than half of the population in each municipality is of working age. Nevertheless, the unemployment rate is high. Although unemployment varies across the municipalities, more than a quarter of the population is unemployed across all the local municipalities. Youth unemployment is more prevalent with more than half of the youth being unemployed in Impendle. Directly related to unemployment is the low economic growth recorded across most of the municipalities with Impendle and uMshwathi recording negative economic growth rates. One fact that stands out starkly is that all of the local municipalities are characterised by low levels of education.

1.4 Purpose of the Study and Research Objectives

This study employs an interpretive meta-theory approach using a qualitative methodology that comprise a comparative review, documentary analysis and semi-structured personal interviews. The study investigates the challenges facing black-owned cooperatives in the uMgungundlovu District. However, the investigation is conducted within the broader South African context. As a result, the study also explores the evolution of cooperatives in South Africa. It examines the different policy interventions and actions taken by respective governments in South Africa. However, even these policy frameworks are informed by broader and global context. The study therefore also undertakes a comparative literature review of the implementation and outcomes of cooperative policy in two countries representing the developed world (namely, the United Kingdom and Spain) and two countries representing the developing world (namely, Kenya and Nigeria). The purpose is to determine

common factors that promote or hinder the development of a cooperative sector, and whether these factors offer any insights for our local context.

In order to understand the challenges facing black-owned cooperatives in the uMgungundlovu District, a set of broad and key research objectives guided the study. Broadly, this study sought to:

- Review the origins and rationale of the cooperative movement.
- Examine the defining principles and characteristics of cooperatives.
- Understand the theoretical premises underpinning the concept of cooperative.
- Review cooperative movements in other countries and their experiences.

The following key research questions guided the study:

- What is the historical background of cooperatives in South Africa?
- What is the legislative and policy framework for cooperatives in a post-Apartheid South Africa and is it adequate?
- How do cooperatives in the uMgungundlovu District compare to the conceptual and theoretical premises of cooperatives as espoused in the literature?
- What are the issues facing cooperatives in the uMgungundlovu District?
- What lessons, if any, can be learnt from the cooperatives in the uMgungundlovu District?

1.5 Research Methodology

In order to answer the broad and key research questions, particular attention was paid to which research methodology would be most appropriate for a study of this kind. In the Social Sciences, quantitative and qualitative methodologies are employed in research. In quantitative research, data is generated from close-ended structured questionnaires (Babbie and Mouton, 2010; Tuli, 2011). Such data can be obtained either through fieldwork or from existing sources such as databases. Quantitative research is underpinned by the positivist paradigm. Positivist research is characterised by “emphasis on the scientific method, statistical analysis, and generalizable findings” (Mack, 2010:6). Through statistical analysis, quantitative researchers work towards establishing how the relationship between/among variables in a

study sample is true for the entire population from which a representative sample was randomly drawn. For this reason, positivist researchers often use large samples in order to carry out statistical analysis, generate hypotheses, and make predictions generalisations (Tuli, 2011; Erlingsson and Brysiewicz, 2013).

Ontologically, positivist researchers believe in the objectivity of reality. Positivist researchers are guided by the assumption that “empirical facts exist apart from personal ideas or thoughts; they are governed by laws of cause and effect; patterns of social reality are stable and knowledge of them is additive” (Tuli, 2011:100). Ontology in quantitative research exists outside the researcher and the purpose of research is to discover this reality. Due to this ontological orientation, a positivist researcher ought to remain detached from the phenomenon being studied. This standpoint is underpinned by the conviction that a researcher’s subjective views could bias research findings.

Quantitative researchers use deductive reasoning for knowledge generation. Deductive reasoning refers to the kind of reasoning that begins with general principles then proceeds to a conclusion (Bhattacharjee, 2012). If the general principles upon which the conclusion is grounded are true, the conclusion, it is argued, necessarily has to be true (Rodriguez-Moreno, and Hirsch, 2009). In research informed by this epistemological standpoint, “researchers design experiments to either confirm or reject a pre-determined hypothesis” (Van Griensven, Moore, and Hall, 2014:267).

Qualitative research, unlike quantitative research, is grounded on the interpretivist paradigm. The interpretivist paradigm is informed by the view of the existence of multiple truths (Erlingsson and Brysiewicz, 2013). Also known as the anti-positivist paradigm, the interpretivist paradigm is underpinned by the view that “emphasizes the ability of the individual to construct meaning” (Mack, 2010:7). In the interpretivist paradigm, realities do not have in-built meanings; rather observers attribute meanings to realities. In this sense, the meaning of a reality is relative to the observer. This is why Tuli (2011:103) argues that the interpretivist paradigm “portrays the world as socially constructed, complex, and ever changing in contrast to the positivist assumption of a fixed, measurable reality external to people”. In interpretivist research, the existence of “multiple truths or multiple realities” is not seen as a contradiction. This is primarily because individual perspectives differ and there may be more than one true perspective of reality (Erlingsson and Brysiewicz, 2013).

Unlike quantitative research, which is grounded on deductive reasoning, qualitative research is based on inductive reasoning (Mack, 2010; Bhattacharjee, 2012; Van Griensven, Moore, and Hall, 2014). In inductive reasoning, knowledge generation comes from the observation of specific individual cases and builds up incrementally. The experiences and worldview of the researcher plays an important role in this process.

Data in qualitative research are generated from sources “such as interview transcripts, observations of non-verbal communication, drawings or film” (Van Griensven, Moore, and Hall, 2014:2678). The data collection instruments used in qualitative research allows a researcher to gain in-depth knowledge about the lived experiences of research subjects (Bhattacharjee, 2012).

Unlike quantitative research that tends to focus on generalising research findings, the goal of qualitative research is the generation of robust understanding of issues or cases under investigation. For this reason, qualitative research requires neither large nor representative samples (Erlingsson and Brysiewicz, 2013). This is why Oppong (2013:203) argues that “the sample size [in qualitative studies] is more a function of available resources, time constraints and objectives of a researcher’s study”.

My study was grounded on the qualitative interpretivist research paradigm. The choice of the qualitative paradigm was primarily because the study aimed to gain in-depth understanding of interviewee’ lived experiences of cooperatives as well as their interpretation of these experiences. The use of a qualitative approach facilitated the generation of a robust understanding of the perspectives of the research interviewees about their experiences in their respective cooperative. Through the qualitative approach, the study was able to uncover rich information about the status and the dynamics of the activities of cooperatives investigated in uMgungundlovu District Municipality.

1.5.1 Data Collection Methods

Both primary and secondary data were collected during this study. The study commenced by conducting a thorough literature review. According to Bhattacharjee (2012:21), a literature

review performs three key objectives in research: “(1) to survey the current state of knowledge in the area of inquiry; (2) to identify key authors, articles, theories, and findings in that area; and (3) to identify gaps in knowledge in that research area”. The literature review provided the necessary literary knowledge to enable identification of the theoretical premises as well as the generally accepted principles that underpin the concept of cooperatives.

Additionally, the literature review employed a comparative approach to gather information about cooperatives from four countries (Kenya, Nigeria, Spain and the United Kingdom). A comparative research is “a method of analysis that focuses on several objects of study in order to identify similarities and differences” (Paisey and Paisey, 2010:181). In this study, the focus was on the similarities of factors that underpin the successes/failures of cooperatives in the countries reviewed. The comparative review also assisted consideration of the applicability/relevance of pertinent factors to the South African context.

The data collection methods adopted during the course of the study included reviewing both empirical and non-empirical studies in order to extract relevant information. Useful sources of information proved to be a number of South African government reports and policy documents; articles in scholarly journals; books; unpublished theses; and data available on various internet websites such as the International Cooperative Alliance, the Department of Trade and Industry, and Department of Agriculture, Forestry and Fisheries, and the Companies and Intellectual Property Commission (CIPC).

Although focus groups are valuable sources of qualitative data, the geographic distances between cooperatives made it logistically difficult to bring together, delegates from different cooperatives to one central location for a focus group discussion. In addition, findings from individual interviews revealed deep-seated lack of trust that could potentially have negative impact on the outcomes of focus group discussion. A cross-sectional research design was used in this study for the collection of primary data. In cross-sectional studies, data are collected only at one point in time (Bhattacharjee, 2012). Primary data was collected by means of semi-structured face-to-face interviews. In a semi-structured interview, the interviewer has a set of predetermined questions that guide interviews (Neuman, 2011). However, the questions can be modified based on ideas that emerge during the course of interviews (Gill, Stewart, Treasure, and Chadwick, 2008; Neuman, 2011). This flexibility is an important advantage of semi-structured interviews in exploratory research. In this study,

qualitative data were collected by means of semi-structured interviews using an interview schedule. Through semi-structured interviews, the researcher was able to ask probing questions during interviews. In this study, the flexibility of semi-structured interviews also provided an opportunity to clarify confusing responses that emerged during interviews.

The data collection tool used in the study comprised three parts. The first part of the tool was utilized to gather information about the contexts in which cooperatives operate. This entailed recording observable facilities and amenities in the immediate environment where cooperatives were located. The second part of the tool was used to collect demographic data such as the size of cooperatives, the sector in which cooperatives operate, and the length of time since they have been operational. The information generated in this section was mainly quantified. According to Bryman (2008), this kind of information is useful in contextualising responses of research interviewees in a qualitative study. The third part of the interview schedule asked more specific questions aimed at unearthing perceptions regarding the challenges facing cooperatives, and the nature of their collaborative activities.

Data collection also comprised observation of the settings in which cooperatives were located. Observation enabled the researcher to understand the immediate environment in which cooperatives are located and how these affect their activities. Without these observations, I would not have been able to appreciate the difficult socio-economic conditions under which the cooperatives operate. The information generated through observation provided a layer of verification for some issues raised during interviews.

1.5.2 Study Sample

Sampling refers to the strategy used in determining the choice of study participants. According to Bhattacharjee (2012:66), “sampling techniques can be grouped into two broad categories: probability sampling and non-probability sampling”. In probability sampling, all units within a population have an equal chance of being selected. This is not the case in non-probability sampling in which the objective is not about giving all units an equal chance of being selected. The sample in this study was selected by means of convenience non-probability sampling. As the name implies, samples in convenience sampling are drawn at the convenience of the researcher. According to Teddlie, and Yu (2007:78), “convenience

sampling involves drawing samples that are both easily accessible and willing to participate in a study”. Interviewees in the study were conveniently selected.

Convenience sampling technique was adopted in the study primarily because of issues of feasibility. Gaining access to representatives of cooperatives proved to be the largest obstacle. Cooperatives are dispersed geographically in the uMgungundlovu District and did not have a physical head office.⁵ In selecting research participants, the researcher ensured that those interviewed held positions of leadership or had the requisite knowledge of the operations of their cooperative. Where the leader of a cooperative was unavailable for interview, s/he was asked to recommend another member that had substantial experience in the operations of the cooperative. After a lengthy and judicious process, a total of 26 research subjects were conveniently selected, each representing a different cooperative.

1.5.3 Ethical Considerations

The interviews could not commence without the approval of the University of KwaZulu-Natal’s Human Sciences Ethics Committee (Protocol Reference Number: HSS/1049/011D). In this research, I applied the ethical obligations as set out in the Protocol as follows:

1. Interviewees were given detailed information about the purpose of the research. This ensured that their consent to participate or not participate was an informed one.
2. All interviewees were informed that data collected for the research will be used solely for research purposes.
3. Permission was obtained from all interviewees to use an audio recorder to record interviews. No interviewee objected to the use of audio recorder.
4. Interviewees were informed that their participation was voluntary and that they were free to withdraw from the study at any point they wish to do so. In addition, they were informed that they could choose not to answer any question that they were uncomfortable with (none of them refused to answer any question).

⁵ Discussed further in section 1.6.

5. Interviewees were guaranteed of the protection of their anonymity throughout the research process.
6. All information from other sources used in the thesis was properly acknowledged.
7. Financial supports received in the course of the study were acknowledged.

Furthermore, in line with the Protocol, I omitted from quotations and subsequent discussions, references that would identify the interviewees in this thesis. Through this, the anonymity of interviewees was assured. Interviewees in the study were identified as C1-C26 (where C1 represents cooperative number 1 and C26 represents cooperative number 26). All references to research subjects and excerpts from interviews in this thesis were cited using the above reference codes.

1.5.4 Data Analysis

The use of computer-aided qualitative data analysis software (CAQDAS) in the organisation of qualitative data continues to be a subject of ongoing debate (see Rademaker, Grace, and Stephen, 2012; Rodik, and Primorac, 2015). The argument is mainly epistemological and stems from the notion that CAQDAS is underpinned by the positivist paradigm that sees the world as external and independent of the qualitative researcher. From the perspective, CAQDAS removes the subjective interpretive role of the qualitative researcher (Rodik, and Primorac, 2015). Despite this argument, a number of studies have shown that CAQDAS are useful tools in qualitative studies (Rademaker, Grace, and Curder, 2012; Bazeley and Jackson, 2013; O'Neill, 2013). Since computer-aided softwares have been successfully used in other studies, I decided to use a software in organising my fieldwork data. This software facilitated the organisation of data into themes through careful coding of transcripts.

Records of interviews were transcribed and captured into Nvivo Version 10 for coding. The coding process was iterative. The iterative process in qualitative research is not a simple “repetitive mechanical process”; rather, it is a “reflexive process” which enables the researcher to become immersed in the data in order to generate deeper insights into the phenomenon being studied (Srivastava and Hopwood, 2009:77). The iterative process in coding of transcripts facilitated the generation of similarities, differences and relationships between and across responses. This approach is important in thematic analysis of qualitative

data applied in this study. Thematic analysis is the “search for themes that emerge as being important to the description of the phenomenon” (Fereday and Muir-Cochrane, 2006:3). The analysis of data in this study comprised the following phases:

Phase 1: Reading of transcripts

Phase 2: Identification and coding of themes

Phase 3: Generation of summary table for themes and illustrative quotes

Phase 4: Repeat of phases 1-3

The process of re-reading and re-coding of transcripts continued until no new theme emerged from the transcripts. This kind of analysis, is known as “hands-on analysis”, is defined as:

Hands-on analysis is a process of reading, re-reading and “immersing” oneself in the text. The analysis typically includes immersion in the data, coding sections of text and then combining codes into categories/themes. The researcher asks the text questions and searches for patterns of similarity and differences that connect different elements in the data, such as passages in a transcribed interview. The analysis process swings back and forth between the text, the researcher’s knowledge/experience and theories and previous research in a spiraling process that builds new understandings. This is often referred to as the hermeneutic circle or spiral (Erlingsson and Brysiewicz, 2013:96).

1.5.5 Validity and Reliability

Validity and reliability are terms commonly associated with quantitative studies. Increasingly, these terms are being applied to qualitative studies as well. While the reliability of a study is based on “replicability or repeatability of results or observations” (Golafshani, 2003:598), validity is concerned with understanding whether the researcher is observing or measuring exactly what he/she sets out to study (Bryman, 2008). Establishing the reliability of a qualitative study is often a difficult task due to its subjective nature.

Given that qualitative and quantitative paradigms are grounded on different epistemological standpoints, it has been argued that these concepts should be understood differently for each paradigm. Bryman (2008) and Srivastava and Hopwood (2009) argue that when thinking about validity and reliability, qualitative researchers should focus on evaluating the trustworthiness and authenticity of their study. In this way, the reliability of a research rests with the researcher (Morse, Barrett, Mayan, Olson, and Spiers, 2008). According to Bryman (2008), recording of interviews is one of the strategies that can be used to improve the

trustworthiness and authenticity of qualitative research. In addition to recording interviews, Watt (2007) recommends writing of notes and memos as a strategy for improving the trustworthiness and authenticity of a qualitative research. Furthermore, Tuli (2011) and Erlingsson and Brysiewicz (2013) have argued that the use of excerpts from interviews in qualitative research enhances its trustworthiness.

In this study, I tape-recorded all interviews to ensure that responses were accurately captured. I also wrote detailed notes about my subjective experiences and observations during the process of data collection and analysis. Conducting face-to-face interviews allowed interviewees to elaborate on their values and attitudes and account for their behaviour. As a result, I made extensive use of excerpts from the interviews in presenting the findings of the research in order to convey the perceptions of interviewees.

Adopting qualitative research methods enabled this researcher to explore interviewees; subjective experiences and the meaning they attach to those experiences. Such methods draw particular attention to local contextual issues, illuminating the interviewee's perception(s).

1.6 Limitations of and Reflections on the Overall Research Process

During my fieldwork planning stages, I requested a list of contact details of all the cooperatives in the uMgungundlovu District from the District Coordinator. However, it soon became apparent that the list was unreliable. Although the list had 608 registered cooperatives, most of these were not reachable at the time of fieldwork. When I called these cooperatives, the telephone numbers were either incorrect or the cooperative were no longer operative. This is interesting in itself because it shows that the District Coordinator does not have accurate data on the state of cooperatives within the jurisdiction. Problems regarding data of cooperatives in South Africa have been reported elsewhere (Twalo, 2012).

A language barrier was the second challenge experienced during the course of the research. The cooperatives that participated in this research were located in the rural areas of KwaZulu Natal where *IsiZulu* is the predominant language. Communication was a challenge as I have minimal competency in *IsiZulu*. To address this challenge, I recruited two students from the University of KwaZulu-Natal to assist as interpreters where interviewees could not communicate in English. Since most of the interviewees were not able to converse in English

and were not literate, I would not have been able to conduct a large-scale survey or any form of self-administered questionnaire. As a result, interviews could only be conducted face-to-face in the home language of each interviewee.

Physical access to black-owned cooperatives in the uMgungundlovu District was also limited. The cooperatives are located in the underdeveloped rural parts of the uMgungundlovu District. There is minimal road infrastructure in place. This posed logistic problems since the cooperatives in the uMgungundlovu District are dispersed across vast tracts of rural land. I had to travel vast distances to conduct interviews with members of cooperatives. This often took place at interviewees' home since the cooperative did not have formal office space. In fact, this reality in itself sheds light on some of the challenges that cooperatives face on a daily basis.

Because of the above, the study was limited to those cooperatives that this researcher was able to access. In total, in-depth interviews with members of 26 black-owned cooperatives in the uMgungundlovu District were conducted.

Visiting the cooperatives provided firsthand insight into the nature of their operations. The interaction with leaderships of participant cooperatives also provided useful information about the nature and characteristics of the cooperatives. By visiting the cooperatives and interviewing leaders in-depth, I was able to generate robust information on the characteristics of these cooperatives. My presence in the field was also positively welcomed by cooperators. All interviewees were impressed by my interest in researching cooperatives and this enthusiasm was apparent in their openness in engaging in discussions in the course of the interviews.

1.7 Structure of the Thesis

The thesis is organised into eight Chapters around different but related thematic issues in order to respond to the research objectives and questions identified in this Chapter.

Chapter Two provides a historical narrative of the origins of cooperatives and the cooperative movement. It explains how conditions such as poverty, unemployment and exploitation

motivated the emergence of collaborative initiatives such as cooperatives. It shows that the growth and success of the cooperative sector has led to the adoption of internationally recognised principles that have been subscribed to by countries worldwide and are seen as embodying the spirit of a successful and sustainable cooperative movement. The Chapter also explores the different forms of cooperatives that have emerged over time and the respective contributions cooperatives have made to the global economy. Chapter Two shows that cooperatives are anything but insignificant examples of collaborative action. On the contrary, they can and have been significant and powerful contributors to the global economy. The extent to which this applies to the African continent remains debatable for a number of reasons. The reasons are explored in this Chapter.

Chapter three presents a literature review of theoretical premises related to cooperatives. The Chapter shows that the concept of cooperatives is integrally linked to theoretical discussions on why people choose to collaborate. This Chapter identifies four separate but interrelated theoretical premises that are relevant to the formation, operation and survival of cooperatives. Firstly, it is argued that the Transaction Cost Theory (TCT) motivates the creation of cooperatives. Secondly, the theory of collective action identifies a number of factors that drive people to pursue collaborative initiatives, such as cooperatives. Thirdly, access to social capital is key to the success of cooperatives. Fourthly, the principle of networking has the potential of adding value to cooperatives.

Chapter Four presents a comparative review of cooperative movements in four different countries. The first two countries, the United Kingdom and Spain, are developed and industrialised economies. The other two countries, Kenya and Nigeria, are developing countries in Sub-Saharan Africa. The comparative review establishes factors that contribute to the success/failures of cooperatives in these countries.

Chapter Five focuses on South Africa. It considers the cooperative movement in South Africa during two distinct eras: the first era predates the democratic dispensation. It examines the growth of the predominantly white-owned cooperative sector and the role of white minority-led government in the promotion of this sector. The second part of the Chapter considers the emergence of black-owned cooperatives as a direct result of the initiatives of the ANC-led democratic government since 1994. The Chapter examines the current legislative and policy

frameworks in place for cooperatives in South Africa as well as the structures and mechanisms for supporting the growth and development of black-owned cooperatives.

Chapter Six presents the findings from the empirical component of the research. Data gathered during the interviews with cooperatives located in the uMgungundlovu District Municipality are presented in order to describe the nature, status, challenges and concerns of respective cooperatives. Where relevant, short narratives are provided to elucidate certain opinions held by interviewees from the cooperatives.

Chapter Seven provides a critical analysis of the overall research findings. It considers the findings from the empirical component of the research alongside the theoretical premises raised in Chapters Two and Three. In addition, the Chapter considers potential parallels with the experiences of the countries described in Chapter Four.

Chapter Eight concludes the study. The conclusion draws on both the primary and secondary data collected for the study. It provides recommendations based on the overall findings of the study as well as prospects for further research.

While acknowledging that the findings of the study are limited to the uMgungundlovu District, the researcher nonetheless argues as follows: a merger between firstly, the theoretical arguments raised in the literature, secondly, the findings of the comparative literature review on the experiences of cooperatives in different countries, and thirdly, the findings of the review of cooperatives in the uMgungundlovu District, enables a certain amount of generalisation regarding the implementation of cooperative policy as a whole.

1.8. Conclusion

Since the transition to multiparty democracy in 1994, South Africa has continued to face the triple challenges of high poverty, unemployment and income inequality. This chapter has shown that the South African government adopted cooperatives as one of the strategies aimed at addressing the above challenges. However, the country's cooperatives continued to be dodged by underperformance hence the need to investigate how cooperatives function and proffer solutions. The chapter also sets the background, justification of the study, research approach and structure of the thesis.

CHAPTER 2

CONCEPTUALISING COOPERATIVES: A LITERATURE REVIEW OF THE COOPERATIVE MOVEMENT AND PRINCIPLES OF COOPERATIVES

2.1 Introduction

The modern cooperative movement is often seen as having its origin in England in 1844 (Mazzarol, 2009). Since their emergence, modern cooperatives have played an important role in improving the socio-economic status of people around the world. Given its focus on the improvement of members' collective good, cooperatives are seen as vital tools for socio-economic development. The overriding objective of this Chapter is to present an overview of the cooperative movement. In that regard, the Chapter examines the origin, forms, and the defining characteristics of cooperatives. This Chapter argues that these very same characteristics make cooperatives powerful vehicles for local economic empowerment. The evolution of cooperatives in Africa is also presented and discussed in this Chapter. This will show that cooperatives, despite their geographical and historical disparities, share some fundamental and defining characteristics.

2.2 Origins of the Cooperative Movement

The idea of cooperatives stretches back to ancient times. However, it has been argued that modern cooperatives emerged during the industrial revolution in England (Satgar, 2007a; Mazzarol, 2009; University of Wisconsin Center for Cooperatives, 2012). The emergence of modern cooperatives at this historical juncture has been construed as a reaction to the harsh socio-economic conditions which were triggered by the industrial revolution (De Peuter, 2010; Ajayi 2012; Diamantopoulos, Getnet and Anullo, 2012; Hannan, 2014). During the industrial revolution, skilled artisans as well as unskilled labourers lost their jobs as production became more mechanised. In addition, the concentration of capital in the hands of a few industrialists resulted in the pauperisation of many smallholder farmers and artisans

who were unable to compete in the industrial age (Jarka, Gunnar and Gert, 2003; Tchami, 2007). These members of society had no organisations defending them against the exploitation of the capitalist class. These factors, among others, constituted the “macro level factors” which precipitated the “wide-spread proletarianization in Europe during the 19th and early 20th century” (Jarka, Gunnar, and Gert, 2003:242). Large-scale poverty was experienced in both rural areas and urban centres. Cooperatives emerged as collective response by the poor to these imperatives of the industrial revolution (International Cooperative Alliance, 2010). The formation of cooperatives enabled poor members of society to mitigate the hardships brought about by the harsh socio-economic and political dynamics of the epoch. By merging their resources, members of cooperatives were able to produce and purchase products from cooperatives’ owned-stores at lower prices. The foregoing demonstrates that cooperatives, at this formative stage, were geared towards addressing the needs of vulnerable members of society.

In other words, it is apparent that the disadvantaged position of small-scale producers, coupled with the loss of employment by factory workers, were key factors that stimulated the formation of cooperatives. According to the Cooperative Development Institute (2011), the cooperative model of economic organisation was seen as the only viable means to protect the collective interests of the poor and vulnerable. Similarly, Jarka, Gunnar, and Gert (2003:242) argue that as a “counter-reaction to capitalistic exploitation”, cooperatives brought together disadvantaged peasants who pooled their resources to increase their bargaining power. In the same vein, De Peuter and Dyer-Witthof (2010) note that cooperatives emerged in the late 19th century in opposition to capitalism.

A review of the history of organised cooperatives shows that there have been various attempts at the formation of cooperative societies. Such attempts include the Shore Porters Society established in Aberdeen in 1498 and the Fenwick Weavers Society established in 1761 in Scotland (Mazzarol, 2009). However, the Rochdale Society of Equitable Pioneers (hereafter referred to as the Rochdale Society), formed in 1844 is often seen as the starting point of present day cooperatives (Towsey, 2010; Mazzarol, 2011; Satgar, 2011). According to Satgar (2007a), a group of artisans formed the Rochdale Society to advance their collective interests.

Robert Owen has been credited as an influential thinker whose ideas were at the forefront of advancing the cooperative movement (Satgar, 2007a; Ajayi, 2012). His thinking was informed by the desire to form a utopian society premised on egalitarianism (Mazzarol, 2009). This ideological standpoint facilitated the rapid growth of the cooperative movement in the 19th century. According to Zeuli and Cropp (2004), the Rochdale Society first started out by operating small consumer stores through which members bought basic supplies such as flour and sugar. Soon afterwards, cooperatives expanded into other sectors such as housing and finance.

2.3 Defining Characteristics of Cooperatives

A perusal of the literature shows that there are different definitions of a cooperative. Porter and Scully (1987:494) define cooperatives as “voluntary closed organizations in which the decision-control and risk-bearing functions repose in the membership, and decision management reposes in the agent (manager), who represents the principal’s interests”. This definition presents three characteristics of a cooperative. Firstly, a cooperative is a voluntary association of persons. Such an association is formed to address members’ common needs. Secondly, a cooperative is controlled by its members since they are actively involved in making decisions about its operations. The third feature of the definition points to the fact that the risks of a cooperative are borne by members since it is member-owned and member-controlled.

What is unique about a cooperative is that those who own a cooperative are simultaneously its customers (Birchall and Ketilson, 2009). This characteristic sets cooperatives apart from other forms of businesses such as Investor Owned Firms (IOFs) (Mazzarol 2009). Unlike IOFs in which members only contribute capital, members of a cooperative contribute capital and utilise services or market provided by the cooperative (Dlamini, 2010).

According to Torgerson, Reynolds, and Gray (1998:2), cooperatives could be seen “as a social movement of independent farm operators seeking to enhance and protect their place in the economic organization of agriculture”. The overriding aim of a cooperative, according to this view, is to protect the interest of members against exploitation by actors such as middle men in the supply chain. The foregoing suggests that cooperatives exist to balance the market

economy by countering the effects of market distortion such as monopoly, monopsony and oligopoly (Baker and Graber-Lüzhøft, 2007). However, a weakness in Torgerson, Reynolds, and Gray's conception of cooperatives is that it limits cooperatives to the agricultural sector. This is often a feature in the conceptualisation of cooperatives in which cooperatives have been construed as agricultural organisations ideal for rural peasants. It is rather a misleading conception since cooperatives are not limited to the agricultural sector nor are they suitable only for the rural poor (Von Ravensburg, 2009).

Cooperatives bring individuals together to empower themselves through the power of the collective. This value of cooperatives was acknowledged in a report of the United Nations (1996) which views cooperatives as an effective tool that enables a group of people (whether small or large) to mobilise resources to meet their needs. The report noted that in the process of resource mobilisation to meet members' needs, cooperatives foster entrepreneurship in communities where they operate. In this way, cooperatives improve the economic condition of members as well as that of the community due to the employment opportunities they create.

Although the foregoing views show that cooperatives have been conceptualised in a number of ways (each with subtle differences), there has been a growing acceptance of the definition of cooperatives by the International Cooperative Alliance (ICA).⁶ The ICA defines a cooperative as “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 organised and operated on cooperative principles” (International Cooperative Alliance, 1995). The strength of ICA's definition lies in the fact that it synthesises the diverse definitions of cooperatives in the literature. In addition, the definition does not only focus on economic values, it also emphasises the social and cultural values of the cooperative movement. This aspect is often absent in definitions of cooperatives. The definition of cooperatives proposed by the ICA is what underpins the understanding of cooperatives in this study.

⁶Headquartered in Geneva, Switzerland, the ICA is the international umbrella for the global cooperative movement. Its primary goal is to unite the world's cooperative movement by providing a platform for cooperatives to come together to network, support and share knowledge. It sees itself as the custodian of the principles and values of the cooperative movement. The ICA provides various supports to the cooperative movement including advocacy, capacity building and knowledge sharing.

In line with ICA's definition, there is an increasing emphasis on non-economic benefits of cooperatives. What is important here is the recognition that self-organisation through a cooperative is an important strategy that simultaneously achieves social and economic outcomes. The combination of associationism and market forces makes cooperatives a veritable market option. Menzani and Zamagni (2010:21) argue that "cooperatives can be seen as an instrument for unleashing the market's full potential" primarily because of their economic and social outlook. In the absence of this recognition, the successes and failures of cooperatives would be defined in purely economic terms at the expense of the social and cultural dimensions (Garnevaska, Liu, and Shadbolt, 2011; Mellor 2009). In recognition of the non-economic benefits of cooperatives, Wanyama, Develtere and Pollet (2009:187) emphasise the importance of adopting a "holistic social economy model" when it comes to the study of cooperatives. This approach is particularly important in light of the principles and values that underpin the cooperative movement.

2.3.1 Principles and Values of Cooperatives

Across the world, the cooperative movement is guided by seven key universal principles. The Rochdale Pioneers first formulated the principles in 1844 to define the identity of the model of economic organisation they pioneered (Kokkinidis, 2010). By adhering to the principles, the identity of cooperatives is upheld regardless of where they are located. Each of the seven principles will be briefly explored in the following paragraphs. This thesis recognises the conceptual value of these seven principles insofar as they reiterate the fundamental rationale for cooperatives, as well as their potential strength.

2.3.1.1 Voluntary and Open Membership

The first underlying principle of the cooperative movement is that of voluntary and open membership (International Cooperative Alliance, 2007). In realising this principle, cooperatives do not discriminate on the bases of gender, social, racial, political or religious status of people. According to the principle of voluntary and open membership, a cooperative accepts anyone intending to utilise the services or opportunities provided by a cooperative. However, such a person must subscribe to the values for which the cooperative was established. Furthermore, the prospective member must be ready to accept the responsibilities that come with being a member of the cooperative. Such responsibilities include contributing time, finance, inputs and other resources required for the functioning of the cooperative. In

addition, members are responsible for the governance of cooperatives since a cooperative is a member-owned organisation.

2.3.1.2 Democratic Member Control

Apart from being organisations committed to open and voluntary membership, cooperatives are subject to member control (Nilsson, J., Svendsen, G. L. H., and Svendsen, 2012). The principle of democratic member control is at the core of the cooperative movement. This principle ensures that at every point, a cooperative is committed to fulfilling the needs and aspirations of those who own it. The control of cooperatives is realised through the “one-member-one-vote” strategy (Bernard and Spielman, 2009:61). This principle safeguards against the hijacking of a cooperative either by members with higher investment or other outsiders (such as government and development organisations). Given that a cooperative is owned and controlled by members, each member is entitled to benefit from its services and profits. In view of this, the International Cooperative Alliance, (2007) notes that surpluses of cooperatives are utilised by members for a number of reasons including the improvement of their cooperative and direct pay-outs from cooperatives proportionate to their contributions. In addition, surpluses of cooperatives are used in other activities such as community development programmes that are supported by members.

2.3.1.3 Member Economic Participation

Member economic participation is anchored on the view that cooperatives are owned by members who are required to contribute equally to its growth (International Cooperative Alliance, 2007). The nature of contribution expected of members is dependent on the kind of cooperative and the sector in which it operates. For this reason, member economic participation could be in terms of buying shares in cooperative, delivering farm produce to a processing plant, contributing manual labour to an agricultural cooperative and so on.

2.3.1.4 Autonomy and Independence

Cooperatives are autonomous and independent organisations. Adherence to this principle guarantees that cooperatives are free from the influence of external parties such as government, non-governmental organisations (NGOs), and development agencies (Nannyonjo, 2013). Autonomy guarantees that cooperatives are not manipulated into

fulfilling the needs and aspirations of external agents at the expense of members' needs and aspirations (Hannan, 2014). Abiding by this principle entails that governments focus on creating enabling environments that will foster the growth of cooperatives as autonomous organisations. Such enabling environment includes the implementation of favourable tax policies that encourage ploughing profits back into cooperatives thus strengthening the cooperative movement.

2.3.1.5 Education, Training and Information

Education, training and information is the fifth principle of the cooperative movement (International Cooperative Alliance, 2007). According to this principle, a cooperative ought to provide relevant education and training to its members (Wanyama, Develtere, and Pollete, 2009). Education and training empowers and encourages members to participate in decision making regarding the running of a cooperative. It also guarantees that leaders of a cooperative have the requisite skills to oversee the day-to-day running of the cooperative. Furthermore, this principle commits cooperatives to educating the public about their nature, working and benefits, thus ensuring that the public becomes better informed about the rationale for the formation and participation in cooperatives. This could result in the public choosing to either become members of an existing cooperative or to establish a new one. Effectively, member education can contribute to increased number of cooperatives and cooperators.

2.3.1.6 Cooperation among Cooperatives

Promoting cooperation among cooperatives is another principle of the cooperative movement. According to Novkovic (2008), cooperation among cooperatives facilitates the formation of a network of cooperatives at local, regional, national and international levels. By developing a robust network, cooperatives become strategically placed to harness the benefits of economies of scale and scope (Dredge, 2006). It further enhances the viability and sustainability of the cooperative movement since it links them to support and opportunities in the network. Furthermore, cooperation results in the circulation of income and business opportunities among cooperatives. What this entails is that instead of outsourcing activities to other business, a cooperative providing this service is contracted to provide the service thus ensuring that cooperatives provide business opportunities to one another. Furthermore,

cooperation among cooperatives lowers transaction costs for cooperatives that then results in improved profits.

2.3.1.7 Concern for the Community

As an economic model that is rooted in the grassroots, cooperatives are expected to have a strong concern for the immediate community in which they operate (International Cooperative Alliance, 2007). According to Zeuli, Freshwater, Markley, and Barkley (2004:18), cooperatives have “the potential to create more substantial social and economic benefits within a community than non-cooperative firms”. Similarly, Bertulfo (2007:106) contends that, “while focusing on member needs and wishes, co-operatives work for the sustainable development of their communities”. The argument here is that addressing members’ socio-economic needs will have a spillover effect on the community at large. Benefits that accrue from cooperatives to community are either intentional or unintentional. While the former relates to purposive and planned action, the latter is concerned with reactive actions to address specific community needs.

When people participate in cooperatives, they advance their personal, collective and communal interests. This value of cooperatives was expressed in the report of the 51st session of the United Nations’ General Assembly which states that cooperatives offer people the opportunity for resource mobilisation for their collective good. In addition, the General Assembly construed cooperatives as a “catalyst for local entrepreneurial growth” (United Nations, 1996) primarily because cooperatives stimulate economic activities in the communities where they are located.

In addition to the principles outlined above, cooperatives are governed by a set of values. According to the International Cooperative Alliance (2007), the cooperative movement is underpinned by the “values of self-help, self-responsibility, democracy, equality, equity and solidarity”. These values ensure that cooperatives are not only geared towards the economic good of members, but are also about empowering members to become better agents in their community. Cooperatives are also governed by the ethical values of honesty, openness, social responsibility and caring for others (International Cooperative Alliance, 2007). Such values are expected to be the essence of every cooperative.

What the foregoing shows is that essentially, a cooperative exists to improve the socio-economic status of its members. The hypothesis is that values of self-help, self-responsibility, democracy, equality, equity, and solidarity make cooperatives ideal for socio-economic development. Their developmental orientation is particularly valuable in regions such as sub-Saharan Africa where subsistence agriculture provides employment for about 80% of the population (Nyiraneze, 2009). Studies (see, for instance, Develtere, Pollet, and Wanyama 2008; Getnet and Anullo, 2012) have shown that cooperatives have been instrumental in poverty alleviation, job creation, economic development and social transformation. In recognition of the roles of cooperatives in poverty alleviation and social transformation, the Sixty-fourth Session of the United Nations' General Assembly declared 2012 "The Year of Cooperatives".⁷

According to Mazzarol (2009), the benefits of cooperatives depart markedly from regular businesses activities that are underpinned by the philosophy of competition and profit maximisation. Due to its focus on members' needs, the cooperative model provides an alternative method for the economic upliftment of disadvantaged people. The cooperative model, particularly agricultural cooperatives, provides a parallel supply chain network for its members to circumvent the negative externalities created by intermediaries. The principles and values of the cooperative movement presented above underpin the different forms of cooperatives.

2.4 Forms of Cooperatives

From the onset, cooperatives were organic movement geared towards addressing members' shared needs (Bijman, Iliopoulos, Poppe, et al., 2012; Birchall and Ketilson, 2009). According to Birchall and Ketilson (2009:13), cooperatives can be categorised based on the nature of stakeholders in a cooperative enterprise namely consumers, producers and workers. Using this criterion, Birchall and Ketilson (2009) grouped cooperatives into four main forms: consumer, worker, producer, and finance cooperatives. Each form of cooperative will be briefly explored in the following paragraphs.

⁷ See <http://social.un.org/coopsyear/> for more details on the International Year of Cooperatives.

A consumer cooperative is a form of cooperative owned by people involved in the purchase of consumable goods. Such cooperatives buy goods in bulk and are therefore able to sell these to members at reduced prices (Deller, Hoyt, Hueth, and Sundaram-Stukel, 2009). Consumer cooperatives can exist as supermarkets, grocery stores and retail outlets that sell different items to members at lower prices (Little, Maye, and Liberty, 2010). In this sense, their existence is informed by the desire to break market monopoly by providing parallel supply chains for consumers. In the US for instance, consumer cooperatives have been construed, as Williams (2005:61) puts it, as “a new hope for the generation of Americans who looked toward a new economic order to distribute the nation’s resources more equitably”. New cooperatives most frequently were a symbol of rebellion against technocracy, hierarchical corporations, and “big business as usual”. According to the University of Wisconsin Center for Cooperatives (2012), William King (1786-1965) advocated and popularised consumer cooperatives. Through his magazine, “The Cooperator”, he circulated his message of consumer cooperatives, which resulted in rapid expansion of consumer cooperatives.

Burdin and Dean (2009:518) define worker cooperative “as an enterprise where the firm’s labor force chooses the management and the administrative structure using a democratic political process”. Either a small or a large group of people can own a worker cooperative. For instance, a tourism business can be owned by its workers just as a group of factory workers could own the factor in which they work. According to Majee and Hoyt (2010:147), worker cooperatives, “through open membership and democratic local ownership of the enterprise, are believed to provide a platform on which participation of local people in both social and economic activities can be enhanced”. In addition, worker cooperatives, because they are member-owned, have the potential for improved performance. According to Mathie (2012:22), “studies show that employee owned businesses tend overall to have higher productivity, greater levels of innovation, better resilience to economic turbulence and more engaged and fulfilled workers who are less stressed than colleagues in conventionally owned businesses”. These benefits of worker cooperatives stems from the fact that they strive to assert the rights of workers. Consequently, the health and wellbeing of members cannot be sacrificed for profit. This is why Stickers (2011) argues that the success of worker cooperatives is measured by the extent to which they create quality and sustainable jobs. Success of worker cooperatives has also been linked to the resilience of worker cooperatives in times of financial crisis. For instance, Birchall and Ketilson (2009) argue that despite the

effects of the 2008 crisis, worker cooperatives in Italy remained largely functional. At the height of the Spanish financial crisis, cooperatives in the Basque region ensured that unemployment was consistently kept low. Cooperatives achieved this by rehiring those laid off by poorly performing cooperatives (Birchall and Ketilson, 2009).

Worker cooperatives can emerge in one of three ways. The first of these are new start-up cooperatives that emerge in response to needs in a niche market. To take advantage of the recognised niche market, a group of individuals come together to start a business in which they are simultaneously its workers. The second way that a worker cooperative emerges is through the conversion of an existing business into a cooperative (BurrIDGE, 2012). This could happen when the owner of a business sells his/her business because s/he wants to retire or is unable or no longer desires to continue running the business. Worker cooperatives also emerge in times of economic difficulties. In this case, an existing business is rescued by workers to preserve it from liquidation (Artz and Kim, 2011; BurrIDGE, 2012). By putting together their income to purchase shares in the company, worker cooperatives that emerge in this way achieve three things: they save the company from liquidation; save their jobs, and create a means of obtaining additional income through the profit of the cooperative (BurrIDGE, 2012).

A producer cooperative refers to the form of cooperative owned by a group of individuals that produce the same kind of goods. Members of this form of cooperative use shared facilities for processing and distributing their goods. Known sometimes as a marketing cooperative, producer cooperatives provide value added services including processing, packaging, and branding to members. Individuals who join producer cooperatives enjoy services that would otherwise be expensive if sourced individually. Producer cooperatives are often found in the agricultural sector where they provide value added services (Bloom and Hinrichs, 2011). For instance, corn producers can come together to form a cooperative that owns and operates a flour milling plant. The cooperative could also provide branding services to independent farmers who belong to the cooperative. This gives them access to larger markets as well as reduced transactions costs⁸. In this way, producer cooperatives simultaneously lower input costs as well as increase framers' bargaining power. The

⁸ Transaction cost will be discussed in greater detail in Chapter Three

combination of lower input costs and increased bargaining power could result in higher returns on investment (Mazzarol, 2009).

Financial cooperatives are the fourth form of cooperatives. Financial cooperatives, like other forms, are member-owned. Members' savings provide the reserve that financial cooperatives lend to both members and non-members (Birchall, 2013). Cooperative financial institutions (CFIs) are better sources of finance for cooperatives since they do not place restrictions that emerging cooperatives face when they source finance from regular banking institutions⁹.

Studies have shown that CFIs are resilient institutions during economic crises (Crear, 2009; Delbono and Reggiani, 2013; Birchall, 2013; Smith and Rothbaum, 2013). This characteristic of cooperatives has been attributed to their commitment to promoting members' needs. A study by Birchall (2013) shows that the resilience of CFIs is linked to their values of concern for members and the large community. Their values make cooperatives engage in banking practices that do not expose members' finance to undue risks. Although the 2008 financial crisis had negative effects for the CFIs, cooperatives largely have performed better than other kinds of financial institutions (Crear, 2009; Delbono and Reggiani, 2013). According to Birchall (2013:2), most financial cooperatives survived the 2008 financial crises "without needing any government bailouts, without ceasing to lend to individuals and businesses, and with the admiration of a growing number of people disillusioned with 'casino capitalism'". Similarly, a study by the International Cooperative Alliance (2010) found that "co-operative banks [since the 2008 recession] gave millions of people stability and financial security because the co-operative banking business model emphasises not profit maximisation but instead the best possible products and services to members". Birchall and Ketilson (2009:13) further argue that this approach of cooperative banks "show that there is an alternative to the current policy of greater public regulation of private banks, while in many countries also providing banking and insurance to low income people who would otherwise be unbanked". In this way, cooperatives have been able to provide financial services to their customers despite the challenges of various financial crises.

⁹ The role of cooperative finance institutions in strengthening cooperatives will be explored in detail in Chapters Four and Five.

The resilience of cooperatives in any given economic crisis is also demonstrated by their ability to create and sustain employment. “In France, employment in cooperatives grew 12.1% and in all firms by 1.4%; in Italy, the figures were 86.2% for cooperatives compared to 3.8% for all firms; in Spain, 31% vs. -8.1%; in the UK, 133% compared to -2.0%; and in the EEC as a whole, 76% compared to 2.0%.” (Smith and Rothbaum, 2013: 4). A study by Pérotin (2006:303) shows that, “a one percentage point increase in unemployment results in a 10% increase or more in cooperative creations”. This implies that poor economic performance drives people towards the cooperative sector. In a study comparing the performance of Capitalist Firms (CFs) and Worker Cooperatives (WCS), Burdín and Dean (2009:527) found that “CFs would produce a socially inefficient level of lay-offs due to their inability to establish credible commitments between owners and workers. By contrast, because of their unique control structure, WCs would have more egalitarian adjustment mechanisms at their disposal”.

2.4.1 Summary of the Forms of Cooperatives

Table 2.1 gives a summary of the forms of cooperatives discussed above. It is important to point out that the different forms of cooperatives explored above have similar organisational forms and are guided by the same principles and values of the cooperative movement. The different forms of cooperatives are created primarily to meet members’ socio-economic needs. These needs could be the provision of access to marketing opportunities, housing, credit facilities, urban renewal, use of shared facility, and so on.

Table 2.1: Summary of the Forms of Cooperatives

FORM	CHARACTERISTICS	BENEFITS	EXAMPLES
Consumer Cooperative	Sell goods/services to members	Members pay for goods & services at reduced price	supermarkets, grocery stores, retail outlets
Worker Cooperative	Owners are simultaneously its employees	Guarantees employment of workers; improves worker commitment, working condition, wages and productivity	Tourism business, cleaning agencies, farms, construction company
Producer Cooperative	Found mainly in the agricultural sector and provides value added services to members	Reduces transaction costs through the use of shared facilities, common marketing outlets, and common brand	Shared milling plant, shared marketing outlet
Financial Cooperative	Operates in the financial sector. Its capital is sourced from members’ contributions	Resilient financial institutions; better source of finance for cooperatives	Cooperative banks, Savings and Credit Cooperative Societies, insurance

Source: Author’s own creation

2.5 The Contributions of Cooperatives to the Global Economy

The different forms of cooperatives summarised above make important contributions to the global economy. According to Merrien (2014), there are about 2.6 million cooperatives around the world. These cooperatives “have over 1 Billion memberships and clients” with “12.6 Million Employees work[ing] in 770,000 Cooperative offices and Outlets” (Merrien, 2014:1). Cooperatives generate and annual revenue to the tune of US\$3 trillion (Merrien, 2014:1). The cooperative sector also has a strong presence in the global insurance sector. According to the International Cooperative and Mutual Insurance Federation (2014), “the mutual and cooperative sector represented 27.3% of the global insurance market in 2013, a significant growth in global market share from 23.8% in 2007”. The foregoing underscores the significant roles of cooperatives in the global economy.

According to Satgar (2007b), cooperatives have made valuable contributions to the economies of many high-income countries (see table 2.2). The economies of these countries are characterised by strong, vibrant and diversified cooperatives that employ large workforce (International Cooperative Alliance, 2010). As shown in Table 2.2 below, cooperatives contributed US\$158.75 billion to the global economy in 2013.

Table 2.2: Countries by Total Turnover of Co-Operatives Over 100 Million US\$

COUNTRIES	TURNOVER (BILLION US\$)	COUNTRIES	TURNOVER (BILLION US\$)
USA	662.23	New Zealand	30.22
France	363.63	Norway	29.07
Japan	358.81	Belgium	23.38
Germany	284.08	Sweden	21.12
Netherlands	116.23	Australia	19.14
Italy	95.06	Singapore	5.30
Spain	85.61	Ireland	5.20
Switzerland	85.51	India	4.41
UK	84.15	Colombia	3.23
Finland	64.11	Argentina	1.96
Canada	52.33	Portugal	1.91
Denmark	51.64	Malaysia	1.70
South Korea	39.35	Saudi Arabia	1.18
Austria	31.39	Other countries	4.50
Brazil	30.30		

Source: International Cooperative Alliance (2013:14)

The high concentration of cooperatives, coupled with their success in industrialised countries is bringing about a paradigm shift in the way they are conceptualised and operationalised in these countries. Rather than being seen as an economic model suitable only for vulnerable peasants, scholars and policy makers are beginning to emphasise the need to envision and approach the cooperative movement as a viable economic model (International Cooperative Alliance, 2010). Consequently, a number of countries are creating enabling environments for cooperatives through various policy instruments that could facilitate the emergence and growth of cooperatives (Mutuo, 2012). The contrary is the case for developing regions like Africa where cooperatives are often small-sized and operate mainly in agriculture.

2.6 The Cooperative Movement in Africa

In Africa, the cooperative movement has evolved over the years. The evolution of cooperatives in Africa can be divided into four historical epochs. The first epoch coincides with pre-colonial Africa during which cooperatives were based on an ideology of self-help. In pre-colonial Africa, the attainment of collective goals was at the forefront of communal activities in recognition of the interdependence of persons in society (Igboin, 2011). The idea of interconnectedness in African society is expressed in Mbiti's maxim "I am because we are. And since we are therefore, I am" (Mbiti, 1969:145). This maxim implies that cooperation is an inevitable reality in African societies since each individual sees and realises him/herself through others. Seen from this perspective, cooperation could be construed as a necessary component of African life. Through cooperation, members of pre-colonial African societies shared scarce resources and were able to provide some form of insurance for themselves. This form, although different from cooperatives as per the definition, are underpinned by similar principles and values.

Cooperatives in pre-colonial Africa took many forms including of collective management of farm holdings as well as grazing fields. Some elements of pre-colonial forms of cooperatives are evident in modern day Africa and are manifested in various communal and collective activities. Braverman, Guasch, Huppi, and Pohlmeirer (1991:12) have noted some examples of these traditional practices including:

[...]rotating savings and credit associations (also known as "tontines" or "esusu" in West Africa) that include an element of mutual social assistance in addition to the

savings and credit aspect; burial societies, which can be considered as a form of micro-insurance; and mutual work-sharing schemes for large, labour-intensive ventures such as house construction, land clearing or crop harvesting.

Despite the pre-dominance of modern cooperatives across Africa, pre-colonial forms exist side by side modern ones. For example, a vestige of pre-colonial forms of cooperatives can be found among the Idoma people of central Nigeria. This form of cooperative is evident in traditional saving practices known as *otataje* and collective farming practices called *oluma*. *Oluma* is a practice whereby people organise themselves into groups such as clans or age grades and take turns to work on each other's fields. Through this practice, farmers are able to own and manage large farm holdings beyond what they would be able to manage individually. In addition to working on farms collectively, *oluma* also provides various forms of social support for members going through difficult time such as the loss of a family member. In this way, it meets both members' economic and social needs. As earlier discussed, this outcome of cooperative underscores its uniqueness.

The second era in the evolution of cooperatives in Africa coincides with the colonial era. This era was characterised by the introduction of modern day cooperatives (Braverman et al., 1991). The driving force for cooperatives during this period was the advancement of the economic interests of colonial powers. In other words, cooperatives colonial Africa were the exclusive preserve of colonial powers. In addition, they focused primarily on the production of cash crops their home countries at the expense of subsistence produce (Satgar, 2007b; Wanyama, Develtere and Pollet, 2009). For this reason, the structure and form of support given to cooperatives encouraged the production of cash crops such as tea, cocoa, coffee and cotton for export.

Cooperatives in colonial Africa were heavily subsidised by governments (Van Niekerk, 1989). The subsidies granted to cooperatives served two main functions. Firstly, they ensured that cooperatives had a monopolistic control over the sector in which they operated. Secondly, they encouraged the settlement of more Europeans in the colonies thus strengthening the grip of colonial powers over these colonies. The success of a number of commercial agricultural cooperatives during this period has been attributed to the subsidies that they received from government. In British colonies, for instance, the British government supported the development of cooperatives among white settlers for two reasons: to generate income for administering the colonies and to provide raw materials for its burgeoning

industries (Wanyama, Develtere and Pollet, 2009). Although there are differences between cooperatives in pre-and colonial Africa, a common feature of the two eras is that cooperatives were concentrated primarily in the agricultural sector.

The end of colonialism brought about different social and political imperatives, which led to the third phase in the evolution of cooperatives in Africa. During this period, leaders of the newly independent African countries saw cooperatives as a means of improving social cohesion and fast-tracking economic development in their respective countries (Getnet and Anullo, 2012). From this ideological standpoint, cooperatives in post-colonial Africa were seen as extensions of the state (Satgar, 2007a). In this respect, the notion of cooperatives promoted by first generation African leaders was similar to those of the colonial powers. This is modern cooperatives in Africa are vestiges of colonialism because they were introduced by colonial powers and post-colonial leaders retained their organisational forms and function.

During the third phase of the evolution of cooperatives in Africa, states were actively involved in supporting the development of cooperatives (Satgar, 2007b). Seen as extensions of the state, cooperatives in post-colonial Africa were not perceived as independent and self-organising enterprises aimed at improving members' collective interests. Rather, they were subjected to the control of state institutions. It has been observed that state control of cooperatives has had detrimental effects on the growth of cooperatives across the continent. Satgar and Williams (2008) note this poignantly when they argue that the state-led approach to the development of cooperatives was characterised by a series of abuses of the cooperative model. Such abuses include undermining the autonomy of cooperatives, creating a strong patronage system that made cooperatives dependent on the state, lack of democratic principles in cooperatives as well as overbearing government bureaucracies (Satgar and Williams, 2008). The foregoing is contrary to the cooperative principles discussed earlier.

A common approach to cooperatives in post-colonial Africa was that they were conceived as a paradigm for the advancement of states' policies – particularly in the area of local economic development (Hartley and Johnson, 2014). For instance, the socialist policy of Julius Nyerere's Regime in Tanzania effectively placed cooperatives under state control. According to Wanyama (2012), Nyerere saw cooperatives as an ideal tool for the implementation of his

Ujamaa policy. Consequently, government support of cooperatives was essentially dependent on cooperatives' ability to implement government's theory of change¹⁰ (Satgar and Williams, 2008). As a result, cooperatives that worked with state development agencies lost their autonomy and sometimes failed to promote members' interests.

In post-colonial Africa, cooperatives did not subscribe to principles such as economic participation by members of the cooperative or concern for community. In addition, there was a high failure rate of cooperatives, which has been attributed to various bureaucratic inefficiencies that plagued newly independent African countries (Wanyama, Develtere and Pollet, 2009). Seen as extensions of government agencies, members of cooperatives had little incentive to work towards the promotion and sustainability of cooperatives, instead they relied on government for funds, governance, marketing, and training. Cooperatives' heavy reliance on state resources meant that the failure of state institutions often had a direct bearing on the failure of cooperatives since they were intrinsically linked to state bureaucracies (Wanyama, Develtere and Pollet, 2009). Herein lies the paradox of cooperatives in Africa. While cooperatives espouse the value of independence, they often rely on the state for their continued existence. This reliance entails the creation of state support institutions for cooperatives. In this scenario, the distinction between what constitutes state control and state support is often blurred.

The link between the failure of state institutions and failure of cooperatives has been identified as one of the motivating factors for disengaging the cooperative movement from the state in the 1990s (Wanyama, Develtere and Pollet, 2009). Thinking about making cooperatives independent of the state was informed by the conviction that they are more successful if they operate independently. The argument here is that cooperatives can contribute better to the socio-economic development of people if they operate independently of government institutions (Zeuli and Cropp, 2004; Wanyama, Develtere and Pollet, 2009). The push for the independence of cooperatives in Africa re-emphasised the values of cooperation in pre-colonial era when it was underpinned by the value of self-help in the absence of formal state support. However, this value gave way to state control during the

¹⁰In the development field, a theory of change refers to the methodology used to bring about change. The theory, which often emphasises the value of participation, links the causal pathways that must be followed in order to achieve certain predetermined outcomes. According to Vogel (2012:9), theory of change is underpinned by "evaluation and informed social action".

colonial era. From pre-colonial Africa to this period, cooperatives have progressed from self-help to state control, and to state reliance. Despite these changes, the objective remained that of social and economic development even though the nature thereof was different at different times (subsistence in pre-colonial era, extractive in colonial times for the benefit of colonisers, state-centred after independence for the benefit of state rulers).

The call for independent, people-centred cooperatives in the late 1980s and early 1990s was about enabling cooperatives to realise the values of their existence. According to Berolsky (2000) and William (2003), such thinking fits into the broader policy intervention of the Bretton Woods Institutions in the form of the Structural Adjustment Programmes (SAPs) of the 1990s. The SAPS advocated a capable state in place of a large and bloated state. In addition, it encouraged the implementation of a *laissez faire* capitalist economy in which the state has limited participation in the economic sphere. The implementation of neo-liberal policy led to the rapid privatisation of previously state owned enterprises, deregulation of various sectors of the economy and minimal state intervention in the economic sphere (Berolsky, 2000). The liberalisation that was occasioned by the implementation of SAPs resulted in the removal of government subsidies. In addition, it led to the end of price control as well as drastic restructuring of public service to reduce bloated bureaucracy. Drastically reducing the size of bureaucracies correspondingly reduced government support structures for cooperatives.

The socio-economic imperatives of the SAPs were a stimulus for the emergence of the fourth era of the evolution of cooperatives in Africa. What was apparent during this era was less interference of the state in the activities of cooperatives. This period was characterised by the formulation and implementation of policies that saw cooperatives as a movement independent of government institutions (Wanyama, Develtere and Pollet, 2009). In addition, the role of members in advancing the success of cooperatives was emphasised over that of the state. Rather than being seen as extensions of the state, cooperatives during this era were “democratically and professionally managed, self-controlled and self-reliant” (Wanyama, Develtere and Pollet, 2009: VI).

Although making cooperatives independent of the state was seen as a positive initiative as far as the development of the cooperative movement was concerned, cooperatives in many African countries performed poorly during this period (Ajayi, 2012; Hartley and Johnson,

2014). For instance, a study by Wanyama, Develtere and Pollet (2009) found that economic liberalisation had a considerable negative impact on cooperatives. This is because cooperatives, for many years, relied heavily on state institutions and were ill-prepared for the new economic climate brought about by the SAPs. An outcome of these changes was the collapse of cooperatives that could not function in the absence of privileges and support they previously enjoyed. In East Africa for example, liberalisation of the coffee market resulted in the entrance of multinational corporations (MNCs) into the domestic market. These corporations significantly weakened the market share of cooperatives in the coffee sector of the economy (Ponte, 2002). Despite this effect, Wanyama, Develtere and Pollet (2009) argue that the economic reality brought about by the SAPs was a positive development for cooperatives on the continent because it resulted in the elimination of ineffective cooperatives that relied solely on state subsidies for survival.

Apart from attempting to eliminate ‘wasteful government expenditures’ (one of the underlying philosophies of the SAPs), liberalisation also ensured that cooperatives were pressured into finding innovative ways to adapt to the new economic climate. In addition, it created a condition in which the formation of cooperatives no longer hinged on the prospect of accessing government grant; rather, cooperatives were seen as organisations for advancing members’ social and economic interests (Wanyama, Develtere and Pollet, 2009). Furthermore, Satgar and Williams (2008) argue that the success of cooperatives in Africa, following the introduction of neo-liberal policy, was underpinned by peoples’ passion for the cooperative movement. Consequently, this era played an invaluable role in ensuring that cooperatives in Africa embody the principles and values of the cooperative movement.

The historicity of cooperatives as outlined above, provides an understanding of the evolution of cooperatives in Africa and how history shapes current practices in relation to the development of cooperatives on the continent. Additionally, the review provided lessons about factors that facilitate the development of cooperatives and those that inhibit their growth in a given era. An important lesson derived from this review is that cooperatives thrive when they operate as independent institutions focused on improving members’ socio-economic conditions. In addition, the review showed that over-reliance on the state could result in a weak cooperative sector since their performance is linked with that of the supporting government institution(s). Thus, it is argued that although government support can facilitate the growth of cooperatives, support should be limited to the creation of an enabling

environment that will facilitate their growth. When this is accomplished, cooperatives are positioned to contribute to poverty alleviation, employment creation, economic development, and people's empowerment.

2.7. Conclusion

The overriding objective of this Chapter was to present an overview of the cooperative movement. The Chapter began by examining the emergence of modern cooperatives in England and further explored how cooperatives have been conceptualised. The principles and values of the cooperative movement were also presented. It was noted that commitment to their principles and values ensures that cooperatives simultaneously meet members' social and economic needs. Through this, cooperatives have been instrumental in improving the socio-economic conditions of people around the world. In addition, they have contributed and continue to contribute to the global economy in different ways.

What was also noted in the Chapter is that although modern cooperatives were introduced during colonialism, cooperatives in Africa pre-date the colonial era. A pre-colonial form of cooperative can still be found today despite the predominance of modern forms of cooperatives. Moreover, from the historical overview of the evolution of cooperatives in Africa, the Chapter established that cooperatives are more successful in contexts where they operate independently of government interference. For this reason, the role of government should pertain only to the creation of conditions for the emergence and growth of cooperatives. Having explored the evolution and the conceptual understanding of cooperatives, the next Chapter examines the theoretical underpinnings of cooperatives.

CHAPTER 3

THEORETICAL UNDERPINNINGS OF COOPERATIVES

3.1 Introduction

Chapter Two examined the origin of modern cooperatives as well as the evolution of cooperatives in Africa. The principles, values and benefits of cooperatives were also examined. The purpose of this Chapter is to present an overview of the theoretical underpinnings of cooperatives. The synthesis of the four theoretical premises provides useful insights into why people choose to collaborate. This provides a useful lens with which to assess the collaborative activities or the lack thereof of cooperatives in the present study. In the first section, transaction cost theory and its application to cooperatives is explored. This is followed by a review of cooperatives as a form of collective action. The nature, constitution, benefits and constraints of collective action are also presented and discussed in this section. In section 3.4, the view of cooperatives as social capital is examined. Additionally, the role of social capital in the formation and sustenance of collective action is reviewed in this section, followed by an appraisal of cooperatives as a network. A selection of examples of the networking activities of cooperatives is presented and discussed.

3.2 Understanding Cooperatives from the Perspective of Transaction Cost

Theory

Transaction Cost Theory (TCT) is used to explain the nature of the market. The emergence of TCT has been attributed to the limitations of neo-classical economic theory. Neo-classical economic theory assumes that the market operates under a system of perfect information as well as zero transaction costs. In addition, neo-classical economic theory presumes perfect rationality of agents in the economic system (Martins, Serra, Leite, Ferreira, and Li, 2010). In contrast to the forgoing, TCT is informed by the assumption that individuals do not operate under conditions of perfect rationality. Rather, they are constrained by bounded rationality due to imperfect information and inability to predict all possible implications of a decision (Martins, Serra, Leite, Ferreira, and Li, 2010). Furthermore, TCT sees institutions as

creations aimed at reducing the costs of transactions (Ruester, 2010; Martins, Serra, Leite, Ferreira, and Li, 2010).

TCT primarily seeks to understand the rationale that underpins the nature of economic organisation. In this regard, it attempts to unravel why organisations are structured the way they are and the benefits of this form of organisation as compared to other organisational forms. According to Williamson (2005:45), transaction cost “is concerned with the allocation of economic activity across alternative modes of organization (markets, firms, bureaus, etc.), employs discrete structural analysis, and describes the firm as a governance structure (which is an organizational construction)”. As an approach to studying the nature of the firm, the TCT focuses on improving the efficiency of a firm by lowering transaction costs (Ruester, 2010). From the forgoing, it is hypothesised that “governance structures that have better transaction cost economizing properties eventually displace those that have worse, *ceteris paribus*” (Williamson, 1981:574). The implication is that organisations must constantly modify their governance structures to lower transaction costs if they want be successful.

Dyer (1997:536) aggregates transaction costs into four categories: 1) search costs, 2) contracting costs, 3) monitoring costs, and 4) enforcement costs. The management of these costs has implications for the efficient and effective functioning of business. Cooperatives, as a mode of organising the market economy, are affected by transaction costs. Transaction costs are particularly high for small survivalist cooperatives. As a result of the small nature of most cooperatives, they need to organise in a manner that enables them to reduce transaction costs. An important step in this regard is for cooperatives to forge collaboration that allow them to mitigate the negative externalities brought about by high transaction costs (Menzani and Zamagni, 2010).

When cooperatives operate individually, they devote time and resources to activities such as information searches, and drawing up, monitoring and enforcing contracts. Cooperation entails that the burden of these costs is borne by the collective thus reducing transaction costs for individual cooperatives. This ultimately results in better and higher outcomes. The transaction cost approach to studying cooperatives therefore provides a useful framework for understanding the rationale for cooperation from an economic standpoint. In addition, it provides useful insights into the formation of cooperatives and the need for cooperation

among cooperatives (Department of Economic Development and Tourism, 2010; Chaddad, 2012).

Reducing transaction costs is important for cooperatives particularly in today's globalised economy. The reality of globalisation has had both negative and positive impact on cooperatives. Hansen (2009) identifies different challenges with which cooperatives must contend in the global economy. One of these is associated with the cost of competing with trans-national corporations. This challenge is particularly important for the survival of small survivalist cooperatives (Hansen, 2009).

Another challenge that globalisation presents to cooperatives is rooted in the principle of concern for community. When faced with competition from transnational corporations, cooperatives could improve their competitive standing by globalising their production. This entails adopting a range of practices including outsourcing production or purchasing inputs from the global market. While such practices could lower production costs, it also creates dilemma cooperatives in terms of whether to source inputs from local sources at high cost (thereby retaining capital locally and maintain employment) or from international market which offers cheaper alternatives (Hansen, 2009). Outsourcing production could negatively affect local economies where cooperatives operate. Thus, it can be argued that the internationalisation of production could produce outcomes that undermine cooperatives' commitment to the principle of concern for community (International Cooperative Alliance, 1995).

In addition to the above, participation in the global economy could result in changes in the governance structure of cooperatives. As a cooperative pursues internationalisation through foreign investment, it could gradually become subject to the vagaries of the international market and less dependent on members' control (Hansen, 2009). Despite these challenges, cooperatives have an important role in the global economy. For instance, they could balance the market economy by countering the effects of market distortion such as monopoly, monopsony and oligopoly.

3.3 Understanding Cooperatives from the Perspective of Collective Action

The view of cooperatives as a form of collective action is informed by the notion of cooperation as a human attribute. Zeuli et al. (2004:3) define collective action “as the coordinated behavior of groups toward a common interest or purpose”. Collective action in this view is a planned action among groups of individuals or organisations. Such actions are geared towards the attainment of a common goal. Shared interests that elicit collective action are often beyond the control of individuals. Studies of collective action have explored factors that facilitate the emergence of collective action as well as its sustainability.

According to Ostrom (2002), human history is punctuated by various attempts aimed at resolving communal challenges through cooperation. Similarly, Meinzen-Dick, Di Gregorio, and McCarthy (2004) note that historical evidence shows that people of ancient Greece, Egypt, Africa and America exhibited various forms of cooperative behavior. The work of scholars such as Apicella, Marlowe, Fowler, and Christakis (2012); Hill, Walker, Božičević et al. (2012) and Mathew and Boyd (2011) all demonstrate that collective activities were quintessential for the success of primitive hunter-gatherer societies and early agricultural activities. Cooperation, at this early stage of human civilisation, was also critical for survival as people struggled against various inclement forces of nature.

According to Mazzarol (2009), theories of cooperation and competition all emphasise that cooperation is underpinned by the desire to attain individual ends rather than altruism. However, individual ends in collective action are not the antithesis of collective ends. Indeed, cooperation simultaneously facilitates the actualisation of both individual and collective goals. This is particularly true in the management of Common Pool Resources (CPR). In her seminal work titled *Constitutional Decision-Making: A Logic for the Organization of Collective Enterprises*, Ostrom (1968) examines the processes in the formation of institutions for managing common pool resources. Using the Indiana groundwater basin as a case study, she observes that the formation of collective action enables cooperating partners to avoid costs of individual actions, which might be detrimental to the attainment of collective goals. In other words, the argument that underpins collective action is that it presents members with opportunities to reap benefits of collective action while avoiding costs of individual actions.

Joint action in this sense is preferred to individual actions since it creates conditions that benefit the collective.

Repeated interactions (particularly those that relate to CPR) create institutions for managing collective action. Such institutions could be either formal or informal. Formal institutions refer to rules created and enforced by the state or the public. In the context of CPR, rules determine who has access to the CPR and how the resources should be used and managed (Yam, Vogl, and Hauser, 2009). In some instances, formal institutions have been identified as ineffective in the governance of CPR. This is evident in situations where the state is either unable or unwilling to enforce rules governing CPR. When a formal institution is incapable of or reluctant to enforce rules and behaviour, individuals or organisations are likely to exhibit non-cooperative behaviour and free-ride on the efforts of others (Ostrom, 2002). This challenge is often referred to as the 'free-rider problem'.

According to Yam, Vogl, and Hauser (2009:154), informal institutions, unlike formal ones, are societal codes that emerge out of interactions among participants in a collective action. The primary argument here is that although codes of behaviour are not formally constituted, they nonetheless guide the actions of individuals that access CPR. According to Ostrom (2002), societal pressures and expectations of conformity drive compliance when informal institutions govern CPR.

Both formal and informal institutions have merits and demerits. For instance, Meinzen-Dick, Di Gregorio, and McCarthy (2004) have argued that institutionalised collective action reduces transaction costs in terms of contract renegotiation and uncertainty among cooperating partners. However, formal institutions make it difficult for a collective action to adapt quickly to changing internal and external imperatives given the layers of approval and bureaucratic processes that decisions have to go through. Such rigidity might have costly outcomes for members of the collective action group.

Although institutionalisation can and does play invaluable roles in collective action, not all collective actions need institutional forms. In this regard, Meinzen-Dick, Di Gregorio, and McCarthy (2004) hypothesise that the formation of institutions is dependent on the nature of collective action. The main argument here is that collective actions that have repetitive character tend to elicit the formation of institutions while once-off collective actions seldom

require institutions. As noted earlier, repeated interaction results in the emergence of codified behaviour that becomes enshrined in the institution (whether formal or informal) that governs collective action.

While cooperation is an important element of society, Adams, Brockington, Dyson, and Bhaskaro (2003) and Ostrom (2014) argue that there are instances where self-interest trumps cooperation. Against this backdrop, Milward and Provan (2000) argue that balancing the relationship between individual and collective interests creates dilemmas for society. According to Greenwood (2010:228), “social dilemmas arise whenever a group of individuals must decide how to share a common resource while balancing short-term self-interests against long-term group interests”. Metaphors such as ‘the tragedy of the commons’, ‘the prisoners’ dilemma’ and ‘the logic of collective action’ have been used as models in the study of social dilemmas (Ostrom, 1990).

The first two metaphors (‘the tragedy of the commons’ and ‘the prisoners’ dilemma’) portray the propensity of rational agents to maximise self-interest when faced with situations in which the burden of self-rewarding behaviour is borne by the collective. The idea of ‘the tragedy of the commons’ is not a new concept; it stretches back to ancient times. For instance, Aristotle once observed that “what is common to the greatest numbers has the least care bestowed upon it. Everyone thinks chiefly of his own, hardly at all of the common interest” (Aristotle, quoted in Murdock, 2013:154). Similarly, Thomas Hobbes’ depiction of the state of nature where life was short, nasty and brutish mirrors ‘the tragedy of the commons’ (Krasner, 2011; Moehler, 2009). Collective action emerges as a means of obviating the negative outcomes of individual interest thus replacing the tragedy of the commons with what can be called ‘success of the commons’. What this entails is that through cooperative behaviour, people come together to manage collective resource thus turning that which typically ought to be a tragedy into a success for the collective.

According to Meinzen-Dick, Di Gregorio, and McCarthy (2004), collective action is a voluntary activity. The voluntariness stems from the fact that people freely become part of a collective action out of the recognition of the benefits that accrue to members of the collective. Natural disasters, increase/decline of commodity price, increased competition, drought, decline of natural resources, economic decline, and price fluctuations have been identified as some of the factors that trigger collective action (Zeuli et al., 2004; Kruijssen,

Keizer, Guiliani, 2006). In these situations, individuals (which can be an individual person or an individual organisation) realise that the attainment of their goals can better be achieved through cooperation with others. While some of the factors that trigger collective action are internal, others are externally imposed. The willingness to participate as well as foreseeable benefits of collaboration also affect collective action.

In applying the notion of collective action to cooperatives, Mazzarol (2009:6) argues that the choice of individuals to participate in cooperatives can be explained in terms of “theories of social exchange and social co-operation”. While the former emphasise the fact that people engage in social relationships after establishing that its benefits outweighs costs, the latter is underpinned by the view that cooperation is borne out of common goals that individuals strive to attain. The foregoing shows that leveraging the strength of collective action is the underlying principle for cooperatives. This is aligned to the definition of cooperatives as organisations formed to meet members’ economic and social ends. The implementation of the second principle of the cooperative movement (member democratic control) ensures that a cooperative works towards actualising members’ needs and aspirations.

Although collective action is ideal for the attainment of collective goods in certain circumstances, there are pre-conditions for successful collective action. According to Kruijssen, Keizer and Giuliani (2006:7), success of collective action is mediated by group characteristics such as “gender, age, level of education, group size, assets of individual members, heterogeneity”. The argument here is that a homogenous group of collective actors is more likely to succeed since individuals with common characteristics are more likely to cooperate than those with divergent characteristics. Similarly, the more homogeneous a group is, the more likely they are to share common values (Kruijssen, Keizer and Giuliani, 2006; Sotero, 2009; Garnevaska, Liu, and Shadbolt, 2011) In other words, individuals with common values are more likely to work together for the attainment of common goals than those with different values. Disagreement over issues such as approaches to attaining a collective end could result in the formation of sub-groups to swing decisions of the collective in favour of a particular sub-group. The time and resources spent on the formation and breakup of coalitions in such a collective action could take up substantial resources that could be used to achieve the collective end (Hansmann, 1996). Decision-making in this regard can be quite costly for collective action.

Besides the foregoing, it has been noted that a collective action that is characterised by individuals with previous experiences of engaging in successful collective actions stand a greater chance of being successful (Ostrom, 1990; 2000). This is because these individuals bring with them their previous experiences of and expertise in working in a collective context. These experiences play a vital role in addressing challenges associated with working as a collective. Such experiences and expertise include managing group dynamics and group conflicts. When this expertise is absent, a collective action is likely to degenerate into conflict that can ultimately result in its failure.

Additionally, lack of trust contributes to mutual distrust that in turn could result in the demise of a collective action (Kruijssen, Keizer and Giuliani, 2006). Lack of trust could also make cooperating parties unwilling to invest either their time or other resources into the collective activity since they are not sure of the intentions of other members of the collective action. The implication of this is that members' participation is not fully realised which in turn could result in the failure of cooperation.

The review of cooperatives as a form of collective action highlights two important arguments. Firstly, cooperatives are formed primarily when individuals want to address their needs through collective action. This view is directly linked to ICA's definition that sees cooperatives as an organisation formed to meet members' economic, social and cultural needs. Relatedly, it underscores the principles of autonomy and member democratic control of cooperatives. This is because the control of a cooperative by members ensures that it will remain committed to actualising the ideals for which it was formed. By striving to attain individual goals through cooperative activity, both individual and collective goals are simultaneously met. Such goals could be economic, emotional, cultural or social. In this way, cooperatives are able to meet people's multiple needs.

The second argument derived from the review of cooperatives as a form of collective action is that while collective action has potential benefits, there are a number of factors that could affect its success. One of these is group composition. Group characteristics such as gender, age, level of education and group size all affect the success of collective activity. In addition, previous experiences of cooperation determine the success/failure of collective action because individuals that previously engaged in collective activities have relevant experiences and expertise about its dynamics. These individuals bring their experiences to subsequent

collective actions thus creating conditions for success. Furthermore, trust among cooperating partners plays an important role in fostering collective action. Recognising this correlation between trust and collective activities, the role of social capital in collective action has been identified in the literature. The next section of the Chapter discusses the relevance of social capital to the formation and sustenance of cooperatives.

3.4 Understanding Cooperatives from the Perspective of Social Capital

With regard to group formation, the concept of social capital is often applied in the literature. Ostrom (2000:162) defines social capital as "the shared knowledge, understandings, norms, rules, and expectations about patterns of interactions that groups of individuals bring to a recurrent activity". Underlying this definition is the view that social capital is the unwritten rule that guides social interactions and cooperation. Norms and values are important in cooperative activities as they create patterns of predictable behaviour (Tapia, 2012; Ishihara and Pascual, 2013). It thus can be hypothesised that the level of social capital in a given community plays a vital role in the formation and success of a cooperative.

According Coleman (1998), social capital refers to the structure that underpins relationship which results in productive outcomes. From this definition, it can be surmised that productive social relations determine the strength of social capital. Field (2008:1) argues that the primary thesis of social capital "can be summed up in two words: relationships matter". The importance of relationships stems from the role they play as a store of value that a person can draw upon in the short, medium and long term. For this reason, social capital compares to other forms of capital such as human and financial capital. The point here is that "like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible" (Coleman, 1988:98). However, the value of social capital is limited to a specific social context since what is considered social capital in one context might not be seen as social capital in another. In addition, social capital does not have tangible qualities like other forms of capital since it is located in social relations (Coleman, 1998; Field, 2008).

One of the fundamental values of social capital is that it reduces the costs of accessing information (Putnam, 1995; Coleman, 1998; Mellor, 2009; Tapia, 2012; Nilsson, Svendsen

and Svendsen, 2012). This is primarily because social capital creates trust through repeated interactions that lead to regularised behaviour. Through the process of ‘social learning’ individuals/organisations create conditions for information exchange and cooperation. By working and interacting with one another, individuals in the context of collective action develop collective cognition (Colemena, 1998). An outcome is that values, worldviews, beliefs and practices of individuals become subsumed in the collective thus resulting in social learning. In this way, social capital creates conditions for cooperation, communication and collective action.

According to Nilsson et al. (2012), there is a correlation between social capital and compliance with agreements. Similarly, Mellor (2009) argues that social capital facilitates compliance and conflict resolution through less expensive informal procedures that reduce cost of monitoring and enforcing contract among cooperating individuals/organisations. This is particularly true of cases where repeated transactions build trust that eliminates the need for formal contracts. Recognising these benefits of social capital, Nilsson et al. (2012) argue that the loss of social capital results in the decline of cooperation since social capital is an invaluable resource that galvanises people to work towards achieving a collective end.

Besides economic benefits, social capital also produces non-economic benefits such as emotional support and increased teamwork (Dlamini, 2010). As individuals engage in repeated interactions, they become more engaged at the personal level with one another. The engagement builds trusts that makes individuals become more comfortable to share personal experiences as well as the provision of emotional support to one another.

It therefore can be hypothesised that cooperatives are more likely to emerge and operate successfully in contexts where social capital is high. This is because social capital, as we have seen earlier, plays an important role in galvanising people to work collectively. Besides helping in the formation of cooperatives, it can also be argued that social capital is important in the sustainability of cooperatives, primarily because the presence of social capital consolidates trust among members of a cooperative. Increased trust enables members to work together and eliminates problems such as free-riding that often characterises cooperatives. Besides the above, social capital also plays an important role in the emergence and sustenance of networks.

3.5 Understanding Cooperatives from the Perspective of Networks

The value of networks has been emphasised in both organisational settings and in policy contexts. The development of inter-organisational networks or linkages is a response to the awareness of resource dependency among organisations. Described as an “alliance revolution”, inter-organisational alliances were so pervasive among companies in the United States (US) in the 1980s and early 1990s that the corporate world accepted it as the norm of doing business (Chaddad, 2006). Riding the wave of the popularity of inter-organisational alliances, many US corporations adopted and utilised networks as a means of leveraging their position in their respective sectors.

In response to the rising interest in network formation, the past three decades have witnessed a burgeoning literature on business networks. Brass, Galaskiewicz, Greve, and Tsai (2004:795) define a network “as a set of nodes and the set of ties representing some relationship, or lack of relationship, between the nodes”¹¹. Ties that hold networking partners together could be either formal or informal depending on the nature of network as well as networking partners.

Arguing from a positivist paradigm, Ring and van de Ven (1994) see organisational networks as social constructs. A network, according to this view, is a socially constructed phenomenon aimed at meeting the needs of an individual or organisation. Against this backdrop, a network is non-static; it is constantly evolving due to the actions and interpretations of actions by parties involved in the network (Gulati and Gargiulo, 1999). The view implies that networks constantly adapt to changing internal and external imperatives. Through constant modifications, a network becomes strategically placed to benefit its members.

Recognising the changing internal and external features of networks, the principle of self-organisation of complex organisms has been applied to understanding organisational networks. This view sees similarities between the adaptation and learning that characterise living organisms and the functioning of organisational networks (Novkovic and Holm, 2011).

¹¹Nodes refer to the actors (individuals, work units, or organisations) within the network (Brass et al., 2004:795).

The argument is that just as complex organisms learn and adapt, networks necessarily have to learn and adapt. In addition, the interdependence of organs and systems in organisms mirror the nature of relationship that characterise inter-organisational networks. Such relationships are non-hierarchical and take cognisance of the importance of each member of the network to its functioning. Agranoff (2007) offers a similar view of inter-organisational networks by arguing that networks are interdependent structures that comprise multiple organisations. Each organisation or unit in a network functions interdependently to actualise the goals that necessitated the formation of the network. Due to the interdependence among organisations in a network, the failure of one part affects the outcome of the network.

Networks are sometimes construed as self-governing systems (Klijn, 1997; Van Raaija, 2006; Garnevska, Liu, Shadbolt, 2011). Self-governance of networks is realised through self-regulating structures established by actors within the network. The network approach to organisational linkages is opposed to a didactic view that sees relationships between organisations from a hierarchical perspective.

Networks, according to Chaddad (2006:9), are transforming “the way business is conducted, blurring the boundaries of the traditional firm and transforming conventional business concepts”. The traditional approach entails organisations operating as competitors focused on eliminating each other from the market. In this sense, inter-organisational relationships are antagonistic. Antagonistic relationships are antithetical to the network approach that emphasises the value of collaboration. The network approach negates rational organisational theory that views an organisation as a “unit with clear purposes and with a clear authority structure which dominates all the work processes and decisions” (Klijn, 1997:19). The network approach endorses the notion of bounded rationality postulated by Simon (1979) to account for limits of human rationality. The notion posits that phenomena such as information asymmetry, limits of human cognition as well as its finitude about the future, affect decisions that constrain rationality. Due to these limitations, networking becomes an important success factor for organisations.

Synthesising the above views, a network could be defined as organisational linkages consisting of horizontal and vertical ties between two or more organisations aimed at facilitating access to resources and lowering transaction costs. While horizontal integration

refers to integration between firms producing similar goods/services, vertical integration is concerned with interdependence among producer and service organisations (Chaddad, 2006).

Understanding the factors that facilitate network formation (especially between competing firms) has been of interest to sociologists and organisational theorists (Ménard, 2011). Studies in this area have sought to ascertain the impact (whether positive or negative) of inter-organisational linkages on the behaviour and functioning of an organisation (Murray, Raynolds, and Taylor, 2006; Tang and Xi, 2006; Karantininis, 2007; Menzani and Zamagni, 2010), the challenges and benefits of joining a network (Gulati and Gargiulo, 1999; Méndez, 2002) and issues of governance and legitimacy building in networks (Human and Provan, 2000; Brass et al., 2004; Karantininis, 2007).

Inter-organisational linkages facilitate access to resources embedded in a network. Such resources include information (Tang and Xi, 2006; Hsueh et al., 2010; Deng, 2013), knowledge and finance (Gulati and Gargiulo, 1999; Tang and Xi, 2006; Deng, 2013), new technologies (Ring and van de Ven, 1994) and social capital (Tang and Xi, 2006). Through network formation, organisations counter a number of negative externalities and become more effective and efficient (Brass, et al., 2004). Networks also allow organisations to benefit from economies of scale and scope as well as the attainment of strategic objectives. These include outsourcing parts of production/services to members of the networks thus allowing an organisation to focus on core areas of operation (Gulati, Nohria, and Zaheer, 2000). This in turn leads to specialisation that ensures that each networking partner maximises outputs of their core activities.

Network formation has been attributed to the desire to reduce the burden of transaction costs (Novkovic, 2008; Ménard, 2011). According to this view, organisations form networks to share transaction costs such as information, bargaining, policing and enforcement of contracts (Brass et al., 2004; Hsueh et al., 2010). The argument here is that networks produce economic outcomes for networking partners through reduced transaction costs.

Establishing the legitimacy of a network is a prerequisite for building a successful network because legitimacy is an essential pre-condition to eliciting the support of relevant stakeholders and increased membership (Human and Provan, 2000). Embedded resources in the network are invaluable to legitimacy building (Karantininis, 2007; Provan, Fish and

Sydow, 2007). Trust between cooperating partners is also instrumental to nurturing legitimacy since it increases the likelihood of organisations/individuals committing more resources to building and sustaining a network (Gulati and Gargiulo, 1999). In addition, it lessens fears that potential partners might have about joining a network. Prior contacts between cooperating partners, for example, where contracts were honoured, are also instrumental to furthering trust and legitimacy of a network.

In light of the above views, it has been hypothesised that trust accounts for the use of informal legal arrangements in conflict resolution in many networks (Brass et al., 2004; Karantininis, 2007; Yami, Vogl, and Hauser, 2009; Hsueh et al., 2010). Against this backdrop, resorting to external arbitrators can be an indication of eroding trust in a network. Besides reducing animosity that often characterises litigations, informal conflict resolution saves time and money on lengthy court cases by networking partners. Networking, therefore, produces a number of benefits for cooperatives.

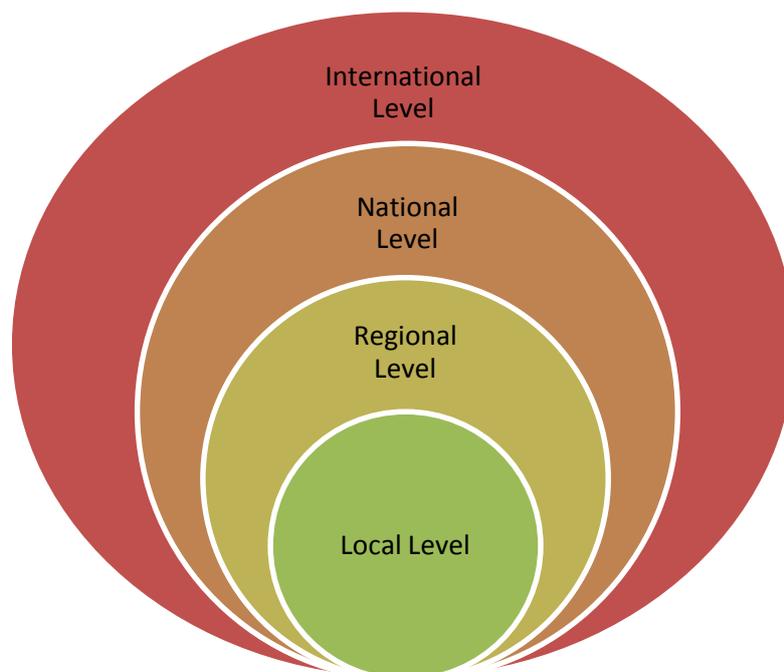
Although network formation has been of interest in past decades, the focus has largely been on the corporate sector. As a result, there is an appreciable dearth of literature on the networking activities of cooperatives (Karantininis, 2007; Menzani and Zamagni, 2010). Studies in the area of network formation by cooperatives have focused on how cooperatives harness the values of networks for their growth and sustainability. These studies (Joshi and Smith, 2002; Chaddad, 2006; Menzani and Zamagni, 2010; Chaddad, 2012) have shown that networks have played and continue to play important roles in improving the sustainability of cooperatives. However, at this juncture, it should be noted that research conducted during the course of this study questions the validity of the finding (outlined above) in the specific context of cooperatives in the uMgungundlovu District.

According to Birchall (2009), network formation by cooperatives facilitates access to and control of the market. Similarly, Novkovic and Holme (2011:22) argue that a network is invaluable to the development of cooperatives as “it may guide creation of strategic alliances and innovative institutions to support a particular purpose, or it may result in a complex organization”. The importance of alliances and institutions is grounded on the fact that they are positioned to provide support that might be inaccessible to cooperatives when they operate as individual entities. Around the world, cooperatives have recognised the values of networks and are building various forms of networks to harness inherent values. Instead of

operating as isolated entities, cooperatives form “partnerships, coalitions, strategic alliances, federated structures, and other, more complex forms” (Karantininis, 2007:20). According to Novkovic (2008), networks provide opportunities for cooperatives to develop innovative solutions to challenges they face. Such cooperation may occur at local, regional, national and international levels where higher level cooperative organisations relate with and support lower ones. The extent to which this occurs in uMgungundlovu District is of interest to this study as it may offer insight into why cooperatives fail or succeed.

Based on the discussion above, an analysis of the networking activities of cooperatives needs to include an analysis of the different levels in which cooperatives operate. Figure 3.1 provides a graphic illustration of this. At the local level are individual cooperatives that network with one another to form secondary cooperative organisations at local or regional levels. Cooperatives at the regional level in turn band together to form national cooperative networks. At the international level, international organisations such as the International Cooperative Alliance and the International Labour Organization provide avenues for interactions and support for regional and national cooperative networks. Support could take the form of policy advocacy, knowledge development, information sharing, etc.

Figure 3.1: Levels of Cooperative Organisations



Source: Created by author

It has been argued that network formation by cooperatives with other cooperatives, with businesses, government, and NGOs could play an invaluable role in the survival and growth of cooperatives (United Nations, 1996; Zeuli et al, 2004; Birthall and Joshi, 2007; Nichter and Goldmark, 2009; Monteiro and Cannon, 2012). Cooperatives are often constrained by challenges such as lack of or limited access to infrastructures and financial resources, lack of technical skills as well as bargaining power. Through networks, cooperatives position themselves to address these challenges. The existence of a strong network also enables cooperatives to lobby government on policy issues (Fox, Jeanette, and Gracie, 2009). When cooperatives network, they reduce cost of production through:

[...]lowered input costs through buying and negotiating power, shared costs of relevant innovation, technological progress and quality upgrading, improved financial intermediation, reduced risks through league explicit and implicit insurance, coordinated marketing strategies, development of relevant professional services, and lower internal costs of bargaining among members (Joshi and Smith, 2002:218).

A number of factors bring about the formation and sustenance of cooperative networks. Sotero (2009) identifies proximity to other cooperatives as a factor that influences networks among cooperatives. The central argument here is that proximity facilitates repeated interactions among cooperatives that in turn create conditions (such as trust) for networking. A study of worker-owned cooperatives by Majee and Hoyt (2010) found that constant interactions among members of a cooperative and with other organisations and professionals strengthens a network.

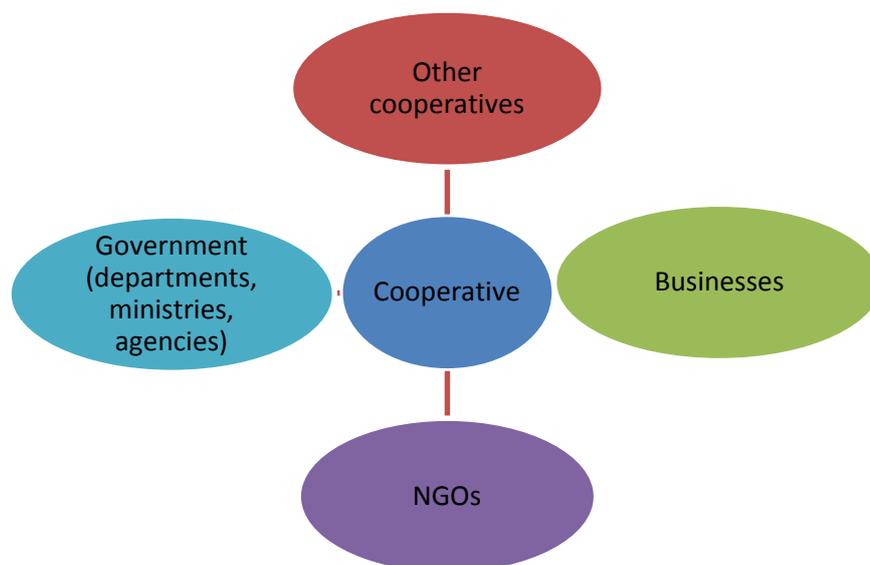
Although close proximity is important for cooperation, it is not a sufficient precondition. Monteiro and Cannon (2012) have identified the existence of support institutions as an important factor in the formation and growth of networks among cooperatives. Cooperatives, NGOs, academic institutes and government could set up such institutions. According to Monteiro and Cannon (2012), support organisations that cooperatives require for network formation are those that provide financial services, education and training.

In a study that explores “Co-operative networks as a source of organizational innovation”, Novkovic and Holm (2011:6-7) identify five categories of networks:

1. “Co-operatives themselves can be viewed as networks of independent producers/members (e.g. agriculture; crafts; artists)
2. Independent co-operative firms form inter-organizational networks for particular purpose (e.g. second-tier co-operatives; co-operative federations)
3. Co-operatives form supply chain networks with other co-operatives (e.g. fair trade chains)
4. Co-ops take membership in professional (or co-op development) networks/associations to provide them with particular member services (e.g. sectorial federations or regional associations/councils)
5. Co-ops form networks with other co-ops, individuals, businesses or government agencies for a particular purpose, often outside of their core business”.

The Networking activities of cooperatives can be divided into four broad categories: networks among cooperatives, networks with government, networks with NGOs and networks with businesses. Figure 3.2 below depicts the four categories of the networking activities of cooperatives. A cooperative could relate with only one arm of the diagram or simultaneously relate with the four. Benefits of these kinds of collaboration include support in terms of training and development, access to market, linkage with other cooperatives and support institutions, reduced transaction costs and economies of scale.

Figure 3.2: Categories of the Networking Activities for Cooperatives



Source: Created by author

Given the significance of networking in the success of cooperatives, Menzani and Zamagni (2010:22) argue that network formation by cooperatives “is the normal way of operating as a result of their solidaristic dimension”. Their argument is that network formation is at the heart of building strong and vibrant cooperatives (Menzanin and Zamagni, 2010; Ortmann and King, 2010). Besides, when cooperatives network, they live out the sixth principle of cooperative movement: cooperation among cooperatives.

Although the foregoing paints a highly positive picture of networks, Novkovic and Holm (2011:4) caution that network formation by cooperatives could weaken a cooperative. The recognition that the formation of networks results in interactions with multiple organisations that may or may not share the values of the cooperative movement informs the caution. These organisations may influence cooperatives to the point that cooperatives lose the values that define them. However, cooperatives could affect their cooperating partners to appreciate and practice the values of cooperatives.

Another possible impact of networks on cooperatives stems from the ability of cooperatives to engage in networks. Participation in networks entails the possession of networking skills and resources (such as technical expertise, time and finance). Small and newly established cooperatives might not have the requisite skills or resources to contribute to a network. In this regard, networking might be harmful to cooperatives. For instance, the resources committed to a network might be required for the survival of newly established and weak cooperatives. Being able to balance the immediate needs of a cooperative and the benefits of participating in a network is therefore an important determinant of successful participation in a network. Although networking could be aimed at advocacy, lobbying, and capacity building, the above imply that the costs of participation in networks might outweigh the benefits for some cooperatives (Novkovic and Holm, 2011).

A number of case studies have demonstrated the benefits of networks for cooperatives. In their seminal work on the nature and evolution of cooperative networks, Menzani and Zamagni (2010) explore the contributions of cooperative networks to the Italian economy. The study hinges the success of the Italian cooperative sector on networks that enable them to reduce transaction costs, thus increasing profit margins. The study identifies five typologies of cooperative networks: horizontal, vertical, complementary, financial, and network of networks (see Table 3.1). The kind of service(s) the network provides, the nature of

integration, the pattern of relationship, and governance structure define typologies. Below is a brief explanation of each typology.

Table 3.1: A Typology of Cooperative Networks

TYPE	DEFINITION	KEY CHARACTERISTICS	GOVERNANCE
Horizontal	Networks to increase market power, to rationalize production, to offer common services, to share risks and opportunities	Very integrated system, long lasting, sometimes they prelude to mergers, generally used by small and middle size firms	Governance with special committees, consortia or other shared legal instruments
Vertical	Networks between suppliers and clients in a long value chain, developed to allow the concentration of each firm in its core business and at the same time the control of the entire production chain	Vertical specialization, logistics coordination, product specifications, network used by many kinds of firms	Governance by a partner who provides coordination in a stratified system
Complementary	Networks between complementary goods and service producers, to offer complete packages to their clients	Latent relationships, generally activated upon client's demand	Steady alliances, equity cross-holdings, cooperative groups, consortia, common strategies, integration
Financial	Financial support networks	Supply of credit; temporary or long-term equity holding, with financial and technical qualified services in view of company consolidation	Strategically oriented independent agencies, with a view to promote business
Network of networks	Strategic coordination networks	External representation; lobby; cooperative identity defense; synergies among networks, common services, and basic strategic decisions	Elective and managerial system governance

Source: Menzani and Zamagni (2010:5)

Prominent after the Second World War, horizontal networks are characterised by what Menzani and Zamagni (2010) refer to as cooperation among cooperatives. Such networks emerge for the purpose of harnessing economies of scale and scope and lowering transaction costs. In the Italian economy, these networks can be found in the retail, agriculture, construction and credit sectors. Horizontal integration occurs at local, regional and national levels. Horizontal networks, as a form of cooperative network, perform a unique role in promoting the Italian cooperative movement such as the provision of resources and linking cooperatives to the market (Menzani and Zamagni, 2010). However, once consortia grow and become complicated, they tend to lose the advantage of simplicity, thus necessitating other forms of networks such as vertical and complementary networks.

Vertical integration, unlike horizontal integration, entails the integration of producers in the value chain that adds value to their primary produce. This form of integration results in cooperatives investing in processing plants and eliminating middle men who either provide unsatisfactory services or charge exorbitant prices that disadvantage cooperatives (Menzani and Zamagni, 2010). Vertical integration is prevalent among producer cooperatives. Through vertical integration, cooperatives increase their competitive advantage, thus attracting higher returns for their produce.

A defining feature of complementary networks stems from their flexibility (Menzani and Zamagni, 2010). The flexibility of complementary “networks allow their components to interact in order to search for synergies and integrations, while preserving each component’s flexibility of organization” (Menzani and Zamagni, 2010:115). Originating in the 1970s, this form of network leads to specialisation of cooperatives that increases the efficiency and effectiveness of the entire network. In complementary networks, the services provided by members of the network complements the needs of other members. The success of this network depends on members’ economic participation. In this way, complementary networks elicit the actualisation of the fourth principle of the cooperative movement.

A network of networks is the fifth typology of networks identified in the study of cooperative networks in the Italian economy. These networks are apex organisations that coordinate the activities of cooperatives. In addition, they are influential in representing the interest of the cooperative movement such as advocating favourable legislation (Menzani and Zamagni,

2010). The network of networks is similar to the collaborative structures formed by cooperatives at national/international level (discussed above).

In a study of Italian cooperative networks, Joshi and Smith (2002) find that the networks among cooperatives make it possible for them to reap the benefits of economies of scale and scope and reduced transaction costs. In addition, networks provide invaluable services such as finance, research and development, training, organisational development, procurement, marketing, and the establishment of new cooperatives.

Founded in 1886, the Legacoop is a prominent network of cooperatives in Italy and one of the oldest cooperative organisations in the world. It is a product of the Labour Movement in nineteenth century Italy (Joshi and Smith, 2002). The network consists of about 150 000 cooperatives spread across the country (Legacoop, 2012). Individual cooperatives that form Legacoop operate as independent institutions while utilising the services provided by the network. The organisation exists primarily to promote cooperatives. Over the years, Legacoop developed services and projects aimed growing new cooperative enterprises and assisting them to become successful businesses (Legacoop, 2012).

The Legacoop network was formed in a region characterised by high densities of cooperatives (Smith, 2001; Menzani and Zamagni, 2010). Densification ensures that cooperatives have easy access to, and are able to interact with other cooperatives. Through these interactions, they identify common challenges that lead to the formation of both formal and informal networks. In addition, a dense network of cooperatives implies that knowledge about the working and functioning of cooperatives abounds. Hence, getting experienced managers to manage cooperative networks is often not a major challenge where the density of cooperatives is high (Smith, 2001).

The existence of strong networks (e.g. fair-trade networks) has created significant market opportunities for small-scale farmers, a sector where most cooperatives in low-income countries operate (Méndez, 2002; Murray, Raynolds and Taylor, 2006). These networks represent smallholder producers who have organised themselves as independent and democratically controlled cooperative organisations.

In a study of fair trade coffee cooperative networks in South America, Raynolds, Murray, and Taylor (2004) find that higher prices pay for fair trade coffee as a direct benefit to members who participate in networks. Essentially, prices of coffee sold by fair trade networks are often twice that of coffee sold in conventional coffee market. Participation in fair trade networks also offer other social benefits where these networks operate. For instance, a strong sense of group identity is key to holding cooperating cooperatives together (Murray, Raynolds, and Taylor, 2006). Moreover, fair trade cooperative networks provide price stability for coffee growers. In this way, cooperatives shield themselves from the fluctuations that characterise global coffee trade thus ensuring stable incomes for their produce.

Méndez (2002) studies the challenges and benefits of participating in organic and shade grown coffee fair trade networks by small-scale coffee cooperatives in El Salvador. The study finds that for many cooperatives, participation in fair trade cooperative networks provide alternative markets as it enables small-scale coffee producers to sell their produce at better prices. Furthermore, coffee growers who take part in networks overcome challenges such as transportation and storage (Méndez , 2002). In contrast, those that are not part of networks are forced to sell their produce to available buyers often at unattractive rates. Membership of networks also brings additional benefits such as sundry technical assistance and services provided by networks. Furthermore, networks provide various services that ensure that small-scale producers meet stringent produce requirements set by destination countries (Méndez, 2002).

In a study of networks of US agricultural cooperatives, Chaddad (2006) uncovers two typologies of cooperatives: a) purely federated system; and b) purely centralised system. While the former deals with individuals who pool their resources to form a cooperative, the latter is concerned with cooperatives pooling their resources to form regional or national cooperative networks. A defining feature of the federated system is the level of independence that local networks enjoy. In addition, competition may exist among local cooperatives as well as with national or regional bodies (Chaddad, 2006). This is not the case with the centralised system that is highly integrated and characterised by central control. Between these two polar opposites are what Chaddad (2006) refers to as hybrid forms of integration.

These hybrids integrate characteristics found in both the purely federated and purely centralised typologies.¹²

According to Chaddad (2006), vertical and horizontal networks of the US agricultural cooperatives improve competitive advantage primarily through reduced transaction costs. Chaddad (2006) further argues that complex networks with marketing agencies as well as other institutions in the supply chain contribute to the growth of US agricultural. Inspired by the success of the network of cooperatives in the US, Chaddad (2006) suggests that such a model could be influential in the development of cooperatives in low-income countries.

In another study, Fox, Jeannette and Gracie (2009) investigate whether Canadian agricultural cooperatives are interested in establishing networks. The study comprises two components: a literature review of agricultural cooperatives networks in the US and Europe and interviews with stakeholders of Canadian agricultural cooperatives. The cases reviewed demonstrate that networks of agricultural cooperatives provide a range of services such as promotion, advisory services, research, information sharing, training, education, and advocacy. The study further establishes that without these networks, Canadian cooperatives would have difficulties accessing services provided by networks. Against the backdrop of the benefits of networking, Fox, Jeannette and Gracie (2009) conclude that networking (among cooperatives, with NGOs and businesses) is instrumental to the development of Canadian cooperatives. Recognising this value, they advocate that Canadian agricultural cooperatives organise themselves into networks.

Despite the above stated advantages, networks pose problems. Issues of equity, coupled with the complexity of coordinating competing businesses, are some of the challenges faced by members of multilateral networks (Okem and Lawrence, 2013). Such challenges are more nuanced in contexts where there is a perception that benefits of networks are not equitably distributed. Birthall and Joshi (2007) argue that disagreement (over the outcomes of network or contribution of resources to network) could have negative impact on cooperating partners. This happens when members of the cooperative fail to participate actively in the network and free-ride on the effort of others.

¹² Ménard (2011:3) defines hybrid integrations as “as arrangements in which two or more partners pool strategic decision rights as well as some property rights while simultaneously keeping distinct ownership over key assets, so that they require specific devices to coordinate their joint activities and arbitrate the allocation of payoffs”

Participation in a collective network has associated costs such as “potential deprivation costs and potential opportunity costs” (Ostrom, 1968:14). The former is concerned with subsuming of individual will and aspirations to that of the collective. Because decisions are collective, voices of minority groups can be stifled in a network. This could result in conflict among networking cooperatives. Potential opportunity costs of network formation deal with financial and non-financial resources dedicated to the initiation and maintenance of a network (Ostrom, 1998). Cooperatives can invest such resources in other productive activities. This is significant especially for emerging cooperatives that are often resource constrained. For these cooperatives, participation in a network entails foregoing other opportunities that they might not be able to do without.

Lack of information about potential partners could also undermine the formation and governance of a network (Gulati and Gargiulo, 1999). Paucity of information can limit the ability of an organisation to evaluate benefits and challenges of entering a given network. When information is expensive, cooperatives might be highly unwilling to invest their resources in a network. The fact that networks include individuals/organisations that have different characteristics, needs, values and worldviews further compound the problem. Although this diversity could be a strength, it could be an undermining factor for a network if not properly managed (Zeuli et al., 2004).

3.6 Summary of Theoretical Approaches to Understanding Cooperatives

Thus far, the Chapter has presented four theoretical approaches to understanding cooperatives. What the review has demonstrated is that cooperation occurs primarily because of the benefits associated with working together. Collaboration is informed by the recognition that group needs can be better addressed collectively. This is also true when cooperatives come together to network with one another, with government, NGOs and businesses. A primary outcome of working together is reduced transaction costs. This outcome is particularly important for emerging cooperatives that are constrained by factors such as lack of inputs, capital, market, information, and skills that are necessary to their success. When cooperatives network, they leverage the resources present in the network. Table 3.2 presents a summary of theoretical approaches to cooperatives.

Table 3.2: Overview of Theoretical Approaches to Cooperatives

THEORETICAL APPROACH	FEATURES	BENEFITS
Transaction Cost Theory	<ul style="list-style-type: none"> • Used to explain market imperfection. • Institutions formed to address market constraint 	<ul style="list-style-type: none"> • Lowers transaction costs • Improves organisational efficiency and effectiveness • Improves organisational success
Cooperatives as Collective Action	<ul style="list-style-type: none"> • A voluntary planned group action • Informed by inability to address problems individually • Characterised by shared interests • Governed by formal and informal institutions 	<ul style="list-style-type: none"> • Attainment of individual needs • Attainment of collective needs • Maximisation of economies of scale and scope
Cooperatives as Social Capital	<ul style="list-style-type: none"> • Underpins social relations • Norms that guide social relations • Creates predictable pattern of behaviour • Determinant of collective action 	<ul style="list-style-type: none"> • Leads to increased trust • Enhances social relations • Reduces transaction costs • Increases social learning • Increases cooperation
Cooperatives as Network	<ul style="list-style-type: none"> • Interdependent relations among two or more organisations • Dynamic in nature • Self-governing 	<ul style="list-style-type: none"> • Maximisation of economies of scale and scope • Lowers transaction costs • Access to resources in networks • Leads to specialisation

Source: Author's summary of theoretical approaches to cooperatives

The four theoretical approaches presented in this Chapter demonstrate that the success of a cooperative is dependent on the extent to which a cooperative is able to engage with others. In essence, they all complement one another since all are about collective action. Through working together as a collective, cooperatives reduce transaction costs, maximise economies of scale, improve efficiency and effectiveness, and ultimately, improve their success rates.

3.7 Conclusion

This Chapter presented four theoretical underpinning of cooperatives. Discussions focused on how the quest for the attainment of individual goal is the driving force of cooperation. The key argument was that cooperation occurs in contexts where the attainment of individual goals best addressed through cooperation. Triggers of collective action include factors such as natural disasters, competition, increase/decrease of commodities prices, and depletion of natural resources.

Literature explored in the Chapter showed that the development of a vibrant cooperative sector is correlated with utilising the strengths and values of collective action. This ultimately results in reduced transaction costs thus positioning cooperatives to become successful. This Chapter demonstrated the values of collective action and showed that these values lie not only in the interaction among cooperative entities but also with non-cooperative institutions. Through collaboration, cooperatives access invaluable resources that reside in a network. In addition, collaboration improves social capital that is important to future interactions.

Chapter Four will present an overview of the cooperative sector from four selected cases studies. The examples will be helpful in drawing up a list of criteria that can be used to assess the success of cooperatives in a given country.

CHAPTER 4

A REVIEW OF COOPERATIVES IN FOUR SELECTED COUNTRIES

4.1 Introduction

Drawing on the available literature, Chapter 4 provides a review of how cooperatives have developed in four selected countries. Two of the countries rate as developed (the United Kingdom and Spain) are located in Europe, while the other two (Kenya and Nigeria) rate as developing and are located in Sub-Saharan Africa. The Chapter seeks to facilitate an understanding of factors that affect the success or failure of cooperatives in these countries. While acknowledging that one cannot draw generic conclusions from this comparative review, it is nonetheless argued that the findings provide useful insights into the factors that affect the operation of cooperatives in general.

4.2. A Review of the Cooperative Sector in the United Kingdom

In Chapter Two, it was noted that the origin of modern cooperatives is linked to those established in the United Kingdom (UK). The Rochdale Society of Equitable Pioneers, (hereafter referred to as the Rochdale Society) established on 24 October 1844, is often regarded as the first case of successful modern cooperatives (Kokkinidis, 2010). It is therefore not surprising that the Rochdale Society is now seen as “a living, active symbol that influences understanding of co-operatives in countries around the world today” (Fairbairn, n.d:2). However, of particular interest are the factors that influenced the formation of the Rochdale Society and how it came to be such a successful cooperative enterprise.

A number of social, political and economic imperatives have been identified as factors that prompted the formation of the Rochdale Society. Diamantopoulos (2012) and Hannan (2014) construe the formation of cooperatives at this historical point as attempts aimed at alleviating the negative effects of the industrial revolution. In terms of production, the economy of Rochdale mainly based on textile and textile-related products. However, the imperatives of

the industrial revolution eroded the niche market that was the mainstay of the Rochdale economy. The mechanisation of production resulted in reduced prices for cotton and cotton products (Kokkinidis, 2010). This brought about the pauperisation of farmers and weavers who relied on the textile sector for their survival. According to Fairbairn (n.d:3), farmers and weavers “struggled to survive periodic unemployment, low pay, unhealthy cities, and dangerous workplaces”. The establishment of cooperatives as a form of self-help was aimed at alleviating the condition in which they found themselves (Kokkinidis, 2010). From a theoretical standpoint, the foregoing shows that the emergence of the Rochdale Pioneers fulfils the conditions for the emergence of collective action explored in Chapter Three. The argument here is that changes in the mode of production placed people in a disadvantaged position that they could not address individually. As hypothesised in Chapter Three, conditions of this nature often prompt collective action.

According to Fairbairn (1994.), the Rochdale Society was became a successful cooperative because for many years, Rochdale was a hub of economic activity and was always conducive to cooperative actions. For instance, there was the Rochdale Friendly Cooperative Society that predates the Rochdale Society by nearly fourteen years. The experiences gained from such experiments later became invaluable to the Rochdale Society.

In addition to prevailing experiments with the cooperative model of socio-economic development, Hoover (1992) and Stickers (2011) see the work of thinkers such as Robert Owen, Charles Fourier, Etienne Cabet, William King and Henri De Saint Simon as influential in the formation of and growth of cooperatives. According to Kokkinidis (2010), these social critics were unhappy with existing social and economic structures of their time and proffered an alternative model that they were convinced was better suited to addressing societal needs. Likewise, Fairbairn (1994:4) argues that “the vision of a better social order, not hunger, inspired” the Rochdale Pioneers to come together to form a cooperative. The hypothesis here is that the Rochdale Pioneers were idealists who sought to use cooperatives as an instrument for implementing their vision of an ideal society. The idealism of the Rochdale Pioneers was manifested in their choice of the word “equitable” in the name of the cooperative they established. The choice of the word emphasised their attempt at re-ordering both social and economic relations of their time. The Pioneers sought to bring about a society in which the exploitation inherent in the capitalist system would give way to a humane system in which the exchange of goods and labour would be just, fair and non-exploitative (Fairbairn, 1994).

According to Stickers (2011), Owen's emphasis on improving economic and educational conditions of the masses was an essential stimulus for the social movement as well as the various forms of collective action of the working class of the time. Among other things, Owen's principles and practices stimulated within the masses a consciousness that they were capable of addressing their challenges. This demonstrates the uniqueness of cooperatives in improving not only members' economic condition but also other aspects of their lives. For the Rochdale Pioneers, the primary goal of the Rochdale Society was to address both the economic and social needs of members. This value continues to define cooperatives as emphasised in the ICA's definition and principles of cooperatives.

To advance the values of education, the Rochdale Society committed to putting aside 2.5% of its quarterly profit to an education trust fund (Kokkinidis, 2010). The fund was used to purchase books and provide educational opportunities and services to its members and society. Through this, the Rochdale Society committed to promoting education of both members of the cooperative and the society.

At inception, the Rochdale Society had 28 members and a start-up capital of £28 (McIntyre, 2011). The Rochdale Society started by opening a consumer store that sold basic commodities such as flour, sugar and butter. Effectively, the Rochdale Society at inception was a consumer cooperative. From this humble beginning, it diversified into other sectors of the economy such as housing and finance (Corcoran, 2010).

The early history of the Rochdale Society was characterised by a series of successes. However, in its bid to expand, the Rochdale Society began accepting shares from non-cooperators. This would later prove disastrous when private investors took over the cooperative and converted it into an investor owned business that did not share most of the values that informed the formation of the Rochdale Society. Despite this setback, the cooperative movement, enthused by the ideals of the Rochdale Pioneers, initiated a whole generation of cooperators that resulted in the continued expansion of cooperatives in the UK until the 1950s when the movement experienced a decline. Birchall (2004) attributes this decline to intense competition from capitalist chain stores that made many cooperatives "abandon the patronage refund to members, which meant that the meaning went out of membership" (Birchall, 2004:9). The fact that cooperatives abandoned the value of concern for members in the face of competition made them less attractive to many cooperators in the

UK. Cooperatives, by definition and in principle, are formed to meet members' needs. Once a cooperative fails to abide by its defining principles, it loses its identity as a cooperative entity.

4.2.1 The Present Status of the Cooperative Sector in the UK

The cooperative movement in the UK has undergone a series of changes over the years. Despite its early successes, it was not until 1852 that cooperative policy was formalized by a statute (The Industrial and Provident Societies Act) that provided a legal framework for the cooperative movement (The Co-operative Group, 2012). The cooperative movement in the UK has not always enjoyed the full support of the government. Despite this relative lack of government support, cooperatives have been gaining popularity in recent years particularly in light of their success following the 2008 financial crisis when cooperatives in the UK had an annual turnover of £35.5 billion and “outperformed the UK economy for a fourth consecutive year” (Mutuo, 2012:12). Cooperatives in the UK weathered the storms of the economic crisis and continue to perform more than modestly well. The sector grew by 19.5% between 2008 and 2012, whereas the UK economy shrunk by 1.7% in the same period (Mutuo, 2012:12). In addition to positive economic performance, the number of cooperatives has risen consistently in recent years. In 2013, there were 15.5 million cooperators in the UK (Co-operative UK, 2014) representing a 2 million increase from 13.5 million in 2012 in the number of cooperators in the period. The number of cooperators increased to 13.5 million in 2012 (Mutuo, 2012). Between 2012 and 2013, the cooperative sector in the UK grew by 2.5% and had a total turnover of the sector stood at £37,001,475,000 in 2013 (Co-operatives UK, 2014).

In recent years, the cooperative movement has made forays into various sectors of the UK economy such as the renewable energy industry. Mathie (2012) notes that cooperatives provide renewable energy to some 55,000 households, representing nearly one in every 500 households in the UK. This sector provides a new business opportunity to cooperatives given the growing interest in renewable energy across the UK.

Birchall (2004:9) notes that consistent with the ethical principles of the cooperative movement, the Co-operative Group has played a leading role in “setting new standards for food labeling, fair trade and environmental concern”. This strategy is in line with the ICA's principle of concern for the community. Besides this, the strategy has also presented a new

and expanding niche market for cooperatives. The importance of this new market hinges on the growing number of ethical and environmentally conscious consumers. According to a study by Deloitte (2011:8), “consumers are becoming increasingly aware that their buying habits have a direct impact on the environment and want to know that whatever they buy is good for the planet”. The same study noted that “60% of consumers rated environmental impact as more important than a brand name and 22% of consumers will actively spend more to buy green” (Deloitte, 2011:3). This changing consumer behaviour implies that there is a huge market opportunity in which the UK cooperatives sector is a significant participant.

Another area in which cooperatives in the UK have markedly increased is the agricultural sector. According to Mutuo (2012), pressure from global competition is one of the factors compelling UK farmers to join cooperatives. A study by Mathie (2012:14) found that more than half of the nearly 300,000 farmers in the UK are members of an agricultural cooperative. The main reason motivating farmers to join cooperatives is the resultant reduction in their transaction costs. Mathie (2012:14) notes that farmers reduce transaction costs “by sharing machinery, jointly purchasing equipment or marketing under a common brand”. By joining cooperatives, farms have become successful and viable businesses entities which they were not when they were operating individually. This finding supports the theoretical premise raised in Chapter Three where it was argued that, according to the transaction cost theory, the establishment of institutions (such as cooperatives) aims at reducing the costs of market participation transactions.

The growing importance of cooperatives in the UK is also manifest in the emergence of cooperative networks such as the Co-operative Group (the largest group of cooperatives in the world). The Co-operative Group has a staff complement of 120,000 and runs pharmaceutical businesses and retail stores as well as agriculture and agro-allied industries across the UK (Birch, 2011). Through this network, member cooperatives have improved their performance. Participation and collaboration in networks improves the success of cooperatives since it results in members gaining access to the resources of the network, reduces transaction costs, and enhances social capital, specialisation and expertise and so on.

Producer cooperatives in the UK have also strategised and built networks that provide raw materials to brands including Ribena, Birdseye, McCoy, Lurpak, Ocean Spray and Coleman – all of which are leading food brands worldwide (Mathie, 2012). Such actions demonstrate the

benefits that producer cooperatives enjoy when they work together. The selling of produce through a brand enables cooperatives to leverage brand loyalty. Through participation in common brands, cooperatives further reduce their transaction costs. This action of farmer cooperatives in the UK also underwrites the characteristics typical of successful producer cooperatives discussed in Chapter Two. Overall, the cooperative sector in the UK seems to have harnessed the theoretical premises that make collective action beneficial.

Financial and credit cooperatives in the UK have recorded growth in recent years. For instance, cooperative banks in the UK defied the poor performance of the banking sector in the wake of the 2008 economic downturn by doubling their customer base (Mathie, 2012). This performance is an impressive achievement given that government had to rescue a number of banks during the same period. Mathie (2012) argues that the success of cooperative banks stems from their commitment to ethical business practices and their refusal to engage in reckless investments. His argument reaffirms the importance of the ICA principles in general, but particularly the principle pertaining to concern for the community. The success of CFIs inspired over 100,000 new customers to switch their accounts to cooperative banks in 2012 alone (Mathie, 2012:16). In 2014, the Core Bank of the Cooperative Bank had a customer base of 4.4 million (The Co-operative Bank plc, 2015).

The cooperative movement in the UK is undergoing a series of renewals in order to become strategic and responsive to the needs of modern times. For instance, the Co-operative Group has taken a proactive approach to issues such as gender representation (The Co-operative Group, 2013). The issue of gender equity is a core feature of the Cooperative Ethical Plan drawn up by the Co-operative Group. Through the Plan, the Co-operative Group seeks to achieve 40% female representation in management by 2018 (The Co-operative Group, 2013).

Inspired by the resilience and success of the cooperative model, the British Prime Minister, David Cameron, lobbied Parliament for the enactment of a new Co-operatives Act. His action was in response to intense lobbying by the cooperative movement for a policy that will further the growth of cooperatives (Co-operatives UK, 2014). Both Houses of Parliament passed the Co-operative and Community Benefit Societies Act (Act of 2014) which was given a Royal Assent on 14 May 2014 (United Kingdom, 2014). The primary goal of the Act is to consolidate disparate laws governing cooperatives in the UK. By mainstreaming

cooperative-related laws, the government hopes to improve the process of establishing and managing cooperatives that might result in strengthening cooperatives in the UK even more.

4.2.2 Significant Characteristics of the UK Cooperative Sector

Literature on the cooperative sector in the UK highlights a number of significant factors briefly discussed below. In the course of its history, the cooperative movement in the UK has undergone various changes. These changes and developments provide some insight into how the cooperative sector became successful. One such lesson is that the emergence of cooperatives in the UK was an organic process. The Rochdale Society emerged organically in response to prevailing socio-economic realities. Against this backdrop, the primary goal of the Rochdale Society was to transform the socio-economic conditions of the time. Just like the Rochdale Society, the ideology of solidarity and concern for its members underpins the cooperative movement in the UK. The value of solidarity and concern for members has been instrumental to the growth of cooperatives in the UK. As noted earlier, cooperatives in the UK declined in the 1950s when the movement placed less emphasis on member needs. This demonstrates that for cooperatives to be successful, they must remain committed to fundamental principles such as advancing members' interests.

Another significant characteristic of the cooperative movement in the UK is its ongoing aim to become and remain financially self-reliant. As shown earlier, cooperatives in the UK have flourished largely independent of government financial support. Cooperatives have relied largely on members' resources and contributions in their growth. This is evident in the size and strength of CFIs in the UK that have relied on members' contributions. The strength of UK's CFIs was also linked to their commitment to principles of ethical banking which contributed to the steady growth of CFIs even in times of financial crisis. The growth of this sector resulted in more funds being available to fund new and emerging cooperatives thus contributing to strengthening the cooperative sector.

The literature on cooperatives in the UK also highlights how their cooperatives have been able to adapt and venture into new sectors thereby extending their boundaries of operations. Cooperatives in the UK currently play an important role in the renewable energy sector. They also play a leading role in organic and fair trade sectors that has improved their image among

consumers. By venturing into new sectors, cooperatives in the UK have positioned themselves in niche markets, offering additional avenues for trading.

A fourth and very significant characteristic of cooperatives in the UK is the extent to which cooperatives network, at a small-scale level as well as at a national level. It puts into effect the ICA principle of cooperation among cooperatives. The existence of cooperative networks provide support to other cooperatives, some as basic as providing services to their members including the sharing of machinery and joint marketing of produce. Other networks are extensive and compete at a global level. The networking opportunities provided by large cooperative groups make them attractive for smaller cooperatives. It gives them an opportunity to get exposure to bigger markets, and further reduce their transaction costs. It also became apparent that networks are important in terms of lobbying government for favourable policies. In the UK, the recent Co-operative and Community Benefit Societies Act is the outcome of such network lobbying.

In summary, cooperatives in the UK initially emerged to address members' immediate, desperate and dire socio-economic conditions. Despite facing challenges over the years, they continue to be driven by the ICA principles. In the process, cooperatives in the UK have expanded and provided income generating opportunities, employment, and self-empowerment opportunities for their members under their own independent democratic control.

4.3. A Review of the Cooperative Sector in Spain

The emergence of cooperatives in Spain has been attributed to the poor economic conditions in Spain in the first half of the 19th century (Kokkinidis, 2010). In the 1930s, most Spanish rural dwellers lived in conditions of deprivation. Kokkinidis (2010) and Rouf (2012) argue that during this period, the poor initiated cooperative movements as a form of collective action in an attempt to take control and redress their appalling living conditions.

The first worker cooperative in Spain emerged in 1842 and later became “an industrial worker and farmer movement in the 1860s” (Rouf, 2012:20). By organising themselves into collectives, farmers were able to achieve a “50% per hectare” level of productivity more than

those who opted to cultivate their fields as individuals (Kokkinidis, 2010:63). The success of self-organisation by farmers made the cooperative alternative attractive to other members of society. These early communal practices are examples of the ICA's principles that speak to member economic participation and concern for community (International Cooperative Alliance, 1995).

The implementation of the values of collective action sustained the Spanish cooperative movement even under a strict regulatory environment. From 1942 to 1974, the Spanish legislative framework subjugated cooperatives to the state's control. Hence, cooperatives were not able to exercise the ICA principles of independence and autonomy, or of democratic member control (Brenan, 1980). The Co-operative Law of 1974 brought a much-needed respite to the cooperative movement in Spain. Through the law, government no longer directly controlled activities of cooperatives, but created a more enabling environment for the growth of cooperatives (Roman-Cervantes, 2011). This stimulated a rapid growth of cooperatives in Spain. One example is Port de la Selva in Catalonia, a village in which the practice of collective action was practiced on a grand scale. According to Brenan (1980:337),

[t]he village was run by fishermen's co-operative. They owned the nets, the boats, the curing factory, the store house, the refrigerating plants, all the shops, the transport lorries, the olive groves and the oil refinery, the cafe, the theatre and the assembly line.

This form of communal ownership and collective action has been construed as both an organic process and a response to prevailing difficult economic conditions. Kokkinidis (2010) argues that the organic and 'bottom-up' approach to the development of cooperatives is a central determinant of the success of the Spanish cooperative movement. This is because Spanish cooperatives were borne out of the desires of people to come together and work towards addressing their shared needs.

Over the years, Spanish cooperatives have organised themselves into large networks of cooperatives such as the Mondragon Corporation. The Mondragon Cooperative (now known as the Mondragon Corporation) is a federation of worker cooperatives in the Basque region of Spain. Established to promote cooperation among cooperatives, the network enabled participating cooperatives to reduce transactions costs and become a united industrial

powerhouse (Corcoran, 2010). In addition, it encouraged established cooperatives that were part of the network to provide support to emerging ones (Birchall, 2004; Kokkinidis, 2010).

Don Jose Maria, the Parish Priest of Mondragon, founded the Mondragon Corporation in 1956 in the Basque region. Inspired by the Catholic Social Justice Teachings, particularly Pope Leo XIII's *Rerum Novarum*, Jose Maria sought to create a social and economic order in which the welfare of workers would be the driving force of all economic decisions (Iuviene, Stitely, and Hoyt, 2010). This was a counter economic order that was opposed to pure profit motivation of conventional capitalist firms. The underlying rationales for the creation of the Mondragon Corporation are very similar to those that motivated the formation of the Rochdale Society.

4.3.1 Present Status of the Cooperative Sector in Spain

In 2010, there were over 18,000 worker cooperatives in Spain (Corcoran and Wilson, 2010:12). The Spanish worker cooperatives employ more than 300,000 workers, which constitutes about 1.5% of the country's active labour force (Hanna, 2014). The Mondragon Corporation occupies an important place in the Spanish cooperative sector. It has grown from a relatively small federation of worker cooperatives to an extremely large organisation catering for the needs of thousands of cooperatives. The Mondragon Cooperation comprises 103 member cooperatives and 123 production subsidiaries (Mondragon Cooperation, 2015). It also contributes to knowledge generation through research employing 1676 full time researchers.

The Mondragon Corporation is the eighth-largest industrial group in Spain. As the largest business group in the Basque region, the Mondragon Corporation contributes about 15% to the GDP of the region (Rothschild, 2009). It has an estimated global of about €15bn (Tremlett, 2013). In addition, the Mondragon Corporation makes other indirect contributions such as the creation of employment opportunities.

As a worker cooperative, each member cooperative is a shareholder of the Mondragon Corporation. Members have the right to vote at its annual general meeting. It is at such meetings that the operational plan of the cooperative is presented to members for approval. The fact that the cooperative discourages the centralisation of decision-making ensures that

individual cooperatives have the freedom to make decisions that address issues specific to their local needs (Kokkinidis, 2010). Consequently, decision-making is faster and not subject to the vagaries of bureaucracies that characterise large corporate organisations.

The Mondragon Corporation has diversified and operates in various sectors of the Basque economy. Its core areas include finance, retail, agriculture, and knowledge production. By diversifying its activities, the Mondragon Corporation seeks to reduce risks especially in times of economic crisis (Joshi and Smith, 2002:7). Through diversification, it plays an important role in the machine and automotive industry of Europe. The re-organisation of the Mondragon Corporation along industrial lines has enabled it “to take advantage of economies of scale, to share technology and research and development, and also to share management expertise” (Rouf, 2012:18).

The formation of new cooperative firms is another benefit associated with the Mondragon Corporation. According to Iuviene, Stitely, and Hoyt (2010:11), these spinoff firms “promote innovation and diversification, capturing new economic activity and adding to the strength of the network and local economy”. This has made it possible for the Corporation to remain more competitive than it would otherwise be.

Diversification has also positioned the Mondragon Corporation to respond more rapidly and creatively to the imperatives of today’s globalised economy. The Mondragon Corporation contributes to knowledge production through research and development and the establishment of innovation centres. It also provides financial support to cooperatives through the *Caja Laboral Popular* (Iuviene, Stitely, and Hoyt, 2010).

The Mondragon Corporation, in line with its commitment to member education, has opened numerous education training centres including the Mondragon University. The education and training centres are aimed at imparting knowledge and skills to members and the society. In addition, the Mondragon Corporation has “funded several schools that help to preserve the Basque language” (Birchall, 2004:27). It currently has nine university campuses with a student population of 4567 (Mondragon Cooperation, 2015).

In keeping with the neo-liberal policy of the 21st century, cooperatives in Spain have not received direct funding from the Spanish government. However, the government has worked towards creating an environment that enables the cooperative movement to flourish. For instance, the general tax paid by cooperatives is 18% lower than that of corporate businesses (Rouf, 2012). Favourable fiscal policy ensures that more money is available for reinvestment.

In response to the realities of globalisation, the Mondragon Corporation has expanded its cooperation beyond Europe and has formed collaborative partnerships with other cooperatives (Mondragon Cooperation, 2015). The globalisation of production is a strategy aimed at lowering transaction costs. By globalising production, the Mondragon Corporation has remained competitive with other business entities (Corcoran, 2010).

Consistent with the cooperative values of cooperation among cooperatives, members of the Mondragon Corporation offer various forms of support to each other. This has resulted in cooperatives in wealthier villages supporting poorer ones “through their established district committees” (Kokkinidies, 2010:68). Through the district committees, cooperatives pool surplus resources together to support emerging as well as struggling cooperatives. This, coupled with the fact that the Mondragon Corporation keeps an indivisible reserve for the cooperative movement, has ensured that cooperatives are kept afloat through difficult financial times (Corcoran and Wilson, 2010). Rouf (2012:14) points to this commitment of the Mondragon Corporation by stating that the:

Mondragon has re-invested its profits back into its worker co-operatives. In Mondragon, from 30% to 50% of profits each year go into the cooperative's indivisible reserve fund. Ten percent of the profits are donated to education, health, and in the community. Spanish Co-operative Law mandates this 10% donation. The remaining profits are placed into individual members' capital accounts, based on the number of hours worked and pay grade, which cannot be accessed until retirement. The reserve fund, and the member capital accounts, ensures that up to 90% of profits in Mondragon are re-invested back into the worker co-operative to help it grow and employ more people.

The Mondragon Corporation also ensures that wage disparity among workers is kept to the barest minimum by capping members' income (Arando, Freunchlich, Gago, Jones, and Kato, 2010). Although the decision on wage disparity has been left to individual cooperatives, on average, the wage disparity within the Mondragon Corporation is at a ratio of 4.5:1. This is

quite a small wage difference given that the ratio is sometimes over 1000:1 in major US corporations (Stickers, 2011).

The Cooperative Bank is an important factor in the growth of the Mondragon Corporation (Bülbül, Schmidt, and Schüwer, 2013). Through the Cooperative Bank, *Caja Laboral Popular*, the Mondragon Corporation raises capital to support its business development programmes. This, coupled with its insurance wing, has been a continuous source of capital for cooperatives, particularly newly established ones (Rouf, 2012). Funded by members' contributions, the bank provides various banking services to member cooperatives. The bank is also involved in entrepreneurial development programmes (Stickers, 2011). The financial and non-financial support given to new and emerging cooperatives has ensured that Spanish cooperatives have an up to 90% survival rate (Rouf, 2012:16). This is a good result given that in the US, conventional start-up businesses have 30-40% survival rate (Stickers, 2011).

4.3.2 Significant Characteristics of the Spanish Cooperative Sector

The review of the Spanish cooperative sector provides a number of lessons. One important lesson is that they emerged organically to address communal socio-economic needs. More importantly, Spanish cooperatives were primarily about self-organising to address transaction costs. In this way, the cooperative movement in Spain is typical of bottom-up self-motivated collective action initiatives.

The existence of strong cooperative networks has been instrumental in strengthening the overall Spanish cooperative movement. Despite being a large umbrella organisation, the Mondragon Corporation has remained committed to the ICA principles. The discussion above has illustrated how the Mondragon Corporation (Spain's largest and most influential cooperative network) subscribes to all seven of the ICA principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for the community.

The diversification of the Mondragon Corporation into other sectors is one of its success factors. This diversification saw the Mondragon Corporation playing a leading role in the automotive and machine tool industry. It also resulted in the distribution of risks across various sectors

ensuring the protection of members in times of economic downfall. Furthermore, it enhanced the growth of research and development and the sharing of innovative ideas across the network.

The Mondragon Corporation's commitment to the ICA's principle of member education has contributed to the growth of cooperatives by contributing to improved awareness of the values of cooperatives. The Mondragon Corporation has taken proactive steps in member education through the establishment of education institutions and the provision of other education support to members.

A strength of the Mondragon Corporation lies in the fact that it acts as a conduit for cooperation among cooperatives. Its presence and activities therefore acts as both a trigger and a driver of networks among cooperatives (Corcoran, 2010). Kokkinidis (2010:63) links the success of the cooperative movement in Spain the rich "tradition of collective action that goes back to the 9th century" which continues to inspire cooperatives to this day.

The presence of strong and vibrant CFIs also contributes to the success of the Spanish cooperative sector. For instance, the Cooperative Bank has played a leading role in funding start-up cooperatives as well contributing to entrepreneurship development programmes. The support given to emerging cooperatives has resulted in high success rates of newly formed cooperatives. The above demonstrates that self-reliance is an important factor in the success of cooperatives. The success of CFIs in Spain has been realised primarily through members' financial contributions.

Although the Spanish government did not fund cooperatives directly, it passed legislation that favoured cooperatives, enabling their growth and expansion. These included setting a lower tax rates for cooperatives thereby lessening their tax burden. Cooperatives used such tax relief to reinvest profits in productive activities as well as setting up or supporting new cooperatives.

The remainder of the Chapter presents a literature-based review of the cooperative sectors in two developing countries, Kenya and Nigeria, both located in sub-Saharan Africa.

4.4 A Review of the Cooperative Sector in Kenya

The origin of modern cooperatives in Kenya dates back to colonial times. European settlers established the first cooperative in Kenya in 1907 (Muthuma, 2011). The establishment and expansion of cooperatives in colonial Kenya aimed to benefit white settlers and the Great Britain (Gyllström, 1991; Muthuma, 2011; Nyagah, 2012). During this period, cooperatives were the exclusive preserve of white settlers. The exclusive nature of Kenyan cooperatives was emphasised in the Cooperative Ordinance Act of 1931 (Nyagah, 2012).

Cooperatives during colonial rule were mainly producer cooperatives with a primary focus on the production of cash crops. This situation largely remained unchanged until the early 1940s when the *Mau* uprising against colonial rule was at its peak (Gyllström, 1991). In the 1940s, the colonial government lifted the ban that prevented Africans from forming and managing cooperatives and growing cash crops (Gyllström, 1991). This action was in part an attempt by the colonial government to halt the declining living conditions in many African settlements. In addition, the change of government policy was also a strategy aimed at growing an African middle class to act as a bulwark against the increasing pressure of the *Mau* uprising at the time (Gyllström, 1991; Muthuma, 2011). According to Thurston (1987), achieving this goal underpinned the Swynnerton Plan of 1954¹³. According to Gyllström (1991), the first attempt at encouraging the formation of cooperatives among Africans was by with a lukewarm reception, as many were apprehensive of the colonial government's intentions. As a result, the Swynnerton Plan did not produce the desired outcome.

In recognition of the failure of the Swynnerton Plan, the government made further attempts to include the participation of Kenyans in the cooperative sector. One of the strategies implemented was the restriction of the production and sale of cash crop to cooperatives (Gamba and Komo, 2004). This did result in the growth of cooperatives since the restrictions meant that only those that organize as cooperatives could produce and market cash crops.

¹³ The Swynnerton Plan was an agricultural policy implemented in colonial Kenya to bring about rapid development in the country's agriculture focusing particularly on cash crop production among Kenyans previously excluded from cash crop production. The Plan followed a report of a study by Roger Swynnerton, an official of the Department of Agriculture at the time. The plan, however, was largely seen as a political tool to counter the waning popularity of colonial rule.

This made cooperatives appealing to the black majority thus resulting in the increase of black-owned cooperatives.

Despite the growth of agricultural cooperatives in colonial Kenya, there was no intersection between cooperatives owned by Africans and those owned by Europeans. The implication of this was a dual system of cooperatives. On the one hand, there were primary cooperatives owned by black smallholder farmers while on the other hand, there were white-owned large-scale cooperatives that “retained control of national cooperative unions that promoted their economic interests” (Muthuma, 2011:77). This dual nature of cooperatives persisted until the country gained independence when there were 193,000 registered members of coffee cooperatives (Gyllström, 1991).

At independence, Kenya embraced the cooperative model and attempted to use it as a medium for socio-economic development (Jämsén, Ikäheimo, and Malinen, 1999; Wanyama, Develtere and Pollet, 2009). This view underpinned the government’s Sessional Paper (No. 10 of 1965) titled “African Socialism and its Application to Planning in Kenya” (Nyagah, 2012). Consistent with the vision of the Sessional Paper, the government introduced *The Co-operative Societies’ Act* (CAP 490) in 1966. The Act placed the cooperative movement firmly under government control. Massive financial injection into the country’s cooperative sector and the establishment of a Cooperative Department to facilitate and manage the development of cooperatives all complemented the Act. Because of the emphasis on agricultural cooperatives during this period, government policy also translated into the rolling out of extensive agricultural extension services. Through this, the government sought to provide various forms of technical support to smallholder farmers as well as ensuring that innovative agricultural practices reach grassroots farmers (Muthuma, 2011). This strategy brought about a rapid increase in the number of cooperatives: between 1963 and 1999, the Kenyan cooperative sector grew by about 14% (Gamba and Komo, 2004).

According to Muthuma (2011:79), the growth of cooperatives in post-colonial Kenya could be attributed to the national slogan “harambee” – a clarion call “to every Kenyan to pull together in a spirit of self-help and mutual assistance”. During this period, cooperatives were seen as a rallying point for achieving both economic and political ends. Similarly, Satgar and Williams (2008) argue that the emphasis of the post-colonial government on the development of the cooperative sector is one of the key success factors of cooperatives in Kenya.

The post-colonial government's support for the cooperative movement was largely 'top-down' (Satgar and Williams, 2008). This approach was contrary to the ICA principles of autonomy and independence; and democratic member control. The government control of the cooperative movement in post-colonial Kenya was manifested in the *National Development Plan of 1964-1970*. Among other things, the plan outlined how the government would be actively involved in shaping the country's cooperative sector. The Plan also sought to establish the best organisational model for cooperatives (Gyllström, 1991). The outcome of this thinking was the creation of a three-tiered cooperative network: a national federation of cooperatives, secondary cooperatives at district level and primary cooperatives made up of individual cooperatives. The structures aimed to facilitate the strengthening of the cooperative sector by ensuring greater integration. The structures remain to this day, although with some modification, and continue to provide various forms of assistance to Kenyan cooperatives.

The emphasis on government control was reiterated in the *Cooperatives Societies Act* (Act of 1966) as well as the *Cooperative Societies Rules* (of 1969). According to Gyllström (1991), the control conferred on government by the new Act includes:

The exclusive rights of registration, dissolution and compulsory amalgamation of societies. He [the Commissioner of Cooperative Development] was also given the power to supervise budgets and accounts; to approve remuneration, salary or other payments to officers or members of a society, to approve the hiring and dismissal of graded staff; to dictate a society's mode of organization and activity orientation by prescribing the contents of its by-laws; and to control financial transactions through counter-signature of cheques and other instruments.

The implementation of the Acts resulted in government having full control of cooperatives. Because of the Act, cooperatives operated largely as extensions of government rather than as independent organisations established to meet members' interests (Gyllström, 1991). Government's control over the country's cooperative sector manifested in the establishment of state-run support institutions for the cooperative sector.

According to Gamba and Komo (2004), government agencies tasked with supporting cooperatives contributed to the decline or failure of cooperatives rather than their success or growth. They argue that bureaucratic inefficiencies such as slow and delayed registration of

cooperatives and payment for goods delivered to government administered marketing boards negatively affected cooperatives. Gamba and Komo (2004:2) cite the instance of how delayed payment for pyrethrum in the “early 1990s [which] initiated a period of extended decline in production as farmers became disenchanted with the crop and uprooted it”. This administrative bungle nearly ended pyrethrum cooperatives in Kenya.

Between 1963 and 1973, the performance of cooperatives in terms of their contribution to the country’s GDP declined despite extensive government support. Gyllström (1991) attributed this decline to too much government control over cooperatives. Of interest, however, is that the decline in the contribution of cooperatives to the country’s economy did not correspond with a decline in the number of cooperatives registered during the same period. On the contrary, the number of cooperatives, as well as corresponding government support agencies, increased. Gyllström (1991:70) argues that the proliferation of new cooperatives during this period was the outcome of “attempts by local communities to take advantage of resources provided” by the government. Cooperatives during this period were therefore not established as a means of improving members’ socio-economic status through collective action. Rather, they were used as a medium of accessing government resources.

Increased financial allocations and support services to cooperatives yielding no return became a drain on government resources. This reality, coupled with Kenya’s growing debt burden in the late 1980s, led to calls from international financial institutions such as the World Bank and the International Monetary Fund, for the government to roll-back the nature and extent of support to cooperatives. The argument was that rather than being at the forefront of establishing and directly supporting cooperatives, government ought to dedicate its effort to the implementation of policies that facilitate the growth of an independent cooperative movement, and that government should create an enabling environment for cooperatives to flourish. The emphasis was on making the cooperative sector independent of direct government intervention. (Wanyama, Develtere, and Pollet, 2009).

In an attempt to liberalise the country’s economy and redefine government’s relationship with cooperatives, the government introduced a series of reforms. Wanyama, Develtere, and Pollet (2009:5) note that these policy reforms were aimed at “restructuring, strengthening and transforming cooperatives into vibrant economic entities that can confront the challenges of wealth creation, employment creation and poverty reduction as private business ventures”.

The first step in this regard was the introduction of the *Renewed Growth and Economic Management of the Economy* in 1986. The strategy sought to introduce market competition into the economy by removing the practice of price control and the reduction of government participation in the economy through, for example, the privatisation of state-owned enterprises (Gamba and Komo, 2004).

The liberalisation of the cooperative sector in the 1990s was influenced by the conviction that the sector could perform more efficiently and effectively if left to operate in a climate free of government interference. In line with the prescriptions of the Structural Adjustment Programmes (SAPs), Kenya's *Cooperative Ordinance Act* was amended in 1997 to lessen government's control over cooperatives (Argwings-Kodhek, 2004). The introduction of the *Session Paper* (paper 6 of 1997) emphasised the independence of cooperatives. Rather than being in charge of cooperatives, government has reconstituted its role and has limited itself to the creation of an environment that supports the development of cooperatives (Wanyama, Develtere, and Pollet, 2009).

The reforms had a considerable impact (both positive and negative) on the Kenyan cooperative sector (Owango, et al., 1998; Ponte, 2002). On the positive side, economic liberalisation resulted in government's withdrawal from the provision of certain services that cooperatives took over (Owango, et al., 1998). For instance, cooperatives found a niche market in the provision of artificial insemination and other veterinary services to farmers (services that government previously provided). Efficient operation minimised transaction costs which in turn made cooperatives provide goods and services cheaply without compromising quality. Through reduced transaction costs, cooperatives were better positioned to become enterprises that are more successful. In this way, economic liberalisation strengthened service cooperatives in the livestock industry (Owango, et al., 1998)

Financial cooperatives in Kenya were able to explore innovative ways to weather the storms of economic liberalisation. They achieved this feat by diversifying their customer base and finding innovative financial products. This led to financial cooperatives recording 65% growth during the liberalisation era (Muthuma, 2011). Another positive outcome of economic liberalisation was the recognition and implementation of the ICAs principles of the

cooperative movement. This was only possible after the end of government control of cooperatives.

However, one immediate negative outcome of the SAPs was the ending of state subsidies to cooperatives coupled with a drastic reduction of donor funds, resulted in the collapse of many cooperatives (Muthuma, 2011). In addition, implementation of economic liberalisation policies effectively removed the monopoly previously enjoyed by cooperatives (Wanyama, Develtere, and Pollet, 2009). Cooperatives operating in the creamery and coffee industry were the worst affected given that they were unable to face competition from new entrants in their niche markets.

An indirect impact that economic liberalisation had on cooperatives relates to the lack of management skills that characterised many cooperatives in Kenya at that time. According to Wanyama, Develtere, and Pollet (2009), members of most cooperatives were not adequately prepared to operate as independent organisations in an economically liberalised environment. Due to the lack of adequate managerial training, a number of cooperatives were faced with challenges including administrative mismanagement, theft of cooperative resources, disintegration of cooperatives and nepotism (Wanyama, Develtere, and Pollet, 2009). These management failures led to the collapse of many cooperatives following the economic liberalisation of the Kenyan economy.

4.4.1 Present Status of the Kenyan Cooperative Sector

Since the era of economic liberalisation, the cooperative sector in Kenya has witnessed steady growth. The importance of cooperatives in the country is now so widespread that Gicheru (2012) states that approximately eight in every ten people in Kenya have had some form of connection with cooperatives. This connection could be a family member, a friend, or a work colleague who is directly involved in a cooperative. Similarly, Muthuma (2011:185) estimates that “about 63% of the population is directly or indirectly involved in cooperative activities”. In addition, the sector contributes about 45% to the country’s GDP (Gicheru, 2012). In 2011, there were 14,126 registered cooperatives. Of this number, the financial sector comprises 60% (Nyagah, 2012).

As a major coffee producing country, coffee producing cooperatives play an active role in the country's economy. The Kenya Co-operative Coffee Exporters Limited is the umbrella body of coffee producing cooperatives. Cooperatives, organized as small, medium and large, produce about 60% of Kenya coffee (Kenya Co-operative Coffee Exporters Limited, 2014). These are sold through the Kenya Co-operative Coffee Exporters Limited. The Kenya Co-operative Coffee Exporters affects the livelihoods of about 3.5 million Kenyans organised as coffee producing cooperatives. Through the Kenya Co-operative Coffee Exporters Limited, coffee producers have direct linkage to international market (Kenya Co-operative Coffee Exporters Limited, 2014). The elimination of middlemen between producers and the market has resulted in improved income for coffee growers.

The diversification of Kenyan cooperatives into credit and financial services has consolidated the growth of cooperatives. Institutions such as the Co-operative Bank of Kenya Ltd play an important role in the country's cooperative sector. According to Wanyama, Develtere, and Pollet (2009:8), cooperatives operating outside the non-agricultural sector "are involved in finance, housing, consumer, crafts, insurance, transport and the informal economy". Over the years, SACCOs have accumulated substantial capital

[w]orth approximately KES 200 billion (USD \$2.7 billion), out of which approximately KES 150 billion (USD \$2 billion) are members' deposits, which consist of both shares and savings. Of a total turnover of KES 24.3 billion (USD \$323.4 million) for the entire cooperative movement in 2007, SACCOs posted a combined turnover of KES 14.4 billion (USD \$192 million) (Wanyama, Develtere, and Pollet, 2009:3).

In the financial sector, cooperative saving schemes have performed well by amassing substantial savings for their members. Savings and Credit Cooperatives (SACCOs) such as Mwalimu Cooperative Savings & Credit Society Limited, Kenya Bankers Saving and Credit Co-operative Society, Hazina Sacco Society Limited, Unaitas and United Women SACCO are examples of leading and productive SACCOs in Kenya. According to Nyagah (2012:9), estimates in 2011 showed that SACCOs "mobilized deposits and share capital amounting to USD 2.25 billion (Ksh. 189 billion) and loans to members of USD 2.25 billion". In addition, the "total assets and deposits of the SACCOs (excluding the SACCO Unions) stood at USD 2.95 billion (Kshs.248 billion) and USD 2.1 billion (Kshs.180 billion) by close of 2011" (Nyagah, 2012:9). They have also formed a range of vertical linkages providing various forms of support to lower end cooperatives (Wanyama, Develtere, and Pollet, 2009).

According to Timmins (2014), SACCOs in Kenya have experienced the fastest growth rate in Africa. As at 2013, the total savings of the country's SACCOs stood at US\$5.7 billion with an estimated 13 million members. The huge capital base of CFIs has increased investor confidence. The growth of CFIs in Kenya has been attributed to their focus on a rural population abandoned by commercial banks in the 1990s. The fact that a number of banks closed their branches in rural areas during this period, coupled with increased service charges, created a niche market for cooperatives. According to Nyagah (2012), the insistence of CFIs on the provision of services to all made them popular among many Kenyans.

Recently, CFIs in Kenya have embraced mobile technology in the provision of financial services to members. The registration of e-Kenya has repositioned CFIs to leverage the benefits of mobile technology in the provision of financial services. Through the adoption of mobile money platform M-Pesa, CFIs in Kenya have ensured that members have 24-hour access to financial services (Timmins, 2014). In addition, the adoption of mobile money has created employment for over 3000 M-Pesa agents that work for CFIs (World Council of Credit Union, 2014). The impact of CFIs is not limited to Kenya but is also felt across the East African region where they have extended their services (Timmins, 2014).

The cooperative sector in Kenya is characterised by a strong and active cooperative network that plays an important role in the success of cooperatives. The Cooperative Alliance of Kenya (CAK) is the apex cooperative network organisation registered in 2009 as a replacement of the National Federation of Cooperatives to drive the growth of cooperatives (Ministry of Industrialization and Enterprise Development, n.d.; Cooperative Alliance of Kenya Limited, 2014). The CAK has played an active networking role in driving the agenda of the cooperative movement particularly on policy related issues. It represents 14 000 cooperatives comprising tertiary and primary cooperative societies (Cooperative Alliance of Kenya Limited, 2014).

The cooperative movement in Kenya is committed to promoting member education. This is evident in the establishment of the Co-operative University College of Kenya as a Constituent College of Jomo Kenyatta University of Agriculture and Technology. The College is committed to promoting education and training on cooperatives through the offering of qualifications in cooperative related areas. The first cohort of 351 students enrolled in the College in 2012 (Co-operative University College of Kenya, 2014).

4.4.2 Significant Characteristics of the Kenyan Cooperative Sector

The cooperative movement in Kenya has undergone a number of changes since its weak enforcement by previous colonial powers in the early part of the 20th century. Its primary origin was traced to the colonial governments' selfish quest for the production of cash crops to support the burgeoning British industries. Besides this, early attempts at encouraging cooperatives among the local population were primarily driven by political objectives. A consequence of this was a general lack of enthusiasm for starting or joining cooperatives among the local population.

In postcolonial Kenya, government incentives were the primary force for collective action and set up an unsustainable and unproductive cooperative sector. Unlike the cooperative sector in the UK or Spain, the cooperative sector in Kenya was not an organic movement formed to meet to members' needs, but rather implemented top-down. As a result, government had to provide extensive incentives to encourage people to form a cooperative. The poor performance of cooperatives during this period showed that incentives are not enough to sustain a cooperative.

The decline of the country's cooperative sector due to government control led to a redefinition of the relationship between government and cooperatives. Although the withdrawal of government support during the liberalisation period led to the decline of some cooperatives, others flourished. This shows that the principle of autonomy and independence as well as democratic member control is important for the performance and success of cooperatives.

Kenya has a strong cooperative financial sector that continues to grow and support both established and emerging cooperatives. The Kenyan cooperative sector has been able to diversify with cooperatives being actively involved in housing, consumer, transport, crafts, insurance, and banking sectors.

Through the Cooperative Alliance of Kenya network, cooperatives are able to evolve and adapt to global changing economic realities. The support and guidance provided by the CAK has ensured that cooperatives in Kenya continue to maintain their growth momentum. One of the most significant recent developments is the entry of cooperatives into the mobile

technology market. Entrance into this sector has opened business opportunities that cooperatives can exploit.

4.5. A Review of the Cooperative Sector in Nigeria

The origin of cooperatives in Nigeria dates back to the colonial era. Cooperatives in the country were established in 1934 on the recommendation of C.F. Strickland who had played an instrumental role in the establishment of farmer cooperatives in India (Agbo, 2009; Ayadi, 2012). The colonial government commissioned Strickland to explore the possibility of establishing cooperatives in the country. As in Kenya, cooperatives in colonial Nigeria were subject to state control. This approach was informed by Strickland's conviction that the locals were incapable of managing cooperatives (Agbo, 2009).

At inception, cooperatives in Nigeria were tailored towards the production of cash crops particularly cocoa and rubber (in the West of the country) and groundnuts (in the Northern part of the country) (Agbo, 2009). The approach of the colonial government towards cooperatives was mainly top-down. The lack of independence of the cooperative movement persists in post-colonial Nigeria (Agbo, 2009).

According to Develtere, Pollet and Wanyama (2008), most cooperatives in post-colonial Nigeria emerged in two unique ways. The first of these emerged "through government directives to certain categories of government officials to form a given number of cooperatives in their villages of origin" (Develtere, Pollet and Wanyama, 2008:211). What this entails is that cooperatives are formed as a reward for political allegiance. Develtere, Pollet, and Wanyama (2008) term these kinds of cooperatives 'political cooperatives'.

The second way that cooperatives emerge is in response to subsidies available through government development programmes. The subsidy approach is evident in the insistence of government programmes (such as *Operation Feed the Nation*, *Green Revolution*, *Directorate For Food Roads And Rural Infrastructure*, *Better Life*, *Family Support* and *Family Economic Advancement*) that people must organize and register as cooperatives before they can benefit from the programmes (Agbo, 2009). The argument here is that cooperatives are seen merely as conduits for implementing government programmes and the numbers of newly registered

cooperatives are then used as a benchmark for measuring the success of government programmes (Agbo, 2009). This approach is contrary to the conceptual understanding of cooperatives as self-motivated initiatives of collective action.

The Nigerian government's focus on increasing the number of registered cooperatives failed to take cognisance of the fact that an increased number of cooperatives does not necessarily mean an increased contribution of the sector to the economy, nor does it translate into an increased number of cooperators. For instance, it has been shown that even though the "number of registered cooperative societies increased by 36.81%" between 1991 and 2010, membership of cooperative societies decreased by 28% in the same period (Agbo, 2012:4). In explaining this anomaly, Agbo (2012:4) points out that "it is likely that most of these registered cooperatives existed only in the files in the cooperative offices all over the country". Agbo (2012) further argues that in the haste to register more cooperatives, government officials paid little attention to the business plans and feasibility of potential cooperatives. In addition, people who form cooperatives often have little/no idea or even interest in the principles and values of the cooperative movement. Their primary preoccupation is to have access to government funds.

Cooperatives in Nigeria are construed as a political tool and a conduit for the implementation of government's policies (Osus, and Odeno, 2006). This view has been confirmed in a study, which found that farmers join cooperatives in order to access government fund and services (Agbo, 2009). Against this backdrop, it is not surprising that the number of cooperatives in the country increases in the heydays of government policies implemented via cooperatives but fizzles out once the policy and associated financial incentives ends.

4.5.1 Present Status of the Nigerian Cooperative Sector

There is no up-to-date data about the status of cooperatives in Nigeria. Develtere, Pollet and Wanyama (2008) estimated that there were about 50,000 cooperatives operating in the country in 2008. These were predominantly producer cooperatives in the agricultural sector. The concentration of cooperatives in this sector goes back to the colonial era when the driving force behind the formation of cooperatives was the production of agricultural produce for export (Emefesi, Hamidu, and Haruna, 2004; Agbo, 2009).

Despite the predominance of agricultural cooperatives, savings and credit cooperatives (SACCO) have performed relatively well and constitute the second largest form of cooperatives in Nigeria (Wanyama, Develtere, and Pollet, 2009). In Nigeria, SACCOs are common among smallholder farmers. This is characteristic of the Nigerian economy where more than 90% of all businesses employ less than 100 persons (Nwankwo, Ewuim, and Asoya, 2012). The popularity of SACCOs stems from lack of access to finance for smallholder farmers. Among other problems, “administrative delay, non-existence of security or collateral” deters smallholder farmers from approaching formal banking institutions for loans (Izekor and Alufohai, 2010). In addition, factors such as “membership size, the cooperative’s asset base and membership participation” gender and geographic locations have precluded cooperatives from accessing funds (Agbo and Chidebelu, 2010:2).

Despite the above barriers to finance, the cooperative sector in Nigeria has not developed formal cooperative financial institutions (CFIs). Although the Nigerian Agricultural Cooperative and Rural Development Bank provide loans to cooperatives, it is owned by the Nigerian government. In addition, the capital of the bank is not sourced from cooperatives. Instead, the government provides the capital that it loans to cooperatives (Agbo and Chidebelu, 2010).

Besides having weak CFIs, Agbo (2009) argues that cooperatives have remained largely misunderstood in Nigeria. Similarly, Ayadi (2012) argues that despite the worldwide growth in the cooperative movement because of its associated socio-economic development potential, cooperatives in Nigeria continue to be nothing more than a tool for rural development. This reality has been attributed to the Nigerian government’s narrow description of cooperatives as organisations suitable for the poor and the vulnerable. This conception, according to Ayadi (2012), has made cooperatives unappealing to most Nigerians and has therefore limited their contributions to the country’s socio-economic development.

The Nigerian cooperative sector is faced by a number of challenges including poor education about the management of cooperatives, lack of funds and mismanagement (Agbo, 2009). In addition, lack of skilled personnel, coupled with poor understanding and implementation of the cooperative principles and values, are other challenges facing cooperatives in Nigeria (Ibitoye, 2012). Another challenge is the diversion of farm inputs provided by government to cooperatives. According Agbo (2009), cooperatives sometimes sell farm inputs supplied to

them and use the money generated for expenses not related to the cooperative. This reality could be attributed to lack of commitment of members to cooperatives since these cooperatives did not emerge organically in response to members' shared needs. Rather, they are vehicles for accessing government resources.

Cooperatives in Nigeria largely operate independently of one another. What this means is that they are not actualising the principle of cooperation among cooperatives. Although there are apex cooperative organisations in Nigeria, they are staffed by government officials and members of cooperatives play an insignificant role in running these organisations (Develtere, Pollet and Wanyama, 2008). As a result, primary cooperatives are not reaping the benefits from the existence of these apex organisations. Consequently, they incur high transaction costs that affect their income and success.

4.5.2 Significant Characteristics of the Nigerian Cooperative Sector

The Nigerian experience with cooperatives mirrors the Kenyan experience in some ways. One of these is that the colonial government established modern cooperatives aimed at contributing to the growth of Britain's economy. In this way, the emergence of modern forms of cooperatives in Nigeria was top-down. The post-colonial government's approach to cooperatives was not notably different from that of the colonial government. In post-colonial Nigeria, government has promoted cooperatives as a conduit for implementing its development programmes. This approach has however undermined the strength of the country's cooperative sector since cooperatives are formed not out of genuine aspirations to address members' needs but as means of accessing government resources. Consequently, members are often not committed to cooperatives. This has had negative outcomes on the success and sustainability of cooperatives.

Although the transition from military rule to democracy in 1999 resulted in more independence of cooperatives, government still exercises strong influence over the country's cooperatives. This is particularly true for apex cooperative organisations that are staffed by government officials. Since these apex cooperative organisations are not under the control of cooperatives, their support of cooperatives has been quite limited. Another implication is that networking among cooperatives has not been promoted by the apex cooperative

organisation. As result, cooperatives operate largely independently of one another and have failed to reap the benefits of cooperation among cooperatives.

A third lesson from the review of the Nigerian cooperative sector is the need for financial independence of cooperatives. Although SACCO is a growing sector, the landscape of cooperatives in the country continues to be dominated by primary agricultural cooperatives. The Kenyan, Spanish, and UK examples all demonstrate that an independent cooperative financial sector is important in the growth of cooperatives. In the Nigerian context, the financial sector has remained largely weak and dependent on government. As the primary financier of cooperatives through the Nigerian Agricultural Cooperative and Rural Development Bank, the government has a strong influence over the country's cooperative sector. This is perhaps one of the factors that accounts for continued government's control of cooperatives.

4.6. Common Success Factors of Cooperatives

Thus far, this Chapter has reviewed the cooperative movement in four countries. Table 4.1 presents a summary of the success factors for cooperatives identified. In both the UK and Spanish examples, cooperative emerged as bottom-up organic organisations to address societal needs in communities where they exist. As bottom-up organisations, improving members' socio-economic conditions was their first and foremost priority. Unlike the UK and Spain, the emergence of cooperatives in Kenya and Nigeria were largely top-down through government intervention. The outcome of this was that cooperatives were used as a conduit for achieving government's goals rather than those of members.

Related to the idea of cooperatives as bottom-up organic movements is the value of concern for members' needs. As the review of the UK cooperative sector demonstrated, cooperatives experience a decline when they become less concerned about the needs of their members. Broadly, lack of concern for members' needs implies that a cooperative has lost its identity and is therefore hardly distinguishable from conventional capitalist firms. Effectively, this makes cooperatives unappealing to members.

Table 4.1: Defining Characteristics of Cooperatives

Success Factors	UK	Spain	Kenya	Nigeria
Organic-bottom up organisations	√	√	-	-
Commitment to addressing members' needs	√	√	√	-
Presence of strong networks	√	√	√	-
Presence of strong CFIs	√	√	√	-
Absence/limited government interference	√	√	√	√
Favourable policy framework	√	√	√	-
Adaptability to new opportunities	√	√	√	-
Concern for community	√	√	-	-
Presence of large cooperative organisations	√	√	√	-

Source: Author

√ = factor present - = factor absent

The independence of the cooperative movement is another success factor of cooperatives highlighted by the comparative review. Both the UK and Spanish examples showed that cooperatives thrive when they operate independently of government interference. The review of the Kenyan cooperative sector showed that the government transformed the sector through the creation of conditions for a bottom-up approach in the formation of new cooperatives. Through this, cooperatives became committed to improving members' socio-economic conditions. Although the Kenyan government has taken proactive measures to entrench the principles and values of the cooperative movement, cooperatives in Nigeria remain largely under government control. Furthermore, they are still seen as a model of economic development for the poor and vulnerable. Consequently, the development of cooperatives has focused on poor people in rural areas, particularly those involved in subsistence agriculture.

The Nigerian and Kenyan examples showed that when cooperatives are used as tools for implementing government programmes, they tend to be dependent on government. In addition, the intention of government for such cooperatives might not be aligned to that of its members. This approach is what characterised the cooperative movement in post-colonial Africa (Agbo, 2009; Wanyama, Develtere, and Pollet, 2009). The top-down approach adopted by post-colonial leaders stifled the development of many cooperatives by creating a relationship of dependence. During this period, cooperatives were seen as extensions of government institutions. Since most cooperatives were established and managed by the state, they were dependent on the state for survival. When cooperatives are seen as mere instruments for implementing government policies, they are likely to fail in improving members' socio-economic conditions.

While cooperatives in high-income countries grew through lobbying government and obtaining fiscal privileges, this was not the case for the low-income countries reviewed in this Chapter. In both post-colonial Kenya and Nigeria, the strength of the cooperative sector was actualised through monopoly created by government for cooperatives. In this way, the growth of cooperatives in these countries following the attainment of independence was largely artificial. This accounts for the demise of cooperatives following the liberalisation of the Kenyan economy.

The review showed that the presence of strong CFIs is a determining factor of a successful cooperative movement. The value of CFIs is particularly important in the context of developing countries where cooperatives are unable to access funds from commercial financial institutions due to constraints such as lack of collateral. As can be inferred from the comparative study, CFIs in Kenya, the UK and Spain have successfully grown through members' contributions. The funds accumulated have been used to support both existing and emerging cooperatives. This, however, is not the case in Nigeria where cooperatives still rely mainly on government financial support. What the review has shown is that the development of independent CFIs is an important factor in the growth of the cooperative movement.

Besides government control, other factors such as high transaction costs affect cooperatives. Transaction costs, as discussed in Chapter Three, are a barrier to the success of many small cooperatives. The review of the cooperative sector in Kenya, Spain, and the UK all demonstrated that the existence of strong networks is an important determinant of successful cooperatives since it reduces transaction costs. In the Nigerian case, the lack of cooperation among cooperatives as well as the inability of apex cooperative organisations to support the country's cooperative sector has undermined the growth of cooperatives.

The review also showed that cooperatives need to constantly innovate and adapt in order to benefit from changing economic realities. Schwetmann (2014) made this point by arguing that innovation and adaptability are key success factors of cooperatives in today's fast-paced society. In the case of the UK, it was observed that the cooperative sector is making inroads into the renewable energy sector. In addition, it is poised to tap into the emerging niche sector of socially conscious consumer concerned about the impact of food production on the environment and labour. In the case of Kenya, the adoption of mobile money is evidence of the willingness of the sector to adapt to changes in the society.

4.7. Conclusion

This Chapter has explored the cooperative movement in four selected countries. The review shows that in the industrialised countries, cooperatives were bottom-up movements that emerged as means of addressing prevailing socio-economic challenges. This is different to the Kenyan and Nigerian cases where cooperatives were formed firstly for the advancement of the economic interests of colonial settlers and later as tools in the hands of post-colonial government. Although this approach produced some positive results, it stifled the development of cooperatives since government control prevented them from putting into practice the principles and values of the cooperative movement. The review lends credence to the historicity, conceptualisation and theorisation of cooperatives in Chapters Two and Three. In the next Chapter, I will present an overview of the cooperative sector in South Africa.

CHAPTER 5

A REVIEW OF THE COOPERATIVE SECTOR IN SOUTH AFRICA

5.1 Introduction

This chapter presents a descriptive review of the cooperative sector in South Africa. The review is divided into two epochs (pre-democratic South Africa and the democratic dispensation) in light of the chapter's argument that each epoch has had significant impact on the current condition of South Africa's cooperative sector. The chapter also presents the situation of the cooperatives established by the democratic government in an attempt to stimulate local economic development. The objective is to explain the origins of some of the ongoing challenges that the cooperative sector faces, and to consider the government's policy responses. Particular reference is made to the Province of KwaZulu-Natal since this is the province in which the uMgungundlovu district is located. The chapter concludes by reflecting on South Africa's cooperative sector in light of the experiences shared with the countries discussed in previous chapters.

5.2 The Cooperative Sector in South Africa before 1994

The origin, development and growth of the cooperative sector in South Africa has always had close ties with the state (Department of Trade and Industry, 2009; Satgar, 2007a). For this reason, the history of cooperatives in the country cannot be seen in isolation from the political contexts in which they emerged and developed. The first attempt at establishing cooperatives in South Africa dates back to the 19th century when the then colonial government introduced cooperatives to improve agricultural outputs (Department of Trade and Industry, 2009; Kanyane, 2009; Van Wyk, 2014). In 1892, the first cooperative in South Africa, a consumer cooperative, was established in Pietermaritzburg (Satgar, 2007c; Genesis Analytics, 2014).

The country's first cooperative act, the *Co-operative Societies Act*, was enacted in 1908 in the Transvaal (Arando et al., 2010). Under this Act, cooperatives were regarded as unlimited

liability businesses jointly owned by members. In addition, the Act made provision for a superintendent tasked with inspecting cooperatives to ensure that they adhered to the provisions of the Act. Although this Act resulted in the growth of the country's cooperative sector, it had certain negative consequences. For example, the treatment of cooperatives as unlimited liability businesses meant that when a cooperative collapsed, its members would suffer serious financial losses if the cooperative had raked up substantial liabilities (Arando et al., 2010). As explained earlier, in a cooperative, members share the profits but also the risks.

In pre-democratic South Africa, the growth and development of cooperatives was limited and restricted to the white population. Its success in South Africa can be attributed to the colonial and subsequent racist and discriminatory policies of successive white minority regimes. The Land Acts of 1913 and 1936 were to the advantage of white-owned cooperatives (Nilsson, 1999; Ajayi, 2012). These Acts designated various parts of South Africa to different racial groups and physically removed black South Africans from areas reserved for whites to their 'own' homeland territories. Through these Acts, 87% of the country's agricultural land was reserved for white farmers (Van Wyk, 2014). The homeland reserves where black South Africans were forced to reside were underdeveloped, confronted by high rates of poverty and unemployment (Manciya, 2013). Since most cooperatives during this era operated in the agricultural sector, the white population was strategically well placed to benefit from racial land policies that skewed land distribution in their favour.

The Land and Agricultural Bank (the Land Bank) was established in 1912 with its main objective to stimulate the growth of the agricultural sector (Arendo *et al*, 2010). The Land Bank provided subsidised financial services to white commercial farmers thereby enabling them to increase their share of the agricultural sector (Nilsson, 1999). The passing of the *Co-operatives Societies Act* (Act 28 of 1922) enhanced the growth of white-owned cooperatives in South Africa even further. Some of the core features of the 1922 *Co-operative Societies Act* included extending cooperatives to the non-agricultural sector, and making provisions for both limited and unlimited liability cooperatives (Nganwa, 2010; Nilsson, 1999). The Act resulted in the formation of 81,405 cooperatives between 1922 and 1929 (Arando *et al*, 2010).

The *Co-operative Societies Amendment Act* (Act 38 of 1925) gave white-owned cooperatives control over the marketing of agricultural produce. With full power to determine the price of

their produce, this Act created an enabling environment which resulted in the rapid growth - both in terms of numbers and strength - of the country's cooperative sector. According to Arando *et al* (2010), this growth came about because price control encouraged price distortion by cooperatives. Consequently, the success of cooperatives brought about by the policy was a false one (Arando *et al*, 2010).

The *Marketing Act of 1937* (later amended as Act 59 of 1968) formalised marketing services provided to cooperatives by government. The Act made it possible for cooperatives to “use various policy instruments (such as single-channel schemes, pool schemes, and export monopolies) to manage the marketing of agricultural commodities through 23 marketing (control) boards, which were established under the Act” (Ortmann and King, 2006:16). Key members of the marketing boards, who came from cooperatives, used their position for the benefit of cooperatives. An outcome of this was the rapid growth of cooperatives. According to Nganwa (2010), their growth was not the product of their efficiency and effectiveness but was mainly due to the enabling environment and monopoly created by the state for white-owned cooperatives. Hence, Satgar (2007c:2) argues that “Afrikaner empowerment in the 20th century did not just happen through the logic of capital accumulation but had to also coexist with a logic that met human needs through cooperative forms of organising production and consumption; albeit underpinned by perverse and racialised relations of productions”. The subsidisation of agriculture resulted in the transfer of state finance to white farmers (most were ere involved in forming and operating cooperatives. Through joint marketing, white farmers became a strong force in the country's economy. They used their monopoly to lobby government for concessionary policies and subsidies. In addition, the monopoly created by the hegemony of white-owned agricultural cooperatives skewed prices of agricultural produce and farm inputs in their favour (Nilsson, 1999).

In 1939, the *Co-operative Societies Act* (Act 29 of 1939) was enacted. According to Nganwa (2010), a key feature of this Act was a provision enabling the establishment of hybrid farmers' cooperatives registered as limited liability cooperatives. In addition, the Act gave cooperatives “the right to deal with non-members and accept persons other than farmers as members” (Nganwa, 2010:32). This provision increased cooperative's access to capital outside the farm sector. Of significance was the growth of consumer cooperatives in the 1940s once of Afrikaner nationalism became the dominant ideology of the state. The ultimate

goal was to improve the economic and purchasing power of Afrikaner consumers (a response to the then British hegemony) (Develtere, Pollet, and Wanyama, 2008).

Compared to their white counterparts, black-owned cooperatives in pre-democratic South Africa received little state support (Arando et al., 2010). On the contrary, the government controlled the development of black-owned cooperatives in the so-called homelands (Ishihara and Pascual, 2013; Nganwa, 2010). According to Nilsson, Kihlén and Norell (2009), there were covert and overt attempts to suppress black-owned cooperatives. In instances where they were supported, black-owned cooperatives were endured by the then government as long as they contributed to the realisation of the Apartheid government's plan for creating dependent but separate homelands (Department of Trade and Industry, 2004b).

Although the Apartheid government took conscious steps to stifle the emergence and growth of cooperatives among the black population that objected to being used as government tools, there were successful consumer cooperatives in the homelands (Fairtrade International, 2012). An unintended (by the National Party) outcome was that the consolidation of racially exclusionary policies of the Apartheid government stimulated the growth of informal financial societies among the black population. Prominent among these were the Savings and Credit Cooperatives (SACCOs), also known in South Africa as *stokvels*. SACCOs had their origins "in the early 19th century as a spin-off of "stock fairs" whereby English settlers had rotating cattle auctions in the Eastern Cape during the early 19th century" (Calvin and Coetzee, 2010:1). The stock fairs were not only business oriented, they were also avenues for social interactions. Through collective buying, *stokvels* provided much-needed basic goods to their members at subsidised prices (Nilsson, Kihlén and Norell, 2009).

Religious bodies like the Catholic Church and civil society organisations such as the National Union of Metal Workers of South Africa and the National Union of Mineworkers played vital roles in establishing credit societies (Calvin and Coetzee, 2010; Genesis Analytics, 2014). A notable example was the Cape Credit Union League (South Africa's first SACCO that was established by the Catholic Church). This initiative later spread to other provinces resulting in the establishment of credit societies such as the village-based Financial Services Co-operative in the North West province and the African Rural and Agricultural Credit Association. Over the years, *stokvels* have grown to more than 800 000 across the country. With about 10 million members, *stokvels* constitute an important feature of the South African economy

despite operating largely in the informal economy (Department of Trade and Industry, 2012a).

In 1981, another review of the country's cooperative policy was undertaken resulting in the enactment of the *Co-operatives Act* (Act 91 of 1981). Features of the Act include "the establishment, incorporation, functioning, winding up and dissolution of cooperatives as well as the appointment of a Registrar of Cooperatives" (Nganwa, 2010:34). In addition, the Act emphasised the need to stimulate the growth of non-agricultural cooperatives to diversify the country's cooperative sector (Little, Maye, and Ibery, 2010). The intentions of the provision however did not translate into the development of a strong non-agricultural cooperative sector. Weaknesses of the Act include a lack of clear definition of cooperatives, prioritisation of commercial agricultural cooperatives and a lack of compliance with the principles and values of the cooperative movement. Furthermore, the 1981 Act was underpinned by the "presumption that the state plays a highly interventionist or paternalistic role in relation to cooperatives" (Nilsson, 1999:40). Such a presumption relied too much on previous approaches to cooperatives that were grounded on state support of the cooperative movement. This relationship between cooperatives and the state persisted until it was reversed through the economic liberalisation policies introduced in the last years of Apartheid.

Economic liberalisation policies in South Africa were informed by the realisation that although the subsidies, concessions and monopoly granted to white-owned agricultural cooperatives led to the establishment and growth of cooperatives, such a policy stance was neither desirable nor sustainable. Among other things, the "subsidies, price support, tax concessions" granted to cooperatives encouraged inefficiency and created price distortions (Nilsson, 1999:46). These, coupled with the political realities of the 1980s (especially efforts geared towards the dismantling of the structures of Apartheid) resulted in a number of reforms in the cooperative sector. The adoption of neo-liberal policy led to the deregulation of the agricultural sector where cooperatives mainly operated in pre-democratic South Africa. The deregulation led to the abolition of state subsidies. This reform was informed by the need to make cooperatives less dependent on government for their survival. A reaction to the policy change was the conversion of many agricultural cooperatives into investor owned firms (IFOs) in the twilight of Apartheid (Van Wyk, 2014).

From the foregoing, one can conclude that the cooperative sector prior to 1994 in South Africa developed along two distinct paths. The first path led to the establishment of a strong white-owned cooperative sector primarily focused on operating in the agricultural sector and successfully operating in the formal economy. The second path led to the stifling of black-owned cooperatives, resulting in very few cooperatives operating in a largely informal sector. The success of the white-owned cooperative sector arose out of the racially discriminatory policies of the white-minority led government at the cost of the creation of a black cooperative sector, which received no government support.

5.3 The Cooperative Sector in South Africa Since 1994

The transition from Apartheid to majority rule in 1994 was accompanied by excitement about the prospect of creating a just and equitable society that would redress the socio-economic injustices of the Apartheid era. In its transition to democracy, the new government inherited a society that was characterised by massive inequalities. Bringing about just and equal development through fair distribution of the country's resources became a key policy priority of the democratic regime. The democratic regime, led by the African National Congress (ANC), identified cooperatives as a mechanism to bridge the country's widening economic inequality (Department of Trade and Industry, 2004b).

Cooperatives continue to be seen as a means of realising the ideal of inclusive development by ensuring that those previously excluded from the formal economy are brought in through deliberate government policies. This approach can be situated within the government's broader policy goal of redistributing the country's wealth to those previously excluded from participating in the mainstream economy. Against this backdrop, Satgar (2007c) argues that cooperatives in post-Apartheid South Africa are a part of general redistributive policies such as the Broad-Based Black Economic Empowerment Act (Act 53 of 2003) (Republic of South Africa, 2004).

Apart from using cooperatives as means of rectifying some of the injustices of the past, they are also seen as a means of fostering local economic development (LED) (Kanyane, 2009). National, provincial, and local governments are committed to promoting cooperatives as a means of developing the economy of rural areas and inserting the poor into the formal economy. Against this backdrop, cooperatives are often seen and managed as small, medium

and micro-sized Enterprises (SMMEs). Bernard and Spielman (2009) argue that this approach could account for why indicators for measuring cooperatives' contributions to the country's economy are often not disaggregated from those of SMMEs. This approach has implications for cooperatives as it could affect the extent to which they adhere to the principles and values of cooperatives.

In addition, it is worth noting that cooperatives have been considered ideal for the country because they are imbued with the values of *Ubuntu*, a traditionally African value-set that is commonly acknowledged in South Africa (Moodley, 2009). The philosophy of *Ubuntu* is underpinned by values of communal good and humanness (Venter, 2004). The notion of *Ubuntu* implies that human cooperation is quintessential to individual and social upliftment. Consequently, the growth of a vibrant cooperative sector will not only address the economic challenges facing the country; it will also produce other social and moral benefits for its members and by extension, South African society as a whole.

A 1999 parliamentary address by Mr. Mbeki, then president of South Africa, brought the cooperative agenda to the fore of government policy when he stated that, "the government will place more emphasis on the development of a co-operative movement to combine the financial, labour and other resources among the masses of the people, rebuild our communities and engage the people in their own development through sustainable economic activity" (Mbeki, 1999). This statement marked a new direction and laid the foundation for government commitment to the development of the cooperative sector. The new approach recognised the skewed nature of previous cooperative policies and sought to support the growth of a vibrant cooperative sector (Department of Trade and Industry, 2004a). Recognising the values of the cooperative movement, the Presidential Summit of 2003 called for the development of support strategies for the cooperative sector (Kanyane, 2009).

To actualise the above ideals of the cooperative movement, the democratic regime embarked on a review of the country's cooperative policy in order to position itself to respond to the imperatives of the democratic dispensation. In addition, the review sought to bring the cooperative sector in South Africa in line with internationally recognised principles and values of the cooperative movement (Satgar, 2007c:4; Ajayi, 2012). Against the backdrop of the racially skewed outlook and outcomes of previous policies, the democratic regime sought to redress the disempowering effects of earlier policies by focusing on creating new policies

that would encourage the growth of black-owned cooperatives (Department of Trade and Industry, 2004a).

In 2004, *The Co-operative Development Strategy for South Africa* was adopted. This strategy sought to facilitate the establishment of various types of cooperatives; to encourage cooperatives to contribute to the country's economy; and to set up effective support structures for cooperatives (Department of Trade and Industry, 2004a). To achieve these objectives, the strategy envisaged cooperation among all spheres of government as well as non-state organisations and institutions (Department of Trade and Industry, 2004a).

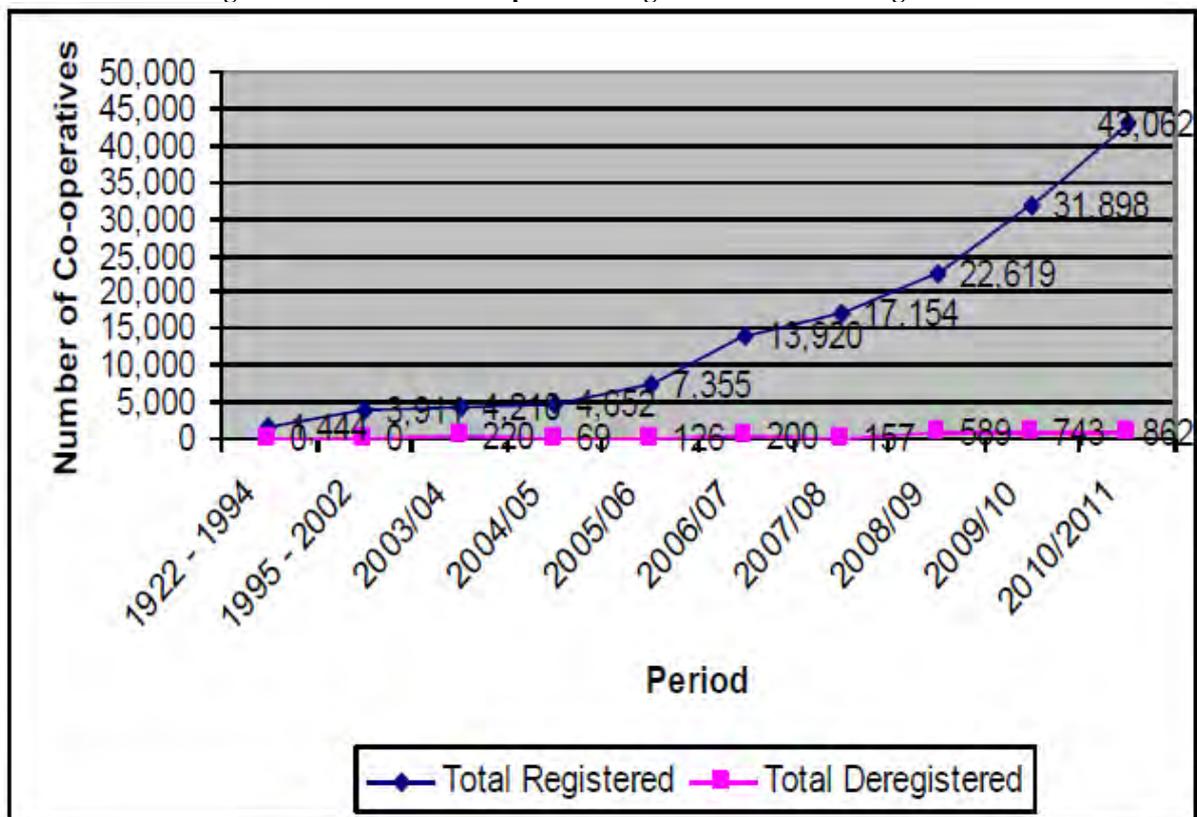
The passage of *A Co-operative Development Policy for South Africa* in 2004 was a significant step in the development of black-owned cooperatives by the democratic regime (Department of Trade and Industry, 2004b). The responsibility for nurturing a black-owned cooperative sector was transferred from the Department of Agriculture to the Department of Trade and Industry (DTI). This action was informed by the central government's prioritisation of cooperative formation in all sectors of the economy and not just the agricultural sector (Ministry of Devolution and Planning, 2013). The Registrar of Cooperatives is located in the office of the Companies and Intellectual Property Commission (CIPC) of the Department of Trade and Industry. The CIPC is responsible for registering and de-registering cooperatives.

The Co-operative Development Strategy for South Africa was adopted as an Act of Parliament in 2005 (Act 14 of 2005). The Act sought to position the country's cooperatives to promote economic development through income generation, employment creation and launching previously disadvantaged black South Africans into the formal economy (Republic of South Africa, 2005; Mago, Mazise, and Hofisi, 2013). The *Co-operatives Act* (Act 14 of 2005) (hereafter referred to as the Co-operatives Act) was also geared towards providing for "the formation and registration of co-operatives; the establishment of a Co-operatives Advisory Board; the winding up of co-operatives; the repeal of Act 91 of 1981; and matters connected therewith" (Republic of South Africa, 2005:2). Furthermore, the Co-operatives Act spelt out the duties and responsibilities of government to the cooperative movement. The duties include the registration of cooperatives; the dissemination of information about cooperatives; and the provision of support to cooperatives through its departments, ministries and agencies. Moreover, the Co-operative Act was aimed at promoting the formation of

sustainable black-owned cooperatives particularly among communities in rural and underdeveloped areas.

An immediate positive effect of the formal legislative framework for cooperatives was an upsurge of newly established black-owned cooperatives. Figure 5.1 below illustrates that the number of cooperatives registered between 1922 and 1994 was only about 4,000 on average. From 2004 onwards, once the Co-operatives Act was in place, the country witnessed a rapid increase in the number of newly registered cooperatives. In a recent report by the CIPC (2014), the CIPC observed that it is receiving an increasing number of applications for new registrations. The CIPC attributes this increase “to government departments promoting the registration of cooperatives as a vehicle for poverty alleviation and assisting rural communities to grow economically” (Companies and Intellectual Property Commission, 2014:105). In its 2013/2014 report, the CIPC provided statistics demonstrating an increase in registries “from 15,340 in 2011/2012, to 21,330 in 2013/2014” (Companies and Intellectual Property Commission, 2015:105).

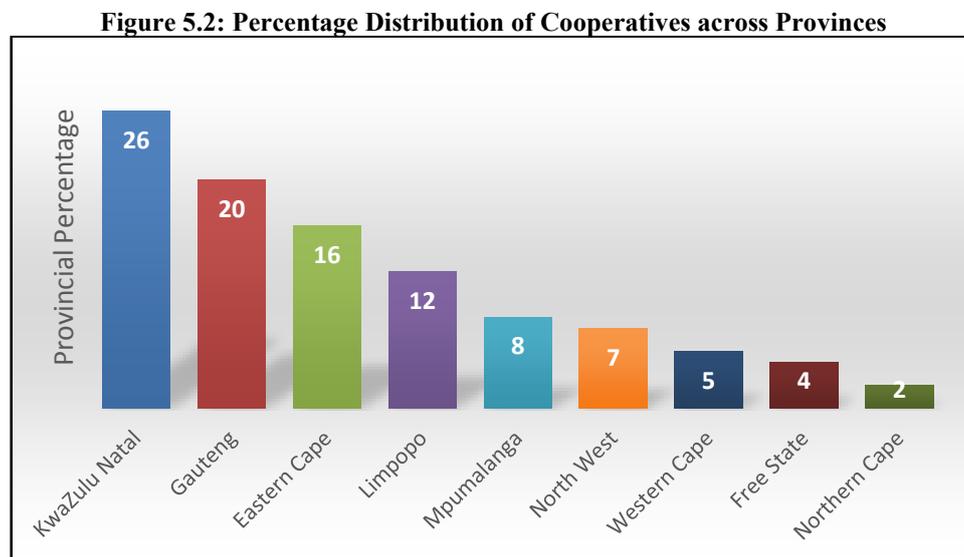
Figure 5.1: Trends in Co-Operative Registrations and De-Registration



Source: Department of Trade and Industry (2012a:29)

Although the country has witnessed a rapid increase in the number of cooperatives, this growth has not correlated with the strengthening of the cooperative sector. The focus of government tends to be on the number of cooperatives registered rather than the extent to which existing cooperatives sustain themselves without government intervention (Beesley, 2009). As Braverman *et al* (1991) argue, measuring success of the cooperatives sector by noting the number of cooperatives does not add any meaningful information given that the number of cooperatives is not an indicator of the strength of the cooperative sector. In fact, some cooperatives could exist merely on paper, but provide no specific goods or services. Similarly, such cooperatives might be established merely in order to access government resources.

As noted earlier in the discussion, the number of cooperatives in South Africa has seen a sharp increase since 2004. According to the DTI (2012), there were 43,062 registered cooperatives spread across the nine provinces of South Africa in 2011. The highest proportion (about 26%) of these was located in KwaZulu-Natal, followed by Gauteng, which had 20% of the country’s cooperatives. The Free State and Northern Cape had the least concentration of cooperatives with 4% and 2% respectively.



Source: Adapted from Department of Trade and Industry (2012a:35)

The *Co-operatives Act* (Act 14 of 2005) was amended and promulgated in August 2013. A notable feature of the *Co-operative Amendment Act* (Act 6 of 2013) was the introduction of a national apex body, the South African National Apex Cooperative (SANACO), to oversee

activities of cooperatives. The apex body is seen as serving an advocacy role for cooperatives (Genesis Analytics, 2014). To actualise its mandate, the DTI allocated R3.5 million (US\$320,570.08) for setting up and professionalisation of SANACO (Genesis Analytics, 2014:8). Other institutions brought about by the 2013 *Cooperative Amendment Act* include:

A Co-operatives Development Agency (CDA), to provide financial and non-financial support to the sector, A Co-operatives Tribunal, responsible for conflict resolution, compliance, investigation and judicious management, A Co-operatives Advisory Council, responsible for policy development and research, and to advise the Minister on the sector (Genesis Analytics, 2004:8).

5.4 Challenges Facing the Cooperative Sector in South Africa and Government Responses

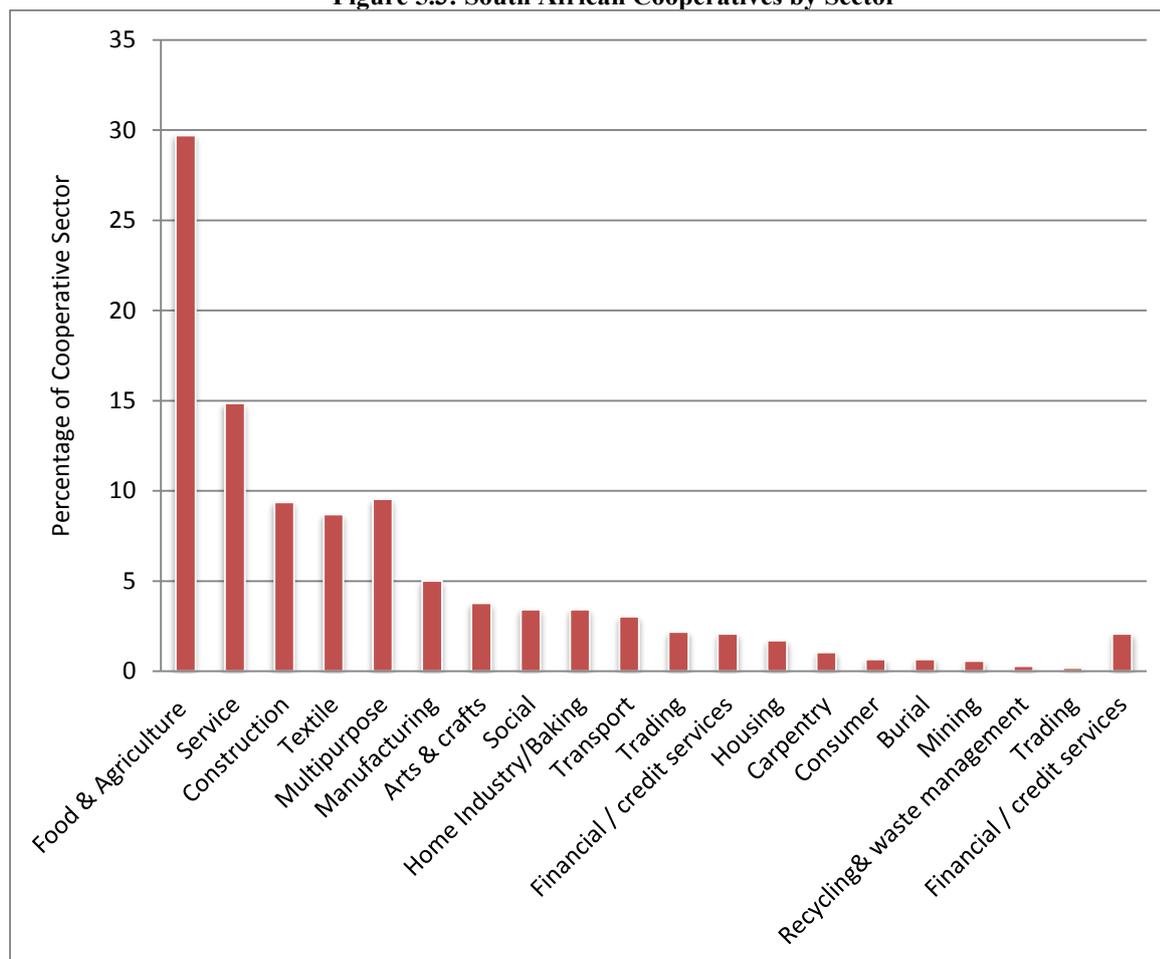
A range of challenges affects the performance South African cooperatives, particularly black-owned cooperatives (Mabuyakhulu, 2010; Mkhize, 2013; Mthimkhulu, 2008; Parliamentary Monitoring Group, 2010; Provincial Planning Commission, 2012). The challenges facing cooperatives in South Africa include: a lack of knowledge about the purpose and functions of cooperatives (Dlamini, 2010), lack of information (Gadzikwa, Lyne, and Hendriks 2007; Mthembu, 2008; Ortmann and King, 2007), lack of marketing skills (Department of Trade and Industry, 2009; Mthembu, 2008), lack of financial resources (Dlamini, 2010; Department of Agriculture, Forestry and Fisheries, 2011), and donor dependency (Kanyane, 2009: Parliamentary Monitoring Group, 2010).

In addition to the above, cooperatives in South Africa are faced with demographic challenges. The *DTI Baseline Study of Cooperatives in South Africa* found that of the 29,646 members of surveyed cooperatives, 40% (n=11858), were youths aged 16-34 years. The same report noted that youths in the 16-24 age category comprised only 12% while those aged 25-34 comprised 28% (Department of Trade and Industry, 2009:ii). This finding demonstrates a positive correlation between age and membership of cooperatives. A report on agricultural cooperatives by the Department of Agriculture, Forestry and Fisheries (2011) corroborated the DTI's findings. The Department of Agriculture, Forestry and Fisheries' (2011:14) report noted that of the 22 313 cooperators in the sector, only 11.6% (n= 2 588) were youths. Judging from a high rate of youth unemployment and given that the government is promoting cooperatives as a tool for employment creation, it is logical to expect that most co-operators will be young. The Department of Agriculture, Forestry and Fisheries' (2011:14) report

attributed the low participation rate of youths in cooperatives to youth's perception of cooperatives as low-skilled business that requires significant manual labour. To address this challenge, the DTI, in the *Youth Enterprise Development Strategy 2013-2023*, emphasises the need to encourage youth participation in cooperatives. To this end, it seeks to facilitate the establishment of student cooperatives in high schools and higher education institutions in collaboration with the Department of Higher Education (Department of Trade and Industry, 2014b).

One of the goals of the *Co-operative Act* (Act 14 of 2005) and the *Co-operative Amendment Act* (Act 6 of 2013) is to increase the number of non-agricultural cooperatives. The diversification of cooperatives is consistent with the vision of the *Industrial Policy Action Plan* which seeks to increase the country's economy, improve infrastructural development as well as the creation of sustainable jobs (Department of Trade and Industry, 2013). The argument here is that the diversification of cooperatives will create sustainable employment opportunities across different sectors of the economy. Despite the vision of diversifying the country's cooperative sector, the expected diversification has not been realised as agro-allied cooperatives have continued to dominate. A key contributory factor is the fact that most cooperatives are located in rural areas where primary agricultural activities are the main business activity. In addition, most cooperatives established in post-Apartheid South Africa are formed by the poor and vulnerable in line with the country's policy thrust. As a result, these cooperatives have neither the requisite capital nor the expertise to engage in non-agricultural activities. The foregoing could also account for the fact that agricultural cooperatives are not engaged in value adding activities. Nationally, only 2% of agricultural cooperatives are engaged in secondary agriculture (Department of Agriculture, Forestry and Fisheries, (2013). As illustrated in Figure 5.3, cooperatives in food and agriculture constitute about 30% of cooperatives in South Africa. The second highest sector (the service industry) constitutes only about 15% while those operating in other sectors constitute less than 10% respectively (Department of Trade and Industry, 2013).

Figure 5.3: South African Cooperatives by Sector



Source: Adapted from Department of Trade and Industry (2011).

Another challenge facing the South African cooperative sector is the dearth of financial CFIs. According to the Co-operative Banks Development Agency and the South African Reserve Bank (2013) and Genesis Analytics (2014), South Africa is characterised by a small financial cooperative sector that plays an insignificant role in the country’s economy. As argued previously, the existence of strong CFIs is a precondition for a vibrant cooperative sector. Because of their small size, their lack of security and the high interest rates charged; cooperatives often find it difficult to obtain finance from commercial credit providers (Department of Economic Development and Tourism, 2010). The implication is that without government financial support, most cooperatives are unable to engage in productive activities.

Although the *Co-operatives Act* (Act 91 of 1981) acknowledged the relevance of CFIs to the growth of cooperatives, it prohibited member financial deposits (Genesis Analytics, 2014).

As a consequence, CFIs could not leverage members' contribution which ought to be the primary source of funds for CFIs.

In recent years, the government has taken proactive steps towards addressing the challenges faced by the country's CFIs. In that regard, the Reserve Bank of South Africa (RBSA) has worked towards formalising the country's CFIs. The goal is to position them to provide financial services to the country's cooperatives. These steps include attempts by the RBSA to formalise "informal financial schemes based on common bonds, including *stokvels* and CFIs through the first exemption to the Banks Act in 1994" (Genesis Analytics, 2014:8). The primary goal of the exemption is to enable members of informal financial institutions to pool members' fund together for their collective good. Beside this policy, Genesis Analytics (2014:9) identifies the following steps towards the development of the country's CFIs:

1. "Financial Services Association (FSA) and Financial Solutions (FINASOL) both promoted Financial Services Co-operatives (FSCs), also known as 'village banks'. They worked in the sector from 1996 to 2002;
2. The Savings and Credit Co-operative League of South Africa (SACCOL) promoted the formation and establishment of SACCOs and Credit Unions. SACCOL was active from 1981 until 2011;
3. The South African Microfinance Apex Fund (SAMAF) was established as a wholesale funding institution and has worked in the sector since 2006. It has been absorbed into the Small Enterprise Funding Agency (SEFA);
4. The Co-operative Banks Development Agency regulates and develops co-operative banks. It was established in 2009"

The enactment of the Co-operative Bank Act (Act 40 of 2007) was another significant step aimed at strengthening the country's financial cooperative sector. The act was amended as the Financial Services Laws General Amendment Act (Act 45 of 2013). The Act seeks

To promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions; to promote the development of sustainable and responsible co-operative banks; to establish an appropriate regulatory framework and regulatory institutions for co-operative banks that protect members of co-operative banks; to provide for the registration of deposit-taking financial services co-operatives as co-operative banks; to provide for the regulation and supervision of co-operative banks; and to provide for the establishment of co-operative banks supervisors and a development agency for co-operative banks; and to provide for matters connected therewith (Republic of South Africa, 2014).

The Act also made provision for the establishment of the Co-operative Banks Development Agency (CBDA). Established in 2009, the CBDA is tasked with both the regulation and supervision of primary cooperative banks that have deposits in the range of 1 to R20 million¹⁴ and whose membership is not less than 200 (Co-operative Banks Development Agency and the South African Bank, 2013).

According to the CBDA and the RBSA (2013), the country’s CFIs have adopted an incremental model of growth and have relied largely on member contributions instead of grants, which underpin the growth of other forms of cooperatives. This approach has been identified as an important strategy for CFIs as it will result in building a positive and convincing image about the values and viability of CFIs. In addition, the CBDA is working towards transforming the image of CFIs in order to “do away with the perception that CFIs are only for the benefit of the poor” (Cooperative Bank Development Agency, 2014:9). The CBDA recognises that CFIs are beneficial to the entire society and therefore seeks to “be active in meeting public sector entities and other state owned companies (SOCs) with particular emphasis on collaboration around establishment of employer based CFIs” (Cooperative Bank Development Agency, 2014:9).

The first cooperative bank in post-Apartheid South Africa was registered in 2011. At the end of the 2013/2014 financial year, there were two registered cooperative banks. These are the Ditsobotla Primary Savings and Credit Co-operative Bank and the OSK Koöperatiewe Bank Beperk both of which are registered as primary cooperatives (South African Reserve Bank, 2014).

Table 5.1: Consolidated Statistics for Cooperative Banks and Eligible CFIs

Institution	Number	Member	Total deposits (Rand)	Total loans (Rand)	Total assets (Rand)
Cooperative banks	2	1 830	61 324 970	48 416 122	69 420 533
Eligible CFIs	7	12 369	90 029 754	74 079 486	98 106 138
Other CFIs	9	17 700	46 949 767	21 214 500	47 669 078
Total	18	31 899	198 304 491	143 710 108	215 195 749

Source: Co-operative Banks Development Agency and the South African Reserve Bank (2013:7)

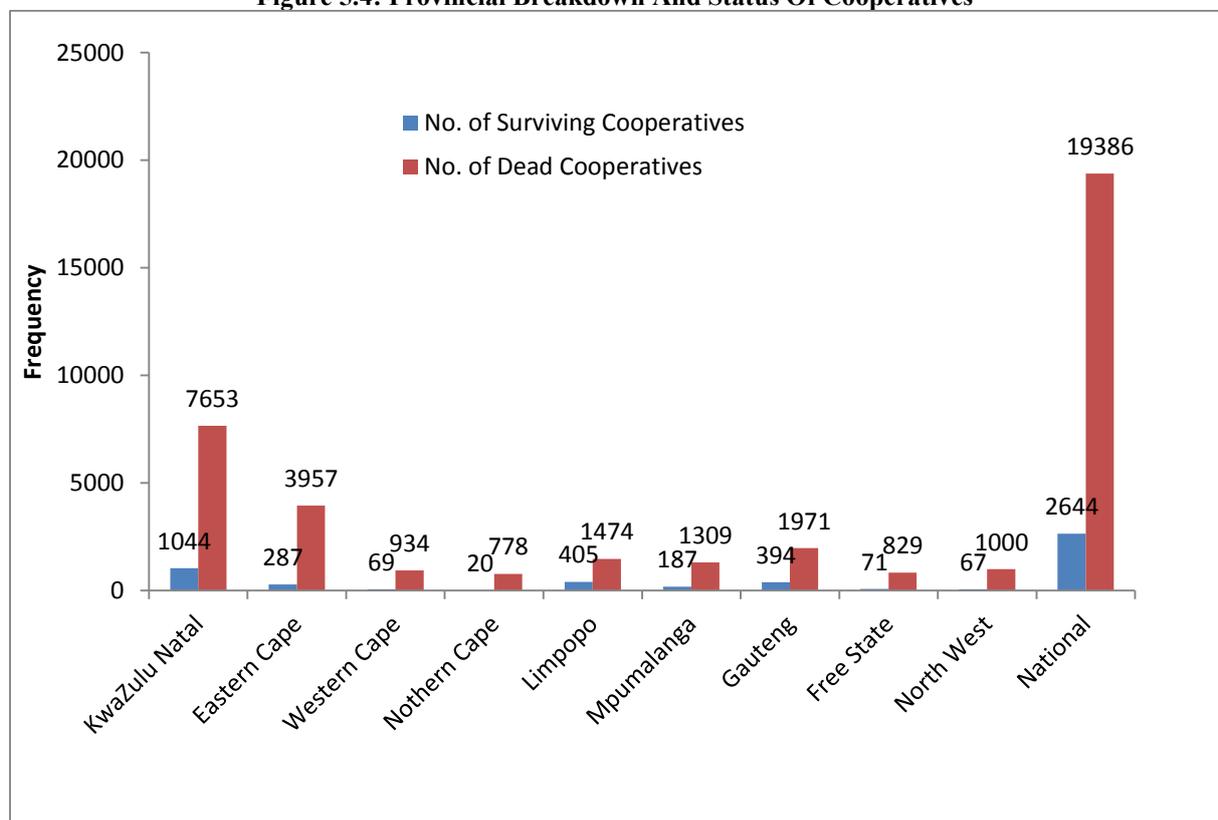
Table 5.1 above indicates a growth, albeit a minimal one, of the country’s CFIs. To support the growth of CFIs, about R2 billion (US\$1.69 billion) has been committed to the sector.

¹⁴ About US\$1.6 million

However, Genesis Analytics (2014) points out that the fund is not being effectively utilised. There is also a challenge of short-lived grant programmes that fail to equip managers with requisite managerial skills. According to Genesis Analytics (2014: vii), lack of managerial skills results “in misaligned incentives and rent-seeking in some cases; poor management; insufficient capacity and top down approaches to development”. Furthermore, funding the sector is contrary to the value of CFI operating on members’ contributions. Rather than contribute to the growth of CFIs, providing grants could further contribute to the decline of the country’s CFIs. What the foregoing reveals is that although the importance of the financial independence of CFIs is recognised in government policy, its implementation approach betrays its actual stance on funding CFIs.

The combined effect of the above challenges is evident in the prevalence of weak and unsustainable cooperatives in the country (see Figure 5.4). This is evident in the national mortality rates of 88% (n=19 386) (Department of Trade and Industry, 2010a:9). More worrying is the fact that the Northern Cape, which has the least concentration of cooperatives, has the highest mortality (97.5%).

Figure 5.4: Provincial Breakdown And Status Of Cooperatives



Source: Adapted from Department of Trade and Industry (2010a:9)

Besides high mortality rates, the *DTI Baseline Study of Cooperatives in South Africa* found that very few cooperatives have been successful to the point of creating employment. According to the DTI study, which involved a sample of 1 142 cooperatives, only 13% (n=148) reported employing a total of 2 646 persons. Of these, most employed between less than five people (Department of Trade and Industry, 2009:ii).

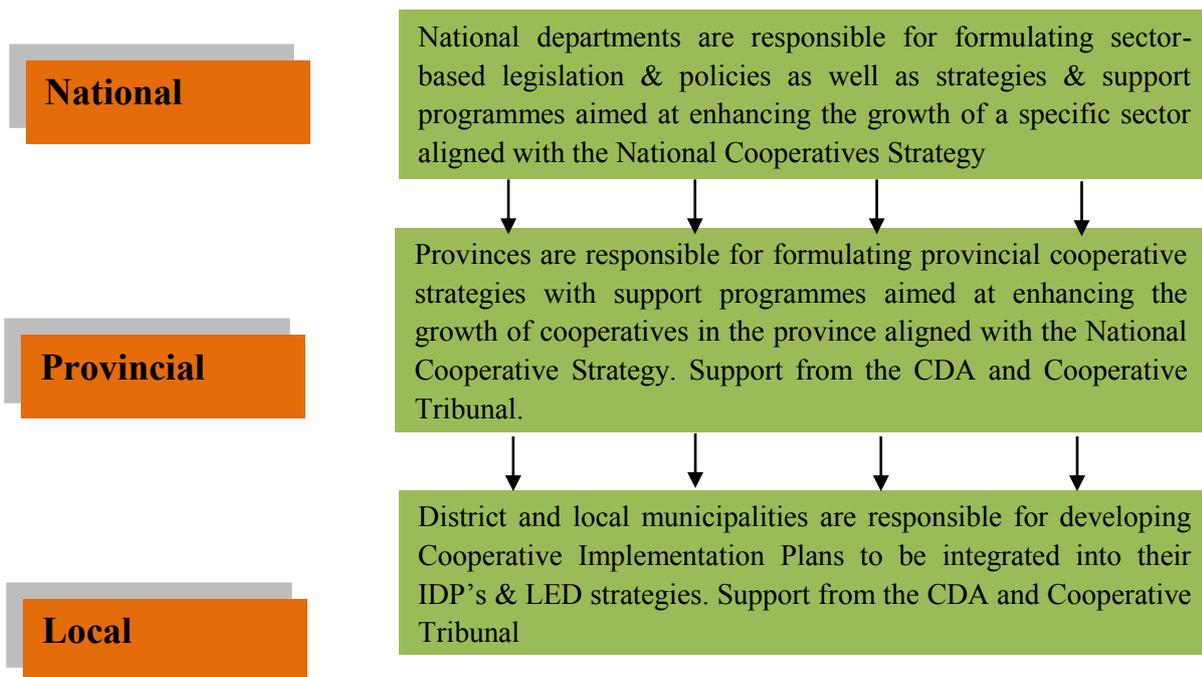
The poor performance status of the majority of cooperatives established in post-Apartheid South Africa has resulted in a decline in their contributions to the country's economy. According to the DTI (2012a:41), the contribution of the sector to the country's GDP declined by 0.65% from 2003 to 2007 (DTI, 2012a:42). Related to this is the decline in the sector in terms of financial compliance. The DTI (2012a:41) notes that financial compliance of the sector declined by about 60% between 2002 and 2010 (from 171 in 2002 to 102 in 2010).

To address the challenges faced by the cooperative sector, the South African government has committed to providing various forms of support to cooperatives. The government's stance is articulated by the 2004 *A Co-operative Development Policy for South Africa* (Department of Trade and Industry, 2004b) which emphasises that government will be proactive in establishing support institutions for cooperatives. According to the Parliamentary Monitoring Group (2010), government support for cooperatives includes "the establishment of a cooperative development agency to provide increased financial support, establishment of a cooperative academy to provide increased education and training support services, a cooperative tribunal to assist with compliance and enforcement of the Cooperatives Act, judicious management, arbitration and conflict resolution". Other support initiatives for cooperatives include the establishment of a cooperative council that provides advisory support to the Minister of Trade and Industry on cooperative issues.

Government support of cooperatives exists at national, provincial and local levels. Figure 5.5 shows the three levels of government and their respective roles. The national level comprises national departments tasked with the formulation of policies and strategies aimed at growing the country's cooperative sector. The roles of national departments are specific to cooperatives in their respective sectors. Provincial governments are responsible for the formulation and implementation of policies aimed at fostering the growth of cooperatives at the provincial level. These policies must, however, be aligned to the national policy stance.

The provincial government conforms with national policy stipulations through the support of the CDA and the Cooperative Tribunal. The task of developing and implementing strategies for cooperatives at the local level rests with District Municipalities. These strategies ought to be reflected in district's integrated development plans (IDPs) and LEDs strategies.

Figure 5.5: Responsibilities of the Different Levels of Government for Cooperatives



Source: Department of Trade and Industry (2011:29)

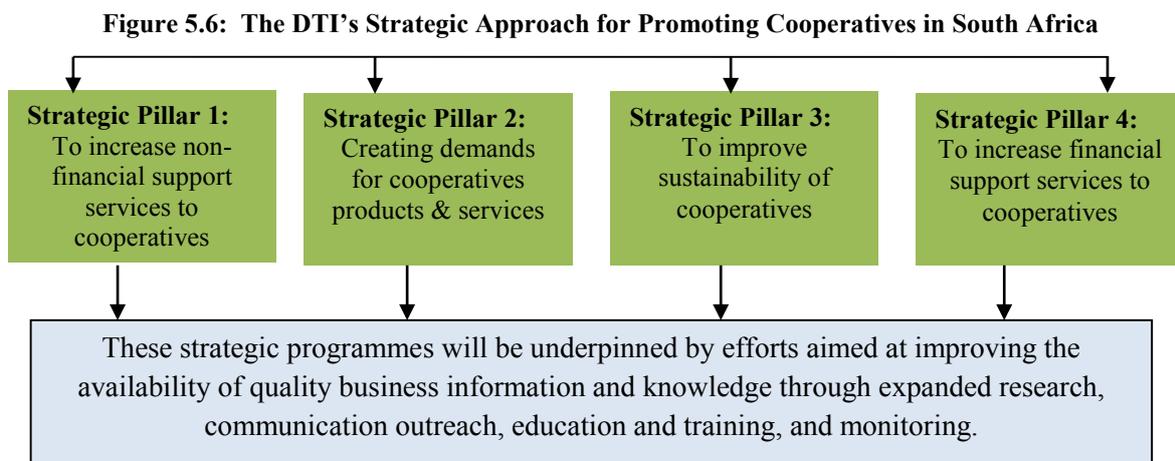
Although national departments have the task of developing sector specific cooperatives, the DTI has the primary responsibility for the country's cooperative movement. As the custodian of cooperatives, the DTI is responsible for the establishment and coordination of the National Inter-departmental and Provincial Coordination Committee responsible for cooperatives at the national and provincial levels. The DTI also collaborates with accredited institutions in the provision of training and business advisory services to cooperatives (Department of Trade and Industry, 2010b). Table 5.2 provides a summary of some of the key government agencies and their support to cooperatives. It is obvious that there is a substantial government support system in place for cooperatives in South Africa. However, it is also clear that many of these are driven by national agencies.

Table 5.2: Government Agencies Set Up to Support Cooperatives

Agency	Type of Support offered to Cooperatives
Department of Trade and Industry	Responsible for coordinating cooperative support across government departments at the three levels of government, education and training, registration/deregistration, oversight functions and promotion
12 national departments	Jointly responsible for cooperatives at the national level
Provincial departments of economic development	Responsible for the implementation of national and provincial cooperative policies and strategies. They provide support including education, training, funding and linkage to market
The National Development Agency	Provides financial support
Small Enterprise Financial Agency	Provides training, information, mentorship, and linkage to market and government support
National Youth Development Agency	Provides financial support
National Empowerment Fund	Provides financial support
Umsobomvu Youth Fund	Provides financial support
The Land Bank	Provides financial support

Source: Author

The national government’s ongoing intention to ensure that cooperatives succeed is visible in the DTI’s 2012 *Strategic Approach for Promoting Cooperatives in South Africa*. This Framework hinges on four strategic pillars (See Figure 5.6 below). Each of the pillars identifies a key area that must be further developed in order for the country’s cooperative sector to become successful. Strategic Pillar 1 is geared towards addressing the dearth of knowledge about the principles and values of cooperatives, lack of business management skills as well as value adding (Department of Trade and Industry, 2013).



Source: Department of Trade and Industry (2012a:68)

Strategic Pillar 2 aims to address the ongoing challenge cooperatives face in creating widespread demand for their products and services. As discussed earlier, many cooperatives established in democratic South Africa have been unsuccessful in gaining access to the formal market. This has constrained their ability to become successful businesses. As part of its effort to address this challenge, the DTI has in place the Export Marketing and Investment Scheme that provides financial support for both individual and groups of cooperatives (Department of Trade and Industry, 2012). Through this scheme, the DTI funds individual cooperatives (up to R45, 000 or US\$4052.16) to participate in exhibitions in order to advertise their products and services. During the 2011/2012 financial year, the DTI supported cooperatives by providing them “access to international markets/exhibitions: 11 co-operatives participated in Italy; 8 participated in Portugal; 3 in India and 6 in Cameroon” (Parliamentary Monitoring Group, 2010),

Strategic Pillar 3 acknowledges the need to make cooperatives sustainable. In that regard, the provision of support such as pre-registration and on-going marketing of cooperative opportunities is recognised. At the pre-registration phase, CIPC is mandated to work with cooperative support institutions across all levels of government. The primary goal is to bring registration points closer to prospective cooperatives (Department of Trade and Industry, 2011). Post-registration support includes linking cooperatives to other support and business opportunities within the government sector.

Strategic Pillar 4 focuses primarily on addressing the financial limitations facing cooperatives. For example, cooperatives are known to lack access to start-up capital that may dissuade the establishment of new cooperatives. The DTI’s *Cooperative Incentive Scheme* (CIS) is a 100% cash grant for cooperatives (Department of Trade and Industry, 2014a). Through the CIS, the DTI seeks to improve the competitiveness of black-owned established cooperatives as well as widen their participation in the formal economy. This includes lowering the start-up costs of business, improving their competitiveness and viability and linking them to available support. Under the CIS, a cooperative could receive up to R350, 000 (US\$31,500) in grants (Department of Trade and Industry, 2014a). In the 2012/2013 financial year, a total of 1,527 cooperatives were supported under the CIS (Department of Trade and Industry, 2014d).

As implied in Figure 5.6, the DTI considers that each of the four strategic pillars depends on providing cooperatives with quality business information and knowledge. The DTI emphasises the need for more research, education and training as well as more community outreach initiatives under the close supervisor of the DTI. In other words, it is clear from the discussion above that the DTI views the cooperative sector as still being in need of strategic intervention.

5.5 The Cooperative Sector in KwaZulu-Natal

In line with national government policy, KwaZulu-Natal (KZN) adopted cooperatives as a strategy for poverty alleviation and LED. The *KwaZulu Natal Cooperatives Development Strategy* asserts that cooperatives are “a viable form of economic growth and sustainable development for disadvantaged, vulnerable, and marginalised groups as well as those with limited resource capabilities” (Department of Economic Development and Tourism, 2010:22). The above position is re-emphasised in the *Kwazulu-Natal Provincial Growth and Development Plan 2011 - 2030* which states that the province seeks to facilitate sustainable and inclusive economic growth to ensure job creation by promoting and supporting SMMEs including cooperatives (Provincial Planning Commission, 2014). According to the KZN Department of Economic Development and Tourism (2010:15), the province sees itself as the leader in promoting cooperatives.

In the Foreword of the 2010 *KwaZulu-Natal Cooperatives Development Strategy*, it was noted that the province needs to focus on the emergence of “co-operatives that are fit enough to be able to fend for themselves in the open market without perennially depending on government for funding and market as some of these enterprises often fail to secure business outside government tenders” (Department of Economic Development and Tourism¹⁵, 2010a,b). The *KwaZulu Natal Cooperatives Development Strategy* was developed to provide a holistic support base that would facilitate the emergence of a self-sustainable cooperative sector. The *KwaZulu Natal Cooperatives Development Strategy* was as a response to the dependence of cooperatives on government support for their survival. Figure 5.7 illustrates KwaZulu-Natal’s Cooperative Development Strategy. The Figure identifies six key strategic priority areas for the province:

¹⁵ Now known as the Department of Economic Development, Tourism and Environmental Affairs.

- i. To provide a conducive policy/legal environment;
- ii. To promote and develop cooperatives;
- iii. To build a supportive institutional system;
- iv. To provide capacity building and skills development for cooperatives;
- v. To establish delivery mechanisms; and
- vi. To support cooperatives to gain access to finance.

Figure 5.7: Kwazulu-Natal's Cooperative Development Strategy



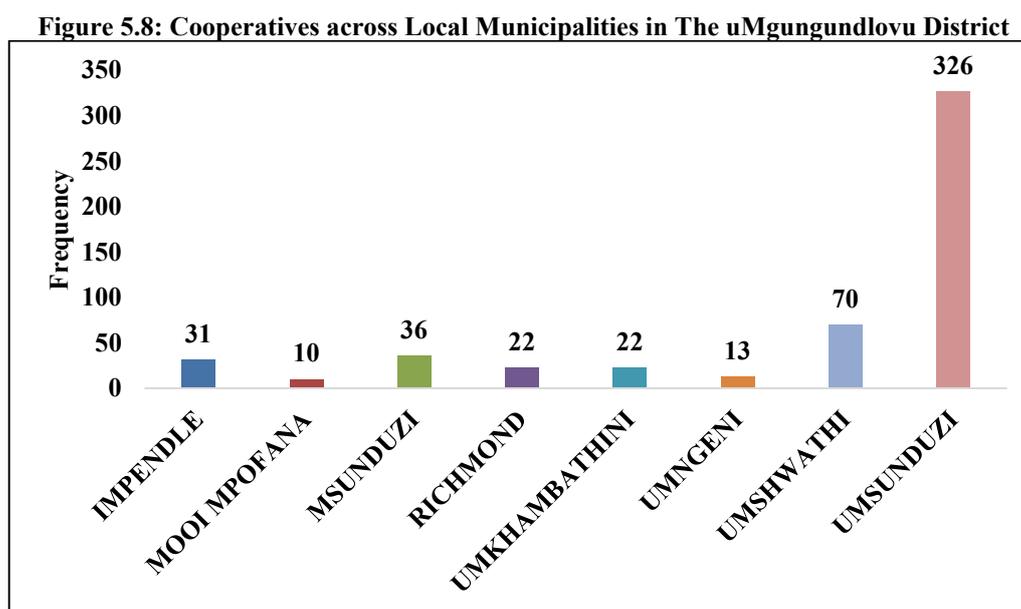
Source: Department of Economic Development and Tourism (2010:17)

These strategies mirror the four strategic pillars identified in the DTI's *Strategic Approach for Promoting Cooperatives in South Africa*. In line with the goal to enhance the growth of cooperatives in the province, 1,590¹⁶ cooperatives are supported by the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs (DEDTEA).¹⁷ Most of these cooperatives were established after 2005. These cooperatives have a combined membership size of 10,098, comprising predominantly female members (n=7,339). About 46.6% (n=247) of the cooperatives operate in agriculture followed by 26.2% (n=139) in the service sector (Department of Economic Development and Tourism, 2013).

¹⁶ The Department only has statistics for cooperatives that it is supporting. In line with the current policy stance, only black-owned cooperatives are being supported.

¹⁷ Last updated in 2013.

In uMgungundlovu District, there are 530 cooperatives¹⁸, spread unevenly across the local municipalities. As shown in Figure 5.8 Msunduzi has the highest number of cooperatives (n=326) while Mooi River has the least (n=10). These cooperatives combined employ 501¹⁹ workers with an average employment rate of 0.95. This demonstrates that cooperatives in uMgungundlovu District, just like those at the national level, have created few opportunities for employment.



Source: Adapted from KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs (2015)

In KwaZulu-Natal, the DEDTEA is the provincial department responsible for cooperatives. The DEDTEA works in collaboration with other provincial departments that support cooperatives. In each of the eleven district municipalities in KwaZulu-Natal, there is a Cooperative Coordinator (Department of Economic Development and Tourism, 2010). The District Coordinator provides advisory services to aspiring cooperatives about the processes and procedures for forming a cooperative. Once this phase is completed, members undergo an intensive two weeks training in areas of cooperative legislation, principles and values of cooperatives, basic financial management, bookkeeping, and compilation of a business plan

¹⁸ Last updated in March 2015.

¹⁹ It is not clear whether these are long-term or short-term employment.

(Department of Economic Development and Tourism, 2010). The goal is to address the challenge of knowledge deficiencies in these areas. It is hoped that by providing the education and training, cooperatives will become positioned for success.

iThala Development Finance Corporation Limited is a development finance agency located in KwaZulu-Natal and provides financial lending services to cooperatives located primarily in previously disadvantaged areas (Department of Trade and Industry, 2010a). Through iThala, the provincial government seeks to bridge financial constraints that constitute obstacles in the paths of most start-up cooperatives. According to its 2011/2012 Annual Report, iThala reported lending R261.4 million (about US\$23.5 million) to cooperatives. This amount was reduced to 222.4 million in the 2012/2013 Financial Year (iThala Development Financial Corporation, 2013).

Despite ongoing support by the provincial government, cooperatives in the province are confronted with the general challenges facing cooperatives identified earlier. In addition to those challenges, cooperatives in KZN are constrained by challenges such as lack of coordination among supporting institutions, the absence of a monitoring and evaluation framework, limited cooperation among cooperatives, and government's top-down approach in the development of cooperatives (Department of Economic Development and Tourism, 2010). In addition to the above, there is a warped view of cooperatives by cooperators, with cooperatives sometimes seen as "charity organisations" (Department of Economic Development and Tourism, 2010:19). Furthermore, there is a paucity of financial cooperatives in the province. According to the Department of Economic Development and Tourism (2010:13), CFIs comprise less than 1% of cooperatives in the province. The combined effect of the challenges described above has resulted in a dismal 12% survival rate of cooperatives in KZN (see Figure 5.4).

5.6 Conclusion

The review of the history of cooperatives in South Africa showed that there are two distinct epochs in the development of cooperatives. The first epoch was characterised by a lack of clear definition of the cooperative movement, a lack of compliance with the principles and values of the cooperative movement, state control, and the predominance of white-owned cooperatives. The transition to democracy in 1994 ushered in the second epoch. The 2004

cooperative policy and strategy, the *Co-operative Act* (Act 14 of 2005) and the *Cooperative Amendment Act* (Act 6 of 2013) all recognised the need for the South African cooperative sector to operate according to the internationally recognised principles and values of the cooperative movement. However, the on-going proliferation of government support coupled with the weak status of cooperatives suggests that cooperatives exist primarily due to such support.

The formation of cooperatives in South Africa is still mainly top-down and as a result, member-commitment continues to be a problematic issue. In addition, the South African cooperative sector is dominated by primary agricultural cooperatives. Furthermore, the country does not have a strong CFI sector. The implication of this is that cooperatives rely on government for their financial needs since they are unable to access funds from commercial credit providers due to lack of security. This chapter has demonstrated that at best, the South African cooperative sector mirrors the Kenyan scenario before the liberalisation of the economy in the 1990s. Although the new legislative environment as well as support mechanisms have resulted in a rapid increase in the number of registered black-owned cooperatives, the post-Apartheid experience is characterised by a high mortality rate and a largely weak cooperative sector.

CHAPTER 6

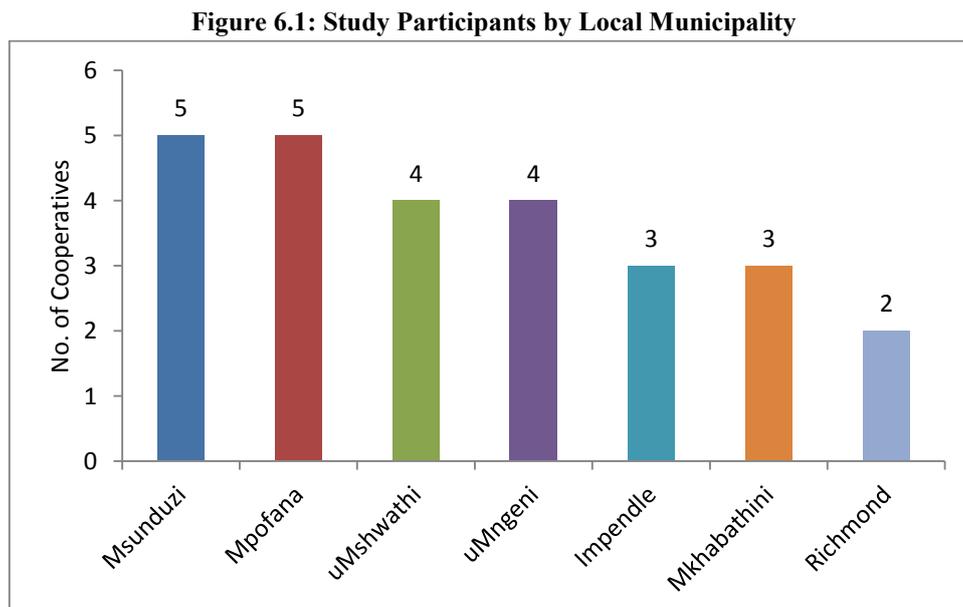
AN ENQUIRY INTO THE COOPERATIVES IN THE UMGUNGUNDLOVU DISTRICT MUNICIPALITY

6.1 Introduction

This Chapter presents the empirical data collected during the course of the study. The responses gathered from interviews with the respective representatives of the 26 selected cooperatives in the uMgungundlovu District Municipality are summarised into Tables and Figures. The objective of the Chapter is to present the general characteristics as well as the distinguishing features of the selected cooperatives in this District.

6.2 General Description of the Participant Cooperatives

The 26 cooperatives that took part in the study were located across the seven local municipalities of the uMgungundlovu District Municipality. As indicated in Figure 6.1, the number of participant cooperatives varied across the local municipalities. The Mpofana and the Msunduzi local municipalities had the highest number of participants (n=5 respectively) while Richmond had the least (n=2).



Source: Field Interviews

TABLE 6.1 Summary of Participant Cooperatives

	Year Est.	Type (Form) of Coop	Main function	Members	Employees	How Coop was established
C1	2011	Agriculture (worker)	Produces Spinach, carrots & potatoes	8	0	joint initiative
C2	2000	Multipurpose (worker)	Rears pigs, & produce crafts such as beads & clay pots	9	0	joint initiative
C3	2010	Agriculture (worker)	Rears pigs	4	0	individual initiative
C4	2011	Agriculture (worker)	Produces chickens, green pepper, carrots & cabbage	8	0	joint initiative
C5	2005	Agriculture (worker)	Produces beef, cabbage & maize	10	25 (long-term)	individual initiative
C6	2009	Service (worker)	Provides feeding services in schools	12	11 casual	by government
C7	2007	Service (worker)	Provides funeral cover to members & the community	7	0	individual initiative
C8	2011	Agriculture (worker)	Produces maize, soya beans & cabbage	5	0	directly by government
C9	2010	Agriculture (worker)	Produces carrots, green pepper, spring onions & cabbage	42	2 (long-term)	joint initiative
C10	2010	Agriculture (worker)	Rears pigs & produces cabbage & spinach	4	0	joint initiative
C11	2011	Marketing (worker)	Provides market outlet to other cooperatives	12	5 (long-term)	joint initiative
C12	2009	Agriculture (worker)	Produces potatoes, cabbage & butternuts	5	0	joint initiative
C13	2005	Multipurpose (worker)	Rears chickens & engages in sewing	5	3 casual	joint initiative
C14	2004	Agriculture (worker)	Rears chickens & farms cabbage	5	0	individual initiative
C15	2005	Multipurpose (worker)	Produces bricks, rears chickens & produces butternuts & cabbage	11	6 casual	joint initiative
C16	2008	Multipurpose (worker)	Produces bricks & rears chickens	5	0	by government
C17	2006	Agriculture (worker)	Produces spinach, maize & potatoes	5	11 casual	joint initiative
C18	2007	Textile (worker)	Engages in sewing activities such as school uniforms & aprons for domestic workers	5	0	joint initiative
C19	2007	Agriculture (worker)	Produces beetroot, cauliflower, cabbage, spinach, maize, & pumpkins	7	0	joint initiative
C20	2007	Agriculture (worker)	Produces cauliflower, spinach, & maize	7	0	joint initiative
C21	2010	Agriculture (worker)	Produces spinach, soya beans & cabbage	7	0	joint initiative
C22	2009	Agriculture (worker)	Produces potatoes, carrots & cabbage	5	0	joint initiative
C23	2006	Agriculture (worker)	Produces potatoes, maize, green pepper & spinach	19	3 casual	individual initiative
C24	2011	Service (worker)	Provides funeral cover to members & the community	5	0	individual initiative
C25	2010	Agriculture (worker)	Produces beef, maize, carrots & green pepper	7	0	individual initiative
C26	2008	Agriculture (worker)	Produces carrots, potatoes & maize	7	0	joint initiative

Source: Field interviews

Table 6.1 above presents a summarised overview of the 26 participant cooperatives. The Table will be explored in more detail throughout the Chapter. The purpose of the Table is to provide a quick reference point.

One can note from Table 6.1 above that most of the cooperatives that participated in this study were formed relatively recently. Of the 26 participant cooperatives, one had been in existence for thirteen years (and as such, was the ‘oldest’ cooperative) while others had been formed only two years prior to the interviews (and as such, were the ‘youngest’ participant organisations). On average, participant cooperatives had been formed approximately 5 years prior to the fieldwork interviews conducted by this researcher.

About 65% (n=17) of the cooperatives were worker cooperatives engaged in primary agricultural activities. Cooperatives that are categorised as multi-purpose are involved in more than one activity. Two of these are engaged in livestock and brick laying; another is engaged in livestock and craft while the fourth is engaged in livestock and tailoring. Effectively, only five cooperatives are not involved in any agriculture related activities. Three of these cooperatives are service cooperatives (two provide funeral services while another provides school feeding services).

6.3 How the Cooperatives Came into Existence

As revealed by the interviews, the cooperatives came into existence in three main ways. One way was through an individual’s initiative. In other words, one person had the idea of starting a cooperative and then sought out people to join the cooperative. This individual recognised the value of cooperatives and organised community members to work with him/her in the formation and management of the cooperative. Of the 26 participant cooperatives, about 27% (n=7) came into existence because of an individual who had an initiative to establish a cooperative. C3, for example, came into existence in this manner. The participant from C3 expressed this view in the following excerpt:

The cooperative was started by me as I am the chairperson. Before starting the cooperative, I did research among all the products. Through my research, I found that pig is better than chickens and cows because they are something that is close to our

*homes and it has better returns. It is lucrative because in a period of four months, if you maintain it well, you can gain a lot because the selling price is not less than R800.*²⁰

The participant further noted that after establishing that a piggery would be the most profitable livestock, he approached members of his community, shared his idea and suggested that they form a cooperative.

Like C3, C23 was formed through the initiative of an individual who wanted to create income for unemployed women in his community. The participant stated that he was concerned about high unemployment among women in his community and felt that organising them into cooperatives was the best means of getting them to support themselves. He claims that, *“I have seen what cooperatives can do for people in getting employment and income. I know that if we can start something like that in the community, we can reduce the number of women in this area who are in need”*. This participant sees cooperatives as a mechanism for the economic empowerment of women in the community.

Beside the formation of cooperatives through individual initiatives, interviews uncovered a second method of formation, that of group initiative. 16 cooperatives were established in this manner. Analysis of the interviews shows that these cooperatives were formed when a group of individuals thought that they could work collectively to address common challenges. For instance, the interviewee from C4 noted that, *“the cooperative started when certain mothers in the community decided to work together. We gathered with them that we wanted to make just an agricultural organisation to produce food and make money”*. For this participant, subsistence was the primary motive that underpinned the formation of the cooperative as a joint initiative.

The third manner in which cooperatives emerged was through direct government intervention. Of the 26 cooperatives, 3 (C6, C8 and C16) were established in this manner. In responding to how the cooperative came into being, participant from C8 noted that, *“I can say many things come from the government because even our coops, the government started and launched the cooperative”*. A participant from C6 also reported that government played an active role in the establishment of cooperatives. According to participant, officials of the

²⁰ Approximately \$66.7.

Department of Education (DoE) introduced the idea of cooperatives in their community. The interviewee noted that officials of DoE asked women to form cooperatives since they wanted to use cooperatives as a strategy to implement the government's school feeding programme²¹. In addition, the interviewee stated that the DoE was also interested in creating employment opportunities for poor women in the community through cooperatives. As a result, the DoE mobilised and assisted them to register as a cooperative. Thereafter, the DoE granted them a tender to provide feeding services to schools.

The above findings about how cooperatives came into existence proved to be too simplistic. Although most of the participants initially reported that their cooperatives were formed through individual or collective initiatives, further discussions showed that the majority were formed primarily because they offered an opportunity for people to access government funding. Of the 26 cooperatives involved in the study, 69% (n=18) were formed in the hope of accessing government resources. A participant from C17 was open about access to government funding as the major reason for the establishment of their cooperative. The participant noted that, "*they [this is what he heard from other cooperators] said they fund a group of people. That is what encouraged me to be part of a cooperative*". Similarly, a participant from C5 expressed that government incentive was the main rationale for the formation of their cooperative. This is evident in the following excerpt: "*It started the time the government announced the thing of putting R25 000 to R50 000²² to help the cooperatives*"

Like C5, C2 was started by a group of 30 community members in response to calls from the DEDTEA to community members to form cooperatives so that they could receive financial support. To maximize their access to government resources, they divided themselves into two cooperatives and were subsequently supported twice over by government in the form of funding, training and the drawing up of business plans.

²¹ The South African government implements a National School Nutrition Programme in schools with a particular focus on grades R to 7.

²² Between \$2085.9 to \$4201.68.

6.4 Anticipated Outcomes of Cooperatives

The interviews revealed three common views among participants regarding the objectives and outcomes of cooperatives. The three major anticipated outcomes were: job creation and poverty alleviation; meeting individual and communal needs; and providing a market outlet. 14 of the 26 cooperatives hope for job creation and poverty alleviation. Participant from cooperatives such as C1, C3, C10, and C23 all expressed strong views about the problem of poverty and unemployment in their communities and their hope that cooperatives would resolve this. According to participant from C10, the cooperative was established to provide employment for the high number of unemployed youths. He noted that those who formed the cooperative were concerned about idle youths and feared that they might resort to crime. Participant from C10 noted that the cooperative was started “*so that we [the cooperative] can also help them [the youths] to get something to do. We want to put them into the jobs that we launch, the coop, and they will be able to have jobs. They might even begin to create their own jobs and employ other people*”.

The second most cited objective for establishing cooperatives was to meet individual and communal needs. According to one of its cooperators, C16 was formed to address the exploitation of the community by brick industries. Prior to establishment of their multi-purpose cooperative, community members that wanted to build houses had to buy bricks at exorbitant prices from brick industries. Beside high costs, these industries were located far from the community, resulting in high transportation costs. The goal of the cooperative was therefore to provide bricks at cheaper costs and in close proximity to the community.

Like C16, C13 was established with the primary goal of helping the less privileged in their community, or inculcating a spirit of community. The participant from C13 expressed the intention of the cooperative in the following excerpt:

We agreed that we will give to our neighbours some of our things. If it is much, we sometimes give it to the old ladies, to grandmothers. That is still standing, it has not changed. Even when there are certain functions in the community, when they ask for support we also contribute, we will do this and this and this. We like to encourage each other so that we do not forget why we do this. It is just that our hearts were open to helping our community.

Some participants hoped that cooperatives would empower community members. This view was expressed by a participant from C2 who stated that the cooperative was formed primarily because they wanted to end a feeling of hopelessness in the community. According to this participant, members of the cooperative “*wanted people to wake up in the morning and go to work. People should begin to think more positively, like ‘I wake up and then I go to work, I will come back with a cabbage’*”.

In some communities, it was hoped that cooperatives could bring about peace and reconciliation in the interests of the community. Participants from C2 and C23 shared this view. The participant from C23 reported that, “*the purposes of starting the coop was for reconciliation and fighting poverty. I had a desire that I teach the people that by coming together, standing up we can bring help that the government says they have. We can also make peace with ourselves*”. The view expressed here is that by bringing people to work together, they can access government support. In addition, working together as a cooperative can bring about reconciliation and a sense of community.

A third expectation of participants was that the formation of a cooperative would provide them with access to markets, thereby enabling them to sell all their goods. According to a participant from C11, cooperatives in the agricultural sector face problems trying to sell their farm produce. Against this backdrop, C11 was formed primarily as a market outlet for the produce of other cooperatives. The interviewee observed that C11 aims to give other cooperatives the “*...assurance that what they are going to produce will be sold eventually*”. Although the market outlet cooperative initially aimed to cater for the local cooperatives, the participant reported that the response from primary agricultural cooperatives had been overwhelming, and C11 had difficulty selling their produce. The interviewee attributed this to the fact that most cooperatives were producing similar goods. A participant from C9 corroborated the concern raised by the participant from C11, noting that what has contributed to the failure of cooperatives is that they produce similar goods. To address the challenge, the participant recommended that, “*cooperatives should try to diversify what they produce so that there is not too much of one thing in the market. They must not just produce something because they see their neighbours producing*”.

6.5 Current Status of Participant Cooperatives

In the sense that there are no measurable outcomes or secondary data that can be analysed, it is difficult to determine whether the 26 cooperatives are successful or not. Nevertheless, it is important to reflect on the status of the cooperatives. This needs to be determined case-by-case based on a number of characteristics. The objective of this section is to determine whether the 26 cooperatives are fulfilling their intended objectives and expectations. The majority of the cooperatives did not regard themselves as successful. The researcher therefore enquired what they deemed to be the underlying causes. This section presents participants' responses.

Three criteria were used to assess the status of the participant cooperatives. The first criterion was the size of the cooperative. This criterion was used because it is posited that the larger the number of cooperators in a cooperative, the more resources (either human or financial) would be available in the cooperative. This in turn would enable a cooperative to pursue the individual and communal objectives of the cooperative. The number of people employed by worker cooperatives was the second criterion used to assess the status of such cooperatives. This criterion was considered important since most interviewees regarded job creation as the most important criterion for the formation of cooperatives. The third criterion used to determine the status of the cooperative was by obtaining the perception of the participants about their cooperatives. In this respect, they were asked whether they felt that the cooperative was performing to members' satisfaction.

The membership size of cooperatives that participated in the study varied across each cooperative (see Table 6.1). The cooperative with the least members (C3) had only four cooperators while C9 had the highest number of cooperators (n=42). On average, there were 8.7 cooperators per cooperative. However, when one considers the size of C9 as an outlier, the average number of cooperators comes down to approximately 7.

Just like the number of cooperators, the number of employees varied across cooperatives. Of the 26 cooperatives, only 8 reported employing people. Of the 8 cooperatives employing people, 5 do so on an *ad hoc* basis. C5 had the highest number of employees (n=25). It is instructive to point out that C5 neither directly employed nor paid the salaries of these

employees. Further discussion with the participant from C5 showed that although these employees work for the cooperative, they were employed and paid by Lima²³.

Effectively, only two cooperatives (C9 and C11) employ people on a long-term basis. Participants attributed the preference of casual employment to a lack of finance. The participant from C2 made this point, stating that “...we [the cooperative] *do not have enough money to employ people on a permanent basis. So we only employ when there is need and when we can afford it*”. Similarly, participant from C13 reported that the cooperative could barely pay any stipends to cooperators working in the cooperative. As a result, the participant reported that, “*the cooperative cannot employ people since members are not being paid regularly*”. Just like C2, poor financial status was a barrier to the employment of workers for C3. A participant from the cooperative noted that although its primary objective was to create employment, it was unable to do so since it was not making profit from its activities.

In terms of the participants’ perceptions of the performance of cooperatives, only three participants reported being happy with the performance of their cooperatives. These participants listed a number of achievements such as access to market opportunities; stipends/income opportunities for local community members; avenues for cooperation among cooperatives; the provision of advisory service to cooperatives; and the provision of affordable services to the local community. Although the participant from C24 was not happy with the performance of the cooperative, he reported that the cooperative has been playing an important role in the provision of affordable funeral services in the community. The participant reported being satisfied with this service despite being unhappy with the performance of the cooperative due to on-going financial challenges.

²³Lima is a rural development foundation that provides “sustainable integrated rural development services” to communities in urban and rural areas of South Africa. Lima works with an array of donors and government institutions in providing its services to communities (refer to <http://www.lima.org.za/> for more information).

Table 6.2: Performance of Cooperatives

	Satisfied with Performance	Achievements of the cooperative
C6	✓	Provision of market opportunity for two women's cooperatives Provision of stable stipends for members
C11	✓	Providing market opportunity Provision of stable income for members Advising cooperatives to diversify production
C14	✓	Promoting cooperation among cooperatives
C24	n/a	Provision of funeral services to community members

Source: Field Interviews

Key: A tick indicates that the item in the column is present for the respective cooperative while n/a implies that the item is not applicable. All tables in the remaining part of the thesis should be interpreted using the above keys.

Of the 7 categories of challenges, a lack of finance was the most prevalent with 17 interviewees stating that they are being constrained by this challenge. According to the interviewee from C13, financial constraint was the biggest challenge for the cooperative. The interviewee noted that the cooperative would be successful if it is able to address its financial challenges. In making this point, the interviewee from C13 stated that the cooperative does *“not have money because we never got supported. We have financial crisis. This is because we do not have enough funds”*. The interviewee from C25 expressed a similar view noting that ongoing financial challenges demotivate members of the cooperative. Although government funded C14, the interviewee from the cooperative noted that the funds were not sufficient to meet their financial needs.

Compounding the financial constraints of cooperatives is members' unwillingness to contribute their own money. According to the interviewee from C25, *“some people start backing away when they have to give money”*. What the foregoing shows is that members would rather see the cooperative collapse than invest their own capital. The interviewee from C7 reported that this attitude has implications when it comes to borrowing money for the cooperative since he will be responsible for repayment if the cooperative is unable to repay the loan.

Table 6.3: Challenges Facing Participant Cooperatives

	Finance	Tools/inputs	Land	Market	Transport	Knowledge and Skills	Income
C1	✓	✓	n/a	n/a	✓	n/a	✓
C2	✓	✓	n/a	✓	✓	n/a	✓
C3	✓	✓	✓	✓	✓	✓	✓
C4	✓	n/a	n/a	n/a	n/a	n/a	✓
C5	✓	✓	✓	✓	✓	✓	✓
C6	n/a	✓	n/a	n/a	n/a	✓	n/a
C7	n/a	✓	n/a	✓	n/a	✓	✓
C8	n/a	n/a	n/a	✓	n/a	n/a	✓
C9	n/a	n/a	n/a	✓	n/a	✓	✓
C10	✓	✓	n/a	n/a	n/a	✓	✓
C11	n/a	✓	✓	n/a	n/a	✓	n/a
C12	n/a	✓	n/a	✓	n/a	✓	✓
C13	✓	✓	✓	✓	n/a	✓	✓
C14	✓	n/a	n/a	✓	n/a	✓	n/a
C15	✓	n/a	n/a	✓	n/a	✓	✓
C16	✓	n/a	n/a	n/a	n/a	n/a	✓
C17	n/a	n/a	n/a	✓	n/a	n/a	✓
C18	✓	n/a	n/a	✓	n/a	n/a	✓
C19	✓	✓	✓	✓	n/a	n/a	✓
C20	n/a	✓	✓	n/a	n/a	n/a	✓
C21	✓	✓	✓	✓	✓	✓	✓
C22	✓	✓	n/a	✓	n/a	✓	✓
C23	n/a	✓	n/a	✓	✓	n/a	n/a
C24	✓	✓	✓	n/a	n/a	✓	n/a
C25	✓	✓	n/a	n/a	n/a	n/a	✓
C26	✓	n/a	✓	n/a	✓	✓	✓

Source: Field Interviews

The financial constraint of cooperatives is worsened by the fact that cooperatives are small and lack the security to obtain loans from commercial credit providers. The interviewee from C26 observed that requirements for securing loans were beyond what they could provide. The interviewee noted that *“the bank wants that and that; they want that, they want that. They want, you see, the things which are not easy to get”*. The interviewee from C4 linked the reluctance of credit providers to lend to cooperatives to previous instances where cooperatives failed to repay loans.

To address the challenge, the interviewee from C16 observed that the cooperative *“would be happy if maybe by any chance the government can organise some support of some kind in order for us to develop better because when we go to the banks the banks usually do not want to loan us money”*. For interviewee from C26, government needs to undertake to cover

shortfalls in the funds that cooperative receives from iThala. The interviewee noted that since government departments such as the DoA have farm implements and land, writing an undertaking to state that it will cover these will improve chances of securing a loan from iThala.

Associated with financial constraints are cooperatives' lack of tools and inputs necessary for production. 17 cooperatives reported this as a challenge. Cooperatives such as C1 and C10 reported being constrained by an inability to secure livestock feeds. The interviewee from C1 reported that feeds were too expensive and *“ends up taking up all our money”*. C12 also faces the challenge of inputs. According to the interviewee from C12, the cooperative does not have money to fence the farm resulting the destruction of their farm by cows.

The interviewees from C12 and C20 identified a lack of water as an input constraint. Both interviewees noted that the water that passed through their communities was contaminated by industrial effluent. Interviewee from C20 raised this issue stating that, *“even the water that is in the river, we sometimes irrigate using them but we have found that they kill our crops because this water comes from the factories”*. Due to the contamination, both interviewees only practice rain-fed agriculture. Interviewee from C12 noted that this practice is problematic: *“if there is no rain we are in trouble because we do not have water. We have to wait for the rain so that is a problem”*.

C11 has also been constrained by inconsistent supplies of farm produce. The interviewee reported that their marketing cooperative was often unable to secure the required quantities of farm produce from cooperatives. There could be an oversupply at times, or an undersupply. According to the interviewee, most of the cooperatives that supply it are small and do not produce all year round (possibly due to the practice of rain-fed agriculture). To address the problem, C11 resorted to relying on suppliers from elsewhere. The interviewee, noted that this practice has undermined the rationale that informed the formation of this cooperative in the first place. Despite being aware of this, the interviewee reported that the practice would continue since the cooperative has to stock its shelves in order to retain its customers.

Lack of access to land is a challenge identified by participants from cooperatives such as C3, C5, C9, C13, C19, and C21. Interviewees from these cooperatives were still waiting for government to make land available since they did not have funds to acquire land. Although

C13 has taken proactive steps in addressing this challenge by clearing a dumpsite, continued illegal dumping is a persistent challenge. According to the interviewee, non-responses to requests to government for assistance in removing illegal dumping has further dampened their passion to work the land.

The lack of access to markets was a challenge reported by half of the interviewees. An interviewee from C17 raised the point about access to markets noting that, *“the Department of Agriculture helps us with most of the things and you find that we are unable to sell them and gain”*. The inability of cooperatives to sell their produce has significant implications for success. Commenting about this challenge, interviewee from C2 stated that, *“the only thing that is left for us [the cooperative] is to get the markets where we will be able to sell our produce. We produce potatoes, cabbages, and maize but these other things do not have the markets. That is what our problem is now. The market is not there for what we produce”*. Market constraints, according to the interview, have affected members’ commitments to the cooperative. The interviewee noted that, *“when there are markets, they [cooperators] stand up and plough hard because they do have the power to work”*.

Like C2, C8 is also faced by lack of markets for its produce. The participant from C8 reported that this challenge has constrained the ability of the cooperative to meet its performance target. According to the interviewee, the produce of the cooperative sometimes *“decompose in gardens because there is no one to buy them”*. Interviewee from C15 reported a similar experience noting that sometimes, *“the whole thing [farming] ends up being a waste of time”*. The interviewee remarked that to avoid the produce going to waste, they sometimes had to consume the produce themselves. Interviewees from C13 and C14 reported similar experiences of consuming their food to prevent waste.

Directly related to market constraint is the lack of transport. For C1, lack of transport made it difficult for the cooperative to move its produce to Fruit and Veg (a marketing cooperative in the Msunduzi Municipality). The interviewee from C1 stated that failure to meet delivery agreements has had negative impact on its business relations with Fruit and Veg. In addition, it has resulted in their produce going bad before they get to market. Similarly, the interviewee from C2 reported that the cooperative had previously lost produce as a result of being unable to move them to the market timeously due to lack of transport. The interviewee expressed the challenge of transport as follows:

The cabbages end up decomposing and that means all the time and money put into it is a complete waste. This discourages them [the cooperators]. You see, that scarce money that a person has invested, they lose everything when the produce ends up decomposing. It is very discouraging to them.

To prevent produce from decomposing, cooperatives such as C5 hire trucks to move them timeously to market. However, the interviewee noted that this was not a sustainable option since transportation costs was too high and affected profit margins. Interviewee from C1 reported a similar experience, noting that the cooperative “*ended up working just to pay for transport. You see everything, we buy everything, everything but we don't get any money back*”. According to the interviewee, the cooperative will cease to exist if it is unable to address this challenge.

Lack of knowledge and skills was another challenge identified in this study. These include lack of information about the principles and values of cooperatives, how to govern a cooperative, drawing up business plans and contracts, and managing finance. According to the interviewee from C9, “*lack of knowledge and training makes members of cooperatives appear as if they are unable to manage the cooperative*”. Similarly, interviewee from C13 reported that the cooperative does not “*have the knowledge of what will help us and our situation is not good*”. Furthermore, interviewee from C26 reported that “*the coop does not have the capacity to develop its members in terms of skills, like training*”. The interviewee further noted that, “*our homes are far, we do not have money for going to the places where training takes place*”.

According to the interviewee from C9, government is to blame for providing resources to cooperatives without equipping them with relevant managerial skills. The interviewee made this point as follows: “*I have seen what makes the cooperatives to fail most of the time. The government gives them the resources without giving them knowledge. They do not get expertise*”. The interviewee further noted that despite being trained by government, “*when it comes to the books and managing the work we do not know that*”. For interviewee from, C11 the challenge of knowledge deficit is a particular one in rural areas. In this regard, the interviewee observed: “*You see, I'm from the rural area of Nkandla. I'm hundred percent sure that there are lot of people who know nothing about cooperatives but who can form cooperatives.*”

For the interviewee from C24, the inability to communicate in English has prevented him from accessing government support. According to the interviewee, the contact person in government could only speak English; a language with which he is unfamiliar. The interviewee expressed this concern in the following translated excerpt:

“As I am uneducated I have this bad luck of not finding a Zulu speaking person there. I always find the ones I don’t understand. That becomes a huge problem for me because I just don’t know how to explain to them that I want to succeed. I sit there nodding at everything she says and she sees that as well. I have never found a person that understands me.”

Of the 26 participant cooperatives, 23 cited a lack of income as a challenge. These 23 cooperatives are not able to generate income for cooperators. This indeed is problematic since the prospect of income generation is one of the rationales for the formation of most cooperatives that participated in this study. The interviewee from C7 cited the challenge of lack of income by stating that cooperators have had to take other jobs because there was no income being generated by the cooperative. The interviewee observed that this is affecting the performance of the cooperative, as cooperators no longer have the time to meet, strategise, and engage in activities of the cooperative.

It is clear from the above that the participant cooperatives cannot be deemed successful. However, although these cooperatives may not generate any significant financial benefits, they may offer social benefits. I will highlight some of these in section 6.6.

Besides establishing the status of the participant cooperatives, the interviews also aimed to determine the nature of the relationship between the cooperators within their respective cooperatives. The section below details the findings of the interviews in that regard.

6.6 Collective and Collaborative Action in the Cooperatives

Interviewees from each of the 26 cooperatives were asked to express their views on the extent of collective and collaborative action among cooperators. Analysis of the interviews revealed that of the 26 interviewees, only 7 reported being satisfied with the level of cooperation among cooperators. The responses demonstrated 5 main factors that made cooperation among

cooperators feasible and successful. These are summarised in Table 6.4 below and discussed in more detail thereafter.

Table 6.4: Enablers of Cooperation in Participant Cooperatives

	Familiarity	Trust	Small size	Shared skills	Common values
C1	✓	✓	✓	✓	n/a
C2	✓	✓	n/a	n/a	n/a
C8	✓	✓	n/a	n/a	✓
C12	✓	✓	✓	n/a	n/a
C13	✓	✓	n/a	✓	n/a
C14	✓	n/a	n/a	✓	n/a
C19	✓	✓	✓	✓	✓

Source: Field Interviews

6.6.1 Enablers of Cooperation in Participant Cooperatives

The interviewees who reported being happy with the level of cooperation among cooperators attributed this to a number of factors. One common factor was familiarity among the cooperators before the formation of the cooperative. In making this point, the interviewee from C12 stated that, “*we [members of the cooperative] knew each other when we were working together and saw that we could continue working as a cooperative*”. The interviewee further observed that prior familiarity made it possible for members of the cooperative to “*listen to each other. If one [a member of the cooperative] comes with any idea we support her and hear what she says and support her moving forward*”. A cooperator from C2 said that one of the benefits of knowing each other prior to forming a cooperative was that they knew what to expect from each other.

Another factor that contributed to cooperation within cooperatives was trust. All interviewees that reported being happy with the extent of cooperation in their cooperatives noted that they trust each other. The interviewee from C19 observed, “*we trust each other in the cooperative which make us work together well*”. Commenting on trust, the interviewee from C14 cited the case of a member who delayed remitting funds generated by the cooperative. The interviewee noted that despite being angry at the delay, cooperators were convinced that the money would be paid eventually.

Some cooperators felt that smaller cooperatives were more conducive to cooperation and collaboration within a cooperative. According to the interviewees from C1, C12 and C19, cooperators know and cared about each other due to the small number of cooperators. The interviewee from C19 observed that in a small cooperative, a divergence of opinions was kept to a bare minimum.

Having cooperators with complimentary, albeit different skills, was identified as the fourth enabler of cooperation within cooperatives. For the interviewee from C12, *“coming together because of friendship is not the same as coming together because of skills. It is workable when you are together because of skills because you all love that thing. So we [C12] came together through skills”*. The interviewee observed that the possession of different skills makes cooperators value one another thus ensuring that they work together in achieving the goals of the cooperative.

For the interviewee from C8, cooperation is high among cooperators if one can ensure that only those with similar values and goals join the cooperative. A sharing of values and goals limits the potential for disagreement among members. Against this backdrop, the interviewee emphasised the importance of ensuring that only people with similar values form a cooperative. Although the interviewee from C19 did not implement this strategy in the formation of C19, he notes that its cooperators are committed to the same values of contributing to the community. He noted that, *“we [members of the cooperative] encourage one another that ‘let’s continue forward’ with giving to the people who have grown old, because even them they get happy when we go there to support them”*.

The interviewee from C2 argues that cooperation among members of C2 contributes positively to the growth of the cooperative. Among other things, cooperation can increase cooperators’ concern for the well-being of one another. In this regard, he reports that members of C2

[...] ended up being like a family. People could come and discuss their problems. A person can come and say that at my home I have a problem of this kind, it is like this and like this. You will sit down then and discuss the problems. Besides that, when we are ploughing we discuss, you advise each other, and help each other. We even try to

lift the spirit of one another. We encourage each other on how a person must live his/her life. That helped us a lot to get out of problems.

6.6.2 Barriers to Cooperation in Participant Cooperatives

Interviewees identified a number of barriers to cooperation among cooperators. These are summarised in Table 6.5 below. The most prevalent factor that inhibited cooperation among cooperators was a lack of trust. Interviewee from C7 narrated as follows the trust deficit in his cooperative: *“what became a huge problem [in his cooperative] was a lack of trust. People began to ask about what happened to the money but it helped that I kept the receipts. There were just all the receipts. We also bought a receipt book to record”*.

Table 6.5: Barriers to Cooperation in the Cooperatives

	Trust Deficit	Values	Laziness	Size	Communication
C1	✓	n/a	✓	✓	n/a
C2	n/a	n/a	✓	✓	n/a
C3	✓	n/a	n/a	n/a	n/a
C4	n/a	n/a	n/a	n/a	✓
C5	n/a	n/a	✓	✓	n/a
C6	n/a	n/a	n/a	n/a	n/a
C7	✓	✓	✓	✓	✓
C8	✓	n/a	n/a	✓	n/a
C9	n/a	n/a	✓	✓	n/a
C10	✓	n/a	n/a	n/a	✓
C11	n/a	n/a	n/a	n/a	n/a
C12	n/a	✓	✓	✓	n/a
C13	n/a	n/a	n/a	n/a	n/a
C14	n/a	n/a	n/a	n/a	n/a
C15	✓	✓	n/a	n/a	n/a
C16	✓	n/a	✓	✓	n/a
C17	n/a	✓	✓	✓	✓
C18	✓	n/a	n/a	n/a	n/a
C19	n/a	n/a	✓	✓	✓
C20	✓	n/a	✓	✓	n/a
C21	✓	n/a	n/a	n/a	n/a
C22	✓	✓	n/a	n/a	n/a
C23	✓	n/a	n/a	n/a	n/a
C24	✓	✓	✓	✓	n/a
C25	n/a	n/a	n/a	n/a	n/a
C26	✓	n/a	n/a	n/a	n/a

Source: Field Interviews

Like C7, the interviewee from C22 also expressed concern about a general lack of trust. The interviewee noted that cooperators were suspicious of each other to the point that cooperation was nearly non-existent. The interviewee further observed that subtle competition among cooperators in terms of who was best suited to lead the cooperative contributed to trust deficit. The interviewee expressed this concern by stating that *“even if I can trust them but as a person, I will never know what they are planning against me as the leader. I am sure all of them want this position”*. The interviewee from C24 also reported that he felt that the cooperators had no trust in his leadership capacity. The interviewee noted that only one cooperator trusted his leadership abilities and supported him. However, the death of this member compounded the trust deficit in the cooperative. This made him contemplate relinquishing his post as well as quitting the cooperative altogether.

Besides a general feeling of a lack of trust among cooperators, there was also a feeling that cooperators did not share common values and a common understanding of the cooperative. For instance, an interviewee from C17 reported that, *“people do not understand things the same way as you see things. People want the money to be split right away as we get it”*. The point that was made here is that some people joined the cooperative primarily because they wanted to benefit from government funds. Once funded, these cooperators are not interested in investing or partaking in the business aspect of the cooperative. They rather want their share of the money right away. Interviewee from C7 expressed a similar sentiment noting that members were not committed to the long-term goals of the cooperative. Balancing the short-term needs of the cooperators with the long-term goal of the cooperative was a dilemma for the cooperative. A general lack of common values made the interviewee from C17 rethink his willingness to work with other cooperators despite being passionate about working with people.

Interviewees identified laziness of cooperators as another barrier to cooperation. 11 of the 26 interviewees described cooperators as lazy. This sentiment is obvious in the excerpt taken from my interview with the interviewee from C5:

Most of the times we are lazy. Laziness makes us not to produce what the government request. Government, having requested the produce and given us even the resources. If we are not willing to work, we cannot do the work the right way. People are just lazy especially if a person pursues a mindset that he/she is in charge of the work.

According to the interviewee from C24, laziness among cooperators made it difficult for the cooperative to meet their production target. This interviewee also reported that she had to shoulder the responsibilities of the cooperative since others were too lazy to do their jobs. The interviewee further observed that cooperators *“do have ideas but they are lazy. They are lazy to even think. They don't want to think even though it is things they know; they just don't want to think carefully”*.

The size of cooperatives was also raised as a factor that undermined cooperatives. Some interviewees reported that getting many people to work together as a collective in the cooperative was bound to bring about tensions. The interviewee from C8 emphasised this issue, saying: *“when you are few it is good to work together because you know your work, that ok as so and so has done this it means that I have to do this”*. According to this interviewee, large membership implies that some cooperators can easily shirk their responsibility, free-ride and go unnoticed.

Another barrier to cooperation among cooperators was communication breakdown. Interviews from C4, C7, C10, C17 and C19 all noted communication breakdown among cooperatives that negatively affected the activities of their cooperatives. The interviewee from C10 cited cases of members missing meetings without informing others in advance. According to the interviewee, this absenteeism has resulted in meetings of the cooperative being cancelled multiple times with the implication that the cooperative now risks failing. Similarly, interviewee from C4 noted that members of the cooperative sometimes missed their turn to feed chickens without communicating this to others. As a result, the chickens are not regularly fed resulting in reduced quality. According to the interviewee, quarrels resulting from this lack of communication have affected cooperation among cooperators

6.7 Networks and Networking by Participant Cooperatives

In Chapter Three of this thesis, it was observed that networks and networking are mechanisms of collective action that can provide potential benefits for cooperatives. The concept ‘networks’ refers to organisational linkages consisting of horizontal and vertical ties between two or more organisations aimed at facilitating access to various resources and

lowering transaction costs. Among other things, Chapter Three showed that networks take on different forms, operate at different levels, and can bring forth different benefits. All 26 cooperatives were surveyed in order to determine the extent to which they pursue different networking activities. The findings are detailed in tables and narratives presented below. It will be shown that the concept of networks and networking is largely regarded by cooperatives as a synonym for collaboration that brings support to cooperatives. In fact, whether some of these relationships could even be defined as networks will be analysed more critically later.

Table 6.6 summarises the different types of networks in which each of the 26 cooperatives were participating. The four types of networks are: (1) networks between cooperatives; (2) networks between cooperatives and government; (3) networks between cooperatives and business; and (4) networks between cooperatives and NGOs. However, the discussion below will illuminate that the depth of the networks or the extent to which cooperatives network is questionable. The purpose of this section of the Chapter is to present the interviewees' responses to questions posed on the dynamics of their networking activities.

Table 6.6: Networks by Participant Cooperatives

	Networks between Cooperatives	Networks with Government	Network with Businesses	Network with NGOs
C1	n/a	✓	n/a	n/a
C2	n/a	✓	n/a	n/a
C3	n/a	n/a	n/a	n/a
C4	n/a	✓	n/a	n/a
C5	n/a	✓	n/a	✓
C6	✓	✓	n/a	n/a
C7	n/a	✓	n/a	n/a
C8	n/a	n/a	n/a	n/a
C9	✓	✓	n/a	n/a
C10	n/a	✓	n/a	n/a
C11	✓	✓	n/a	n/a
C12	n/a	✓	n/a	n/a
C13	✓	✓	✓	✓
C14	✓	✓	n/a	✓
C15	n/a	n/a	n/a	n/a
C16	n/a	✓	n/a	n/a
C17	n/a	✓	n/a	n/a
C18	n/a	✓	n/a	n/a
C19	✓	✓	n/a	n/a
C20	n/a	n/a	n/a	n/a
C21	n/a	✓	✓	n/a

C22	n/a	n/a	n/a	✓
C23	n/a	n/a	n/a	n/a
C24	n/a	✓	n/a	n/a
C25	n/a	✓	n/a	✓
C26	n/a	✓	✓	n/a

Source: Field Interviews

6.7.1 Networks with other Cooperatives

As shown in Table 6.6 above, only 23% (n=6) cooperatives reported networking with other cooperatives. Besides C13 and C14, networking among cooperatives was all informal and ad hoc. The interviewee from C11, a marketing cooperative, reported that because most cooperatives were small they could not be relied on to meet delivery targets. It was therefore not in his cooperative's interest to have formal agreements with other cooperatives knowing that the agreement will be breached. The cooperative therefore buys only what could be supplied at any point in time but finds alternative sources when cooperatives could not produce sufficient quantities.

Interviewees from C13 and C14 reported repeated interactions with other cooperatives. These cooperatives belong to an association comprising fourteen farmer cooperatives. Membership of the association entails payment of a compulsory registration fee of R50 (US\$4.7) and a monthly fee of R10 (US\$0.83). The fee provides access to services rendered by the association. Through the association, member cooperatives create strategic alliances instead of operating as isolated entities.

6.7.1.1 Benefits of Networking with other Cooperatives

Participants in this study listed a number of benefits of networking with other cooperatives. These are broadly encapsulated in Table 6.7 below. Although only 6 cooperatives reported networking with other cooperatives, those that were not networking with other cooperatives were also asked to indicate what they think are the potential benefits of networking with other cooperatives. The Table presents interviewees' views in terms of both actual and potential benefits of networking.

Table 6.7: Benefits of Cooperation with Other Cooperatives

	Access to Market	Sharing of resources	Access to information	Diversification of produce	Skills and knowledge transfer
C1	✓	✓	n/a	n/a	n/a
C2	n/a	✓	n/a	✓	n/a
C3	n/a	n/a	✓	n/a	✓
C4	n/a	n/a	n/a	n/a	n/a
C5	n/a	n/a	n/a	n/a	n/a
C6	✓	✓	✓	n/a	n/a
C7	n/a	✓	n/a	n/a	✓
C8	n/a	n/a	n/a	n/a	n/a
C9	✓	✓	✓	✓	n/a
C10	n/a	✓	n/a	n/a	n/a
C11	✓	✓	n/a	✓	n/a
C12	n/a	n/a	n/a	n/a	n/a
C13	✓	n/a	✓	n/a	n/a
C14	✓	n/a	✓	n/a	n/a
C16	n/a	n/a	n/a	n/a	n/a
C17	n/a	n/a	n/a	n/a	n/a
C18	n/a	n/a	n/a	n/a	n/a
C19	n/a	✓	n/a	n/a	n/a
C20	✓	n/a	n/a	n/a	n/a
C21	n/a	n/a	n/a	n/a	n/a
C22	✓	n/a	n/a	n/a	n/a
C23	✓	n/a	n/a	n/a	n/a
C24	n/a	n/a	n/a	n/a	n/a
C25	n/a	✓	n/a	n/a	n/a
C26	n/a	n/a	n/a	n/a	✓

Source: Field Interviews

Of the six cooperatives networking with other cooperatives (see Table 6.6), four reported associated benefits. Access to market was a benefit derived by C13 and C14. Both cooperatives reported that they supply their produce to a marketing cooperative.

For C6, C9 and C11, access to the produce of other cooperatives was the primary benefit of networking with other cooperatives. For instance, interviewee from C6 (a cooperative that provides feeding services to schools) reported that the cooperative gets most of its vegetables from a women's cooperative. Similarly, C11, which was established as a marketing cooperative, gets supplies from other cooperatives.

Access to information was a benefit for C19. According to the interviewee from the cooperative, the cooperative meets with other cooperatives to discuss common challenges and

share ideas about available opportunities. Similarly, the interviewee noted that their network also entailed sharing of farm inputs. He stated that, “*we encourage each other on how we should work. Sometimes, we get seeds from the government then we divide the seed among ourselves and go to plow*”.

Both C13 and C14 also reported that their ongoing relationships with other cooperatives have kept them informed and up to date regarding potential government opportunities. According to the interviewees, members of the association of cooperatives to which they belong meet regularly to share information about challenges and opportunities. Being part of the association therefore reduces the cost of information search.

Besides the six cooperatives that reported networking with other cooperatives, others identified possible benefits of networking. The interviewee from C26 expressed optimism about the benefits that could be gained from harnessing the “*different skills and knowledge*” among networking cooperatives. This view is evident in the following excerpt:

Yes, it [networking among cooperatives] will help because people have different skills and knowledge. Like me, I have experience in feeding cows and chickens, and so I can feed pigs. I can handle any problem with feeding scheme. We can benefit if we share knowledge with other coop. This will lead to better life for everyone.

According to the interviewee from C7, networking could provide an avenue where established cooperatives could assist emerging ones. The interviewee observed that established cooperatives possibly had experienced challenges that emerging ones were experiencing. Networking will provide support for emerging cooperatives, so they can avoid making mistakes similar to those made in the past by the established cooperatives.

For interviewee from C9, a lot can be gained from networking among cooperatives. The interviewee observed that if cooperatives work together and create alliance, they could become successful. He cited the possibility of C9 becoming a consumer cooperative for other smaller cooperatives. The interviewee noted that they would do this through bulk purchases, which will be retailed to member cooperatives at reduced prices. The interviewee made this point by stating that, “*the market that we have is big. That is why now we say, for cooperatives that are around this area it is better that they get their supplies from us instead*

of leaving and going to Joburg [Johannesburg] and Limpopo to buy carrots”. The interviewee further noted that

We [the cooperative] are able to be an umbrella for them, just like buying the seeds, because we buy in bulk. What can I say? We are able to develop; we are reliable to the customers. They buy small bottle of the chemical with a big amount of money but we are able to get it in bulk. If we buy twenty Kg or twenty Litres, then we sell it to them at the right price.

Diversification of cooperatives, according to the interviewee from C2, is a possible benefit of network among cooperatives. The interviewee noted that this was an important benefit since most cooperatives focus only on producing similar goods that makes marketing difficult. The interviewee therefore advised that it was important for cooperatives to diversify into providing services such as fertilisers, tractors, and farm implements for hire.

Interviewee from C1 also stated that networking could bring about positive outcomes for cooperatives. The interviewee expressed this in the following excerpt: “*we can use their things and they can use our things when they need them. That means we will not have to buy everything ourselves. They can pay us small money or we pay them when we use their things*”. By working together in this way, the interviewee believes that network will be beneficial to all partners. Just like C1, C2, and C10, interviewee from C11 acknowledged that there were possible benefits of networking among cooperatives. The interviewee expressed these benefits in the following excerpt:

You see I don't know who's thinking that or who might think that way you see; but yes; if they can come together and have one cooperative doing the land security or the fencing of the land, having another coop having skills, having equipment, and another cooperative addressing the issue of funding. Maybe their problem will be easily addressed.

Although networking with other cooperatives had the potential to produce positive outcomes, interviewee from C4 remarked that such networking should take place with secondary cooperatives. The view was informed by the conviction that secondary cooperatives were “*...established, owned their things and have more experiences to help other cooperatives*”.

Interviewee from C2 expressed a similar view noting that it did not make sense to network with small primary cooperatives since the cooperative will not gain anything from such collaboration.

Cooperatives that were not networking with other cooperatives at the time of interview expressed varying views about their preferred form of networks. The predominant view was that it should be informal and should continue as long as partners were benefiting and were happy with the arrangement. However, the interviewee from C4 (an agricultural cooperative) was of the view that networks with other cooperatives should be mainly formal. The interviewee stated that it was important to have everything clearly set out from the beginning to avoid disagreements. This, the interviewee noted, will ensure that cooperatives are appropriately informed of their rights and responsibilities and only those who are committed should be part of the network.

6.7.1.2 Barriers to Networking with other Cooperatives

The interviews with the 26 cooperatives uncovered a number of barriers to networking with other cooperatives. Table 6.8 identifies 7 barriers to networking with other cooperatives. Each of these will be discussed below.

A general lack of trust was regarded as the most prevalent barrier to networking with other cooperatives. Although C1 was selling its farm produce to a marketing cooperative, the interviewee noted that the cooperative has been hesitant to work with any other cooperative. According to the interviewee, the cooperative was working with the marketing cooperative primarily because it was an outlet for their produce. When prodded to explain whether the cooperative will network with other cooperatives, he said; *“you see, these other people forming coops, you never know what they are thinking. They might just want to compete and make you feel that they are better”*.

Table 6.8: Barriers to Networking with Other Cooperatives

	Trust deficit	Differing Values	Geographic Distance	Lack of information	Free Riding	Political interference	Capacity
C1	✓	n/a	n/a	✓	n/a	n/a	✓
C2	n/a	✓	✓	✓	n/a	n/a	✓
C3	✓	n/a	n/a	n/a	n/a	n/a	n/a
C4	✓	✓	n/a	n/a	n/a	✓	✓
C5	✓	n/a	n/a	n/a	n/a	n/a	n/a
C6	✓	✓	n/a	n/a	n/a	n/a	✓
C7	✓	✓	✓	✓	✓	n/a	n/a
C8	n/a	✓	n/a	n/a	n/a	n/a	n/a
C9	✓		n/a	n/a	n/a	n/a	n/a
C10	n/a	✓	✓	n/a	✓	n/a	n/a
C11	n/a	✓	n/a	✓	✓	n/a	✓
C12	✓	✓	n/a	n/a	✓	n/a	n/a
C13	✓	n/a	n/a	n/a	n/a	n/a	n/a
C14	✓	n/a	n/a	n/a	n/a	n/a	n/a
C15	n/a	✓	n/a	n/a	✓	n/a	n/a
C16	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C17	n/a	n/a	✓	n/a	n/a	n/a	n/a
C18	✓	n/a	n/a	✓	✓	n/a	n/a
C19	n/a	n/a	n/a	n/a	✓	n/a	n/a
C20	n/a	n/a	n/a	n/a	✓	n/a	n/a
C21	✓	✓	n/a	n/a	n/a	n/a	n/a
C22	✓	n/a	n/a	✓	n/a	n/a	n/a
C23	✓	n/a	n/a	n/a	n/a	n/a	n/a
C24	✓	n/a	n/a	n/a	n/a	n/a	n/a
C25	n/a	n/a	✓	n/a	n/a	n/a	n/a
C26	✓	n/a	n/a	n/a	✓	n/a	n/a

Source: Field Interviews

Like the interviewee from C1, the interviewee from C22 expressed concern about a lack of trust when it comes to networking with other cooperatives. The interviewee from C26 also felt that there was a general lack of trust among cooperatives. He was quite concerned about the issue of trust, stating, *“if you just take a look, how will you work with other cooperatives you do not really trust yet? Wow! I do not trust it [networking] yet. I do not trust them”*. This interviewee emphasised the importance of trusting people before forging any network. According to the interviewee, failure to recognise trust deficit might result in cooperatives destroying each other over disagreements. Previous failed attempts at networking further fueled his reservations. According to the interviewee, his cooperative’s previous attempt to network with another cooperative was a waste of time and they derived no benefits from it. The interviewee from C3 raised a similar concern, noting that, *“I do not trust it [networking]*

yet. I do not trust it. Working with other cooperative is a very good thing but now I am worried that I will take the people and drown them”.

Similar to the above views, the interviewee from C4 noted that although the cooperative had no problem networking with others in principle, the fact that there was a lack of trust among cooperatives was a major concern. To address this problem, he noted that there is a “*need to increase the level of trust that is there, we need to trust each other because that could help us. You cannot operate in those ideas of thirty years ago because the cooperative is operating on the new attitude* [implying that cooperatives are operating in a new and open environment contrary to the apartheid era when the society was divided]”. For the interviewee from C23, a change of attitude from being competitive to cooperative was key to successful networking among cooperatives. Similarly, the interviewee from C9 stressed the need for increased trust among cooperatives. The interviewee stated that distrust had prevented cooperatives from networking with one another.

Another commonly cited problem was a lack of shared common values among cooperatives. Some interviewees felt that cooperators in many other cooperatives did not share the long-term goals and objectives of collaboration, but were only interested in short-term financial gains. Interviewees from C2, C10, C12, C15 and C21 claimed that cooperatives will only work together if they are to benefit financially. The interviewee from C10 expressed his frustration with monetary gains as incentive for networking stating that, “*it is just that other cooperatives come with an idea that they will get money. As there is just no money yet, no one wants to get closer but once there is money, you will see them coming*”. The interview from C21 corroborated this concern, noting that cooperatives would ordinarily not want to work together because they are not keen on networking. For the interviewee, relying on monetary incentive as the basis for networking could be dangerous since cooperatives might resort to fighting with each other once there was no more money. In light of this possibility, the interviewee stated that it was better they work alone.

There was also concern that some cooperatives might influence the values of other cooperatives. For instance, C4 noted that they have heard about other cooperatives bribing government officials in order to get support. According to the interviewee, networking with such cooperatives will expose them to the risk of becoming tainted with this kind of practice.

The interviewee from C11 reported that cooperatives do not see the value of networking with other cooperatives. According to the interviewee, cooperatives often see each other as competitors. The interviewee from C26 reiterated a similar sentiment, stating that, “*I have seen many [cooperatives] destroy each other*”. According to the interviewee from C24, competition among cooperatives has resulted in cooperatives hiding information from others. The interviewee made this point as follows: “*The government has given us opportunities. Opportunities come up and we black people hide things from each other and exclude each other*”.

The large geographical distance between cooperatives was another barrier to networking among cooperatives. Cooperatives such as C7, C10, C17, and C25 struggled to interact with other cooperatives because they were far removed. The interviewee from C25 noted the challenge of geographical distance, stating that the cooperative “*won’t be able [to network with other cooperatives], because we are divided into three sections. You see, we are 7 in our section, some are 4, and I do not know about the others in their section.*” Interviewees from both C17 and C25 reported that they decided to work alone since it was not profitable to travel over long distances to network with other cooperatives.

Related to long distances between cooperatives is a lack of information about other cooperatives. For the interviewee from C2, it was not possible to work with cooperatives that they did not know. According to this interviewee, it was important to know enough about a cooperative, its goals and values, before any collaborative endeavour. The interviewee from C7 expressed a similar sentiment by saying that “*they [other cooperatives] do not know us, we do not know them and then I do not have knowledge of what way that we must communicate.*”

Like the interviewees from C2 and C7, the interviewee from C11 was concerned about the problem of communication when it comes to working with other cooperatives. The interviewee cited a number of occasions when there had been a communication breakdown between them and other cooperatives. Such communication breakdowns, according to the interviewee, resulted in either late or non-delivery of produce which had an adverse effect on its supply of vegetables. In response to this, the interviewee was of the opinion that it was better to work with private businesses instead of cooperatives since private businesses are more reliable in meeting delivery targets as well as informing the cooperative in advance when there were challenges.

Another challenge limiting networking activities among cooperatives was concern about some cooperatives free-riding on the efforts of others. Although the interviewee from C10 was concerned about the demands that come with working with other cooperatives, his primary worry was that some cooperatives were not contributing to joint activities or initiatives. The interviewee observed that this created a situation whereby one cooperative carries the burden of others. The interviewee stated that, *“if we work with them, the load will increase now and it will be big problems for all of us. If we are going to work with any cooperative, it is better that they come with all that we are going to need. If not, they may come with an overload of problem that we cannot lift”*. For the interviewee, this workload might overburden the cooperative resulting in the collapse of network.

Although this was not a commonly cited issue, interviewee from C4 dwelt extensively on the need to eliminate religious and political influences in networking activities among cooperatives. The interviewee observed that cooperators tend to see cooperatives through the lens of religion and as a result, some cooperators are unwilling to work with those from other religious groups. According to the interviewee, the reluctance was because some religious communities see themselves as being better than others and are unwilling to work with people from other religious groups.

Like religion, politics was considered to be a factor that affects networking among cooperatives. The view here is that networking is seen as an avenue to demonstrate political allegiances. This makes it difficult for cooperators from different political affiliations to work together. The interviewee from C4 expressed this view in the following excerpt:

People in business need to understand that although [different] political affiliations exist, in business we are one. Our main goal in business is success. If you are affiliated to a political party that is fine. But the problem is that party affiliations have effects in businesses...we need to come together; we need to understand that our political affiliations have nothing to do with business. They are just there but when it comes to business it will help all the coops to come together, work together, so that that stigma will just die.

Lack of capacity was also identified as a barrier to networking among cooperatives. The interviewee from C2 observed that the cooperative was not strong enough to network with

others. The reservation here was that networking with other cooperatives at its early stage of existence would be too overwhelming and would result in its failure. The interviewee also observed that the status of the cooperative implied that it had little to contribute to any form of network with other cooperatives. As a result of the above considerations, the interviewee noted that C2 decided to work alone.

Like C2, the interviewee from C1 reported a lack of capacity as a barrier to networking with other cooperatives. In recognition of their lack of capacity, the interviewee stated that, “*we do not have much to give them [other cooperatives]. So it may happen, maybe later.*” Although C11 was networking with other cooperatives, the interviewee noted that a lack of capacity was a hindrance to the quality of network. His interpretation of a lack of capacity was a cooperative’s inability to meet its delivery targets. The interviewee observed that as a marketing cooperative, its business is negatively impacted when cooperatives fail to deliver. A similar concern was raised by the interviewee from C6 who noted that the cooperative does not rely exclusively on other cooperatives for its produce. The interviewee reported that what “*what we buy depends on what they have at that time*”.

6.7.2 Networks with Businesses

Networks between cooperatives and businesses is another dimension of network explored in this study. As discussed in Chapter Three of this thesis, networking with businesses has the potential to contribute to the success of cooperatives in terms of reducing transaction costs, providing linkage opportunities as well as access to resources. The interviews aimed to determine the perceptions of the 26 cooperatives regarding the benefits they derived, as well as the barriers they face in networking with business. These are discussed below.

Of the 26 interviewed, only 3 (C13, C24 and C26) reported networking with businesses. The interviewee from C10 noted that the cooperative was launched recently and was not networking with any private institution as it was only working with government. However, the interviewee stated that plans were under way for future networking with businesses. When asked to explain how the cooperative intended to network with business, he stated that they will approach local businesses and ask for donations. The interviewee from C12 noted that they, too, have sought out networking opportunities with business in their locality by asking for donations.

The interviewees from C13 and C26 reported networking with businesses in their respective communities, while C24 was supplying Shoprite and Boxers (two national chain stores). All the three interviewees reported that there was no formal agreement with any of their network partners. For instance, the interviewee from C24 observed that they call Shoprite and Boxers when they have produce to deliver, and arrange a delivery schedule.

6.7.2.1 Benefits of Networking with Businesses

The three cooperatives that currently network with businesses listed only two associated benefits: (i) access to markets; and (ii) access to inputs. Both interviewees from C13 and C24 noted that they have been supported in marketing their produce. The interviewee from C13 reported that *“through communication with the farmer [a private businessman in the community], we got a market. At least then it helps us because we are now able to sell our produce not like before that they remain and spoil”*.

Table 6.9: Benefits of Cooperation with the Private Sector

	Access to markets	Access to inputs
C13	✓	n/a
C24	✓	n/a
C26	n/a	✓

Source: Field Interviews

For C26, access to inputs has been the benefit his cooperative has derived from networking with businesses. According to the interviewee from C26, a local commercial farmer provides them with chicks and feeds on loan. The interviewee noted that this was beneficial to the cooperative since without it, *“the cooperative will not be able to operate since there is no money for chicks and feed”*. When asked if there was a formal agreement with the farmer, the interviewee reported that the farmer knew the cooperators and there was therefore no formal agreement.

6.7.2.2 Barriers to Networking with Businesses

The interviews showed that there were four broad barriers to networking with businesses. These are summarised in Table 6.10 below. Although the table presents responses from the 26 interviews, some of the interviewees reported unable identify any challenge citing lack of previous networking with businesses.

Table 6.10: Barriers to Cooperation with Businesses

	Lack of trust	Lack of benefits	Lack of interest	Lack of experience
C1	n/a	n/a	n/a	n/a
C2	n/a	n/a	n/a	n/a
C3	n/a	n/a	n/a	n/a
C4	✓	n/a	✓	n/a
C5	✓	✓	✓	n/a
C6	✓	✓	n/a	n/a
C7	✓	n/a	✓	n/a
C8	✓	n/a	n/a	n/a
C9	✓	✓	n/a	n/a
C10	✓	n/a	n/a	✓
C11	n/a	n/a	n/a	n/a
C12	n/a	n/a	n/a	✓
C13	n/a	n/a	n/a	n/a
C14	✓	✓	✓	n/a
C15	n/a	✓	✓	n/a
C16	✓	n/a	n/a	✓
C17	n/a	✓	✓	n/a
C18	n/a	n/a	n/a	n/a
C19	n/a	n/a	n/a	n/a
C20	✓	n/a	n/a	n/a
C21	✓	n/a	n/a	✓
C22	n/a	n/a	✓	n/a
C23	n/a	n/a	n/a	n/a
C24	n/a	n/a	n/a	n/a
C25	✓	n/a	n/a	n/a
C26	n/a	n/a	n/a	n/a

Source: Field Interviews

The first and most cited barrier to network with businesses was a lack of trust. Some interviewees expressed that businesses were not honouring agreements. For example, C14 had an understanding to supply potatoes to a local business. The interviewee pointed out that their potatoes went bad on the farm because the businessperson refused to take them when they made delivery. The interview narrated the ordeal of the cooperative in the following excerpt:

The member went to a local businessman and he told the member to farm for him. We farmed enthusiastically knowing we are farming for a person who is going to take in bulks but the food is rotting now and he [the businessperson] has distanced himself.

In recognition of the challenge of a lack of trust, the interviewee from C4 emphasised the need to reinforce trust between cooperatives and businesses. The interviewee noted that, *“the level of trust should be improved. That is the very sensitive one in as far as I am concerned”*. For the interviewee, cooperatives will not be able to network or benefit from networking with businesses as long as there is continued trust deficit.

A lack of benefits was another barrier to cooperation with business. According to the interviewee from C14, there was no benefit associated with networking with businesses since the benefits of networking were enjoyed exclusively by businesses. For this interviewee, networking with businesses entails merely working for these businesses. The interviewee from C6 raised a similar concern about not benefitting from networking with business. In relating this point, the interviewee stated: *“you know what, this wholesale where we buy from, we have even stopped buying from them. We have been buying from these people that do not care”*. The interviewee observed that the cooperative no longer networks with any business for two reasons. Firstly, there was no discount on bulk purchases. Secondly, poor quality items were routinely sold to the cooperative. For the interviewee, this kind of treatment made it difficult to appreciate the value of continued networking.

Lack of interest from businesses was the third barrier to cooperation. Interviewee from C15 cited the case of a local business that supplies potatoes to schools but refused to buy from the cooperative. The interviewee observed that, *“the local businesses do not help us in any way. So we are struggling on our own. Here in the community, there are businesses that supply schools but they do not come and support us and buy our potatoes”*. A further exploration of the above revealed that the interviewee felt that businesses do not want to network with them for racial reason. According to the interviewee, local businesses expected them to kneel and beg before they buy their produce. She rhetorically asked: *why should we beg those who are not our kind? Why should we have to go kneel in front of them and say here is our food?*

Interviewee from C5 reported that businesses did not consider cooperatives to be serious about business. The interviewee attributed this view to previous encounters between businesses and cooperatives during which cooperatives did not implement businesses agreements. Interviewee from C14 expressed a similar view, pointing out that businesses *“think that we are not true business people. For them, we are just there to cause trouble for*

them". According to this interviewee, this negative view persists despite their commitment to sound business principles.

Another barrier to networking with businesses was relative lack of experience on the part of cooperatives. The interviewee from C21 pointed out that their attempt to network with Mondi²⁴ and Sappi²⁵ had been difficult since the level of experience required was beyond the cooperative. According to the interviewee, high expectations often resulted in the exclusion of emerging cooperatives from available opportunities in these companies. To address this problem, the interviewee recommended that companies such as Mondi and Sappi "*must also try and give chances to people like us who are still growing so that we will be able to show the way we work. They should not limit us by saying that they want a person who has this much experience*". The argument here is that the level of experience expected of cooperatives should not be the equivalent of other service providers since most cooperatives are new and lack the required years of experiences. As cited earlier, C10 and C12 regarded approaching business for funding or loans as networking. This could be an indication of a lack of experience in what constitutes networking, and how to go about networking with business.

6.7.3 Networks with Non-Governmental Organisation (NGOs)

In Chapter Three, it was noted that NGOs, particularly those in the development sector, provide important support to cooperatives. The interviews aimed to determine the extent to which cooperatives network with NGOs. In addition, the aim was to determine whether the cooperatives benefited from such networking activities. Of the 26 cooperatives that participated in the study, only 5 reported networking with NGOs. Two of these (C13 and C14), have networked with Thembaletu Development²⁶ while C5, C22 and C25 have networked with Lima.

²⁴ Mondi is a paper milling and packaging company with a global footprint. It is a large employer of labour in South Africa, particularly in the KwaZulu Natal area where it has a large footprint in the forestry industry. Mondi contracts some of its service to independent contractors. It is this opportunity that the cooperative hopes to benefit from. More information about the company can be found at <http://www.mondigroup.com/desktopdefault.aspx/tabid-349/>

²⁵ Sappi is a global actor in the wood pulp industry. The company also has a large footprint in KwaZulu Natal where it contracts some of its activities to independent contractors. It is this opportunity that the cooperative hopes to benefit from. More information about the company can be found at <http://www.sappi.com/regions/sa/Pages/default.aspx>

²⁶ Thembaletu Development is a non-profit organisation established in 2002. Its primary aim is to become "the socioeconomic development agency of choice for the mining industry, government, the corporate private sector

6.7.3.1 Benefits of Networking with Non-Governmental Organisations

Cooperatives that have networked with NGOs listed three key benefits: (i) education and training; (ii) inputs; and (iii) market linkage. Interviewees from C13 and C14 listed education and training as benefits of networking with Thembaletu Development. The Interviewee from C25 also reported that members of the cooperative were trained by Lima in farming practices.

Another benefit of networking with NGOs was linkage to markets. The interviewee from C13 stated that, “*through Lima, we now have a market to sell our things*”. For the interviewee from C5, the cooperative has benefited from Lima through the 25 employees employed and remunerated by Lima. According to the interviewee, this has contributed significantly to the success of the cooperative. Similarly, the interviewee from C25 noted that “*it was Lima who fenced the garden and did everything*”.

Table 6.11: Benefits of Cooperation with Non-Governmental Organisations

	Education & training	Inputs	Linkage
C5	n/a	✓	n/a
C13	✓	n/a	✓
C14	✓	n/a	n/a
C22	n/a	n/a	n/a
C25	✓	✓	n/a

Source: Field Interviews

6.7.3.2 Barriers to Networking with NGOs

Only the interviewees from C20 and C25 raised concerns about networking with NGOs. The interviewee from C20 reported the failure of NGOs to consult cooperatives as a barrier to network. The interviewee noted that the NGOs “*come to the community with their own agenda and don’t like listening to coops*”. According to the interviewee, lack of consultation resulted in differences in opinion in terms of the challenges facing cooperatives and how these can be addressed. The interviewee noted that the cooperative was not networking with NGOs due to these differences. For C25, the termination of Lima’s support was a challenge for the cooperative. According to the interviewee, the cooperative will struggle to survive since it largely relied on Lima in the past.

and international donors”. The organisation has footprints across South Africa, Mozambique, Lesotho and Swaziland. More information about the organisation can be found at <http://www.thembalethudev.org>.

6.7.4 Networking with Government

The initial intent of this section was to describe the networking activities between the 26 cooperatives and government. Of particular interest to this study were the perceptions that emerged from the respective cooperatives when they were asked whether they network with government departments or government agencies. The cooperatives all shared a common perception of the role of government in such a network: government is there to provide support to the cooperatives. Therefore, when members of cooperatives were asked whether they benefited from networking with government, their immediate interpretation of the question was: *did they receive government support, and in what way?* When asked what the barriers were to networking with government, the question was interpreted as: *what are the barriers to government support?* The cooperatives offered many recommendations of how government could improve their ‘networking’, or in their minds, *support*. Their responses have considerable significance for the outcome of this research and will be deliberated upon at length in the final analysis of this study. This section of the Chapter details responses of interviewees according to the broad themes that emerged during the interviews.

Of the 26 participant cooperatives, approximately 81% (n=21) indicated that they network with government either through government departments or its development agencies. Table 7.12 shows the different government departments and agencies that cooperatives have networked/are networking with. The departments and agencies include: The Department of Economic Development, Tourism and Environmental Affairs (DEDTEA), The Department of Trade and Industry (DTI), The Department of Agriculture (DoA), The Department of Social Development (DSD), The Department of Education (DoE), The Department of Health (DoH), The National Development Agency (NDA), The Small Enterprise Development Agency (SEDA), The Cedara Agricultural College (CEDARA), and The iThala Development Financial Corporation (iThala). Table 6.12 shows that while cooperatives such as C9, C17 and C18 have networked with multiple government departments, others such as C1, C3 and C8 have not networked with government.

Table 6.12: Networks with Government Departments & Agencies

	DEDTEA	DTI	SEDA	DoA	DSD	iThala	DoE	NDA	CEDARA	DoH
C1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C2	n/a	n/a	n/a	✓	n/a	n/a	n/a	n/a	n/a	n/a
C3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C4	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C5	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C6	n/a	n/a	n/a	n/a	n/a	✓	✓	n/a	n/a	n/a
C7	n/a	n/a	n/a	n/a	n/a	✓	n/a	n/a	n/a	n/a
C8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C9	✓	n/a	n/a	n/a	n/a	✓	n/a	n/a	n/a	n/a
C10	✓	n/a	✓	n/a	n/a	n/a	n/a	n/a	n/a	✓
C11	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	n/a	n/a
C12	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C13	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C14	n/a	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C15	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C16	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C17	n/a	✓	✓	✓	✓	✓	n/a	n/a	n/a	n/a
C18	n/a	n/a	✓	n/a	✓	n/a	n/a	n/a	n/a	n/a
C19	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	n/a
C20	n/a	n/a	✓	n/a	n/a	n/a	n/a	n/a	✓	n/a
C21	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C22	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C23	n/a	n/a	n/a	✓	n/a	n/a	n/a	n/a	n/a	n/a
C24	n/a	n/a	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C26	n/a	n/a	✓	n/a	n/a	✓	n/a	n/a	n/a	n/a

Source: Field Interviews

6.7.4.1 Benefits of Networking with Government

The interviewees’ responses were interesting with regard to perceptions of what networking with government entails. As stated above, approximately 81% of the cooperatives said that they ‘network’ with government. The responses pertain mainly to government support to cooperatives. The interviewees identified four main benefits they derived from ‘networking’ with government departments and agencies. These are summarised in Table 6.13 below.

The interviewee from C26 listed assistance with the development of business plans for the cooperative as a benefit of networking with SEDA. SEDA assisted C17 in applying to the DTI for registration. C21, C23 and C24 also received support in terms of education and training from SEDA. According to interviewee from C23, SEDA “*provided training about cooperatives that we supposed to have equality.*” The DEDTEA has also played a role in providing education and training to cooperatives. The interviewee from C6 noted that, “*when we had training, there was even the Department of Economic Development. It was the*

Department that gave us the training for launching the cooperative”. Both C19 and C20 have been assisted by CEDARA²⁷ in the acquisition of new agricultural skills.

Table 6.13: Benefits of Cooperating with Government

	Education & training	Linkage to market	Inputs/funding	Conflict resolution
C1	n/a	✓	n/a	n/a
C2	n/a	n/a	✓	n/a
C3	n/a	n/a	n/a	n/a
C4	✓	n/a	n/a	n/a
C5	✓	✓	✓	n/a
C6	✓	n/a	✓	n/a
C7	✓	✓	✓	n/a
C8	n/a	n/a	n/a	n/a
C9	n/a	n/a	✓	n/a
C10	n/a	✓	✓	n/a
C11	n/a	✓	✓	n/a
C12	n/a	✓	✓	n/a
C13	✓	n/a	✓	n/a
C14	✓	✓	✓	n/a
C15	n/a	n/a	n/a	n/a
C16	n/a	n/a	n/a	n/a
C17	✓	✓	✓	✓
C18	n/a	n/a	✓	n/a
C19	n/a	n/a	n/a	n/a
C20	n/a	n/a	✓	n/a
C21	✓	✓	n/a	n/a
C22	✓	n/a	n/a	n/a
C23	✓	n/a	✓	n/a
C24	✓	n/a	n/a	n/a
C25	n/a	n/a	✓	n/a
C26	✓	✓	n/a	n/a

Source: Field Interviews

Linkage to market was another benefit cited. This was often translated as cooperatives being granted tender opportunities. Interviewees from C1, 10 and C21 in particular identified this benefit. The interviewee from C21 was explicit on this point, noting that, “*they [the government] sometimes advertise in the newspapers that they have such and such work. The co-operatives that are interested can then apply. They can come with tender documents that they sign*”. The award of tenders to cooperatives provided market opportunities for the cooperative. Interviewee from C5 reported that the DEDTEA has assisted in linking it to market opportunities. According to the interview, the DEDTEA often contacts them to display their wares at exhibitions. The interviewee noted that this opportunity has provided them with linkages to markets.

²⁷ CEDARA is an agricultural college funded by the Department of Agriculture and Rural Development. Refer to <http://www.kzndae.gov.za/Colleges/Cedara.aspx> for more information.

Cooperatives also listed access to funds as benefits of networking with government. iThala Development Financial Corporation Limited funded most of the cooperatives. The interviewee from C17 observed that the cooperative received R25, 000 (US\$2265.39) from iThala for its business. The interviewee reported that the cooperative used the fund to purchase farm implements such as hoes, rakes, and wheelbarrows. Besides iThala, the NDA and the DEDTEA also fund cooperatives. The interviewee from C11 noted that the cooperative was funded by the NDA while C5 has been funded by DEDTEA

Cooperatives that had not yet received funds were anticipating government funding. These cooperatives were relying on funds from government to engage in businesses activities. This was the view of the interviewee from C10 who noted that, *“if the government can put money that can help, even the unemployed youth will be able to stand on their own and launch their own businesses that will be great”*.

Access to inputs was another benefit of networking with government. This benefit was mainly for cooperatives operating in the agricultural sector. For instance, the government has supported C2 with fertiliser. In addition, the DoA assisted the cooperative in fencing its farm. Similarly, the interviewee from C10 reported that SEDA assisted it to gain support from the DoA to fence its farm.

C23 has also been supported with inputs through its network with government. The interviewee from C23 noted this point stating that, *“we are collaborating very well with the government because even the departments of the government come to check us and give us the seeds. Sometimes, we go and buy by ourselves and for ourselves but other seeds the departments of government come with”*. The government has also supported C18 with farm inputs. The interviewee from the cooperative reported that, *“as women we started the cooperative with the help of the Department of Social Development who supported us with the machines”*.

Conflict resolution was also identified as a benefit of networking with government. According to the interviewee from C17, the DEDTEA played a vital role in resolving conflict among cooperators.

Besides already having obtained government support, some interviewees anticipated further government support. For example, they were anticipated the following support: building of animal pens, funding their operations, acquisition of land, linkage to market and provision of training. Their expectation of additional support was based on the view that existing government funding was not sufficient to cover the cost of establishing and running their cooperative. This was why the interviewee from C11 noted that although government funded the cooperative, it was not operating optimally because the funds received to date were not sufficient for the cooperative to grow or develop.

For the interviewee from C16, it was important that government assist cooperatives to qualify for loans from commercial banks. Although the interviewee could not provide any recommendation on how government can do this, he noted that government should urgently assist cooperatives when they apply for loans.

For the interviewee from C11, diversification of cooperatives is a role that the government needs to play. The interviewee observed that, *“the government can introduce some other types of business where people can come together and be developed instead of everybody farming”*. This statement was in recognition of the predominance of agricultural cooperatives.

Cooperatives also expect government to provide more training on sound agricultural practices. The interviewee from C2 noted that supporting cooperatives in this manner would enable them to increase yields thus generating more profit. The interviewee from C24 wants government to support cooperatives in setting up their business. The interviewee noted that, *“if the government could help build a mortuary for us, we will know that the only thing left is to hire the car/hearse because we do get the coffins nearby”*. For the interviewee from C25, government needs to support the cooperative in ploughing its field. The interviewee pointed out that members of the cooperative were old and unable to till the land manually. Besides the above forms of support, the interviewee from C26 noted that government should pay the members of the cooperative a salary since the cooperative was not generating any income for cooperators.

For interviewee from C5, it was important that government carry out research to understand why people are not willing to work together. The interviewee noted that knowledge generated

from this research should be used to help improve trust and team spirit among cooperatives. Similarly, interviewee from C26 emphasised the need for government to come up with a strategy that will facilitate trust building. Furthermore, the interviewee from C7 stated that, “as for me, I would be happy if the government can make an effort to make the cooperative work together with businesses and the municipality to ensure cooperation.”

6.7.4.2 Barriers to Networking with Government

To enhance the quality and benefits of networking with government, it is important to identify current barriers to collaboration. To this end, interviewees were asked to identify factors that negatively affect their collaboration with government. Analysis of interviews uncovered eight barriers to networking with government. In the following sub-section, I present these barriers.

Table 6.14: Barriers to Networking with Government

	Delays/non-response to request	Trust Deficit	Lack of Monitoring	Communication /information Sharing	Distance to Support centres	Consultation
C1	✓	✓	n/a	✓	n/a	n/a
C2	✓	✓	n/a	✓	n/a	n/a
C3	n/a	n/a	n/a	n/a	n/a	n/a
C4	✓	✓	✓	n/a	✓	n/a
C5	n/a	n/a	✓	n/a	n/a	n/a
C6	n/a	✓	✓	✓	n/a	n/a
C7	✓	n/a	✓	n/a	✓	✓
C8	n/a	✓	n/a	n/a	n/a	n/a
C9	n/a	✓	n/a	✓	n/a	✓
C10	n/a	✓	✓	n/a	✓	n/a
C11	✓	n/a	n/a	n/a	n/a	n/a
C12	✓	n/a	n/a	n/a	n/a	n/a
C13	✓	✓	n/a	n/a	n/a	n/a
C14	✓	✓	n/a	✓	✓	n/a
C15	n/a	n/a	n/a	n/a	n/a	n/a
C16	✓	✓	n/a	n/a	✓	n/a
C17	✓	n/a	n/a	n/a	n/a	n/a
C18	n/a	✓	✓	✓	n/a	n/a
C19	✓	n/a	n/a	n/a	✓	n/a
C20	n/a	✓	n/a	✓	n/a	n/a
C21	✓	n/a	n/a	n/a	✓	n/a
C22	✓	n/a	✓	n/a	n/a	n/a
C23	✓	n/a	✓	✓	n/a	✓
C24	n/a	n/a	n/a	n/a	n/a	n/a
C25	n/a	n/a	n/a	n/a	n/a	n/a
C26	✓	✓	n/a	✓	n/a	n/a

Source: Field Interviews

Delays in government provision of support were identified as a barrier to networking with government. The interviewee from C2 stated that, “*their [government’s] tractors are helping us but these tractors come late and you end up renting*”. Interviewees from C7 expressed similar dissatisfactions with the timing of government services stating that, “*when the tractor does come, it does not come in time. Even when it comes, it comes when the time has passed when you planned and agreed to plough maybe carrots. It will then be too late to sew what you want to grow*”. According to the interviewee from C17, waiting for a tractor from the government over an extended period leads to late planting of crops, which negatively affects yields. Like the interviewee from C19, the interviewee from C12 expressed dissatisfaction with delays in getting government support, noting that, “*when they reach us just like this fertiliser [pointing to the fertiliser in the room], it is here not because it supposed to but it is because it came late. Now we have no use for it this time because we are no longer planting*”. According to the interviewee from C12, a delay in the provision of government support was both a waste of government resources and a disservice to cooperatives desperately in need.

The concerns raised by the interviewee from C14 relates to long delays in the registration of new cooperatives. According to the interviewee, this delay sometimes results in prospective cooperative disbanding out of frustration with the registration process. The interviewee from C1 also reported concerns about government delays citing the example of the government not responding to quotations until quotations expire. The interviewee noted that in such an instance, the cooperative wastes its scarce resources in preparing a new quotation.

The interviewee from C13 voiced his dissatisfaction with the local councilor’s delay in approving their application for a piece of land on which they planned to farm. He states:

We sometimes have problems here in the community. When you ask the councilor for help, he does not come as quick as you want. They just take time. For instance, I once submitted adoption forms for land we wanted to farm on. Now they say we should give it to the councilor to be signed. It was a struggle. I do not know whether he has signed that. To just sign takes forever.

Related to delays was the issue of non-response to requests for support. Some interviewees complained that their requests for support often received no response at all. The interviewee from C4 raised this concern, stating that,

Our main challenge is with the government. You know when it comes to this government; I do not know how and why the problems are there. If you go to them, you usually do not get help. You knock and knock at the back before anyone will listen to you. It is a problem for us. They are going to help but I do not know when this will happen.

The interviewee further observed that this attitude of government has discouraged members of the cooperative. The interviewee from C13 noted a similar challenge stating that the municipality does not respond to its requests for waste to be cleared from its farmland. According to the interviewee, “*this [non-response] is a big problem. Seriously. We do not know what we can do anymore and members are beginning to lose interest*”. The concern of the interviewee from C26 was about government not fulfilling its promises to cooperatives. The interviewee cited an example of when government promised to purchase a piece of land for the cooperative but failed to fulfill the promise. Similarly, interviewee from C4 expressed his frustration about the lack of response from government in the following excerpt:

Our main challenge is with the government. You know when it comes to this government; I do not know how and why the problems are there. If you go to them, you usually do not get help. You knock and knock at the back before anyone will listen to you. It is a problem for us. They are going to help but I do not know when this will happen. That is why I am not happy with them. So even if you are working very hard, you might end up not getting helped.

A lack of trust between cooperatives and government was the second barrier to networking with government. The interviewee from C26 underlined this point: “*they [the government] are not the people who you can trust. No indeed, they are not*”. The interviewee reported that he lost trust in the government after several failed promises of support.

Interviewees from cooperatives such as C9 and C18 expressed concern about government not trusting cooperatives. Interviewee from C9 observed that whenever they interacted with government, they got a sense that they were viewed as another cooperative formed to waste government’s resources. The interviewee further noted that, “*I cannot say that the government trusts us. It is just that the government has been thinking that we will eat [waste]*

the money like other cooperatives". In recognition of this trust deficit, the interviewee from C9 emphasised the need for a change of attitude on the part of government. The interviewee from C18 raised a similar concern, stating that, *"if the government can trust us and support us with money, it will help us to fix our machines"*.

Related to the above was the concern that government should become more positive in how it views cooperators. The interviewee from C10, blacklisted 10 years ago due to a bad credit record, was vehement on this point:

Once you were blacklisted say ten years ago they still use that against you. When I was blacklisted, I was only earning less amount but now, my finances have improved, my attitude has improved, lots of things have improved, but they look at ten years ago and say no, you were blacklisted so we can't help you. They won't finance your business because you were blacklisted.

According to the interviewee, government needs to focus on the current situation instead of what happened in the past. The interviewee observed that if government could not finance him because of his credit history, he would never get finance from any other source. He further argued that using credit history as a benchmark for funding a cooperative was wrong. The interviewee cited instances of cooperatives whose members had good credit records but failed to manage government funds. Against this backdrop, he recommended a change of government policy stance on funding cooperatives whose members have bad credit records.

The absence of a system to monitor government staff was regarded as a problem. The interviewee from C5 stated that government officials were not interested in the success of cooperatives and nor did they follow proper procedures when dealing with cooperatives. The interviewee from C18 was also concerned about a lack of standard government procedures in how government officials relate with cooperatives. According to the interviewee, the way government officials work with cooperatives was dependent on each individual staff member. The interviewee observed that things often change when there is a change of government personnel. Consequently, the interviewee from C10 recommended that government constantly monitor its staff in order to ensure consistency of policy implementation. Similarly, the interviewee from C23 emphasised the importance of monitoring the

performance of cooperatives by stating that, *“they [the government] should not abandon us. They should check us so that if we have a problem they can be able to advise us”*.

According to the interviewee from C5, the lack of monitoring of government staff has resulted in the diversion of funds meant for cooperatives. The interviewee stated that, *“even the workers of the government from my point of view are stealing money”*. The interviewee further observed that *“when there is no follow up, then there is a big problem because no accountability happens”*. To address this problem, the interviewee emphasised that government carry out proper follow-up procedures to examine how resources meant for cooperatives are utilised.

The interviewee from C4 also expressed concern about the lack of transparency in how government officials deal with cooperatives. According to the interviewee, working hard and meeting all the requirements does not guarantee getting government support. The interviewee stated that *“if you go through a wrong way you get help. Well, you have to find somebody there, you give the person something and the person will try and make sure that you get the help.”* The interviewee observed that C4 has not been assisted because of its stance against corruption. The interview reported that *“when we are faced with that [a situation where they have to bribe in order to be supported], we say no ‘thank you goodbye’...we are looking at long term because if you want those short cuts at the end of the day you will just collapse”*. In recognition of the lack of transparency in how government staff deals with cooperatives, interviewees from C4 and C7 recommended that there should be objective criteria in deciding who is funded.

Another barrier to networking with government is the lack of effective communication mechanisms. The interviewee from C23 stated that although they had heard that government was supporting cooperatives, they have not been supported because the cooperative was not able to communicate with relevant government departments. The interviewee from C6 also expressed concern about poor communication with the DoE. According to the interviewee, poor communication has resulted in mixed messages from different schools about meal requirements. To address this challenge, the interviewee recommended that the *“the Department of Education, should try and work with us directly so that we know what is required”*. According to the interviewee, working directly with the DoE will ensure that they

are certain of what to provide in schools instead of separate schools dictating different requirements.

Access to government support centres was cited as a concern by some interviewees. The issue here is that government services were located too far from cooperatives in townships and rural areas. The interviewee from C19 claimed that, *“it is as if they [government services] are moving away from us who are in townships. Yes and you find that they are mentioning the places which are far, far away from us”* To address this challenge, the interviewee from C10 recommended that *“the government must come closer to us as they do not get closer to coops most of the time.”* The interviewee observed that moving government services closer to cooperatives would ensure that distance would not hinder the success of cooperatives.

Cooperatives identified a lack of consultation with cooperatives as another barrier to networking with the government. The concern raised here is that government does not involve cooperatives in the planning phase of developing strategies for supporting cooperatives. In that regard, interviewee from C7 observed that, *“since we are the ones that have problems that they want to help, well, I think it makes sense they ask us also”*. The interviewee from C9 raised a similar point by observing that, *“we know what our problems are and we know how it should be addressed. But the problem is that government is there in Pietermaritzburg²⁸. They do their things then they say cooperatives must do A, B and C”*. According to the interviewee from C23, it was important to involve cooperatives in the planning of support strategies for cooperatives since this gives cooperatives the opportunity to make their areas of needs known to government. The interviewee argued that the inclusion of cooperatives will ensure that interventions will be tailored directly towards addressing the needs of cooperatives.

6.8 Conclusion

This Chapter presented the findings of the empirical component of the research. In presenting the overview of participant cooperatives, it can be observed that most cooperatives are recently formed and small in terms of membership size. In addition, one can conclude that majority of the cooperatives are underperforming for a number of reasons. In fact, the

²⁸ Pietermaritzburg is the provincial capital of KwaZulu Natal.

majority of the interviewees themselves are not satisfied with their performance. The interviewees cite the causes of their underperformance as being primarily a consequence of a lack of access to resources, and inadequate government support.

Although most interviewees reported that their cooperatives were established either as a product of individual or collective initiative, further analysis showed that these cooperatives were established primarily as a medium for accessing government resources. This thread continues and explains the ongoing reliance of most cooperatives in the District on government support in order to remain operational. Most of the cooperatives, because of their reliance on government, cited lack of finance as the biggest barrier. As business, cooperatives that lack finance are unable to engage in any productive business activities since they will be unable to secure the required inputs in order to operate.

In analysing the challenges facing interviewed cooperatives, there is a clear pattern of interconnections across the barriers. As noted above, a lack of finance translates into other barriers such as lack of inputs and transport. The lack of skills and expertise on the part of cooperatives links to the unwillingness of businesses to network with cooperatives. Delays in responding to cooperatives could be linked to lack of trust in government's commitment to cooperatives. The inability of cooperatives to meet delivery targets as well as businesses not honouring agreements could be linked to the pervasiveness of trust deficits reported by interviewed cooperatives. This trust deficit could be linked to recent history of political violence that characterized the province during the transition from apartheid to multi-party democracy. The political violence in communities across the province during the transition period created mutual distrust that can be seen to manifest in how cooperatives see and relate to one another and to business. The interconnectedness of challenges faced by cooperatives entails that addressing these challenges requires a multi-pronged approach.

The Chapter has demonstrated that cooperatives do engage in different kinds of networking activities, but these are indeed limited in understanding and application. The next Chapter provides a critical analysis of the empirical data collected and considers the implications thereof for cooperatives in the uMgungundlovu District.

CHAPTER 7

DISCUSSION AND ANALYSIS OF RESEARCH FINDINGS

7.1 Introduction

This Chapter aims to discuss the findings from the empirical component of the research. To accomplish this objective, the status of participant cooperatives will be discussed in light of relevant literature reviewed in previous Chapters. The Chapter will show how participant cooperatives differ from or resemble those cited in the literature. This is followed by analyses of the networking activities of participant cooperatives. In this part of the Chapter, I examine whether cooperatives are leveraging the benefits of collective action for their success. The chapter concludes with an analysis of the characteristics of the networking activities of participant cooperatives.

7.2 Overview of Participant Cooperatives

As shown in the previous chapter, 26 cooperatives participated in this study. The average span of existence to date is 5 years indicates that these cooperatives are relatively new. The longest established cooperative (C2) had been in existence for 13 years while the most recently formed (C4 and C8) have each been in operation for 2 years. These show that all participant cooperatives were established after the transition from Apartheid to multi-party democracy in 1994. As previously argued, this was the period when the democratic government embarked on campaigns to popularise cooperatives (Satgar, 2007c; Department of Trade and Industry, 2012; Okem and Lawrence, 2013). The adoption of cooperatives by the government was in recognition of their roles in improving the socio-economic conditions of the poor and vulnerable (Mbeki, 1999; Department of Trade and Industry, 2004b; Kanyane, 2009). In addition, cooperatives were considered ideal in addressing the country's socio-economic challenges due to their rootedness in the value of *Ubuntu* (Moodley, 2009).

The literature demonstrated that there is an overwhelming body of evidence in support of cooperatives as a tool for improving people's socio-economic conditions. Among other positive achievements, cooperatives create employment opportunities and income streams thus empowering people to become self-sufficient (Develtere, Pollet and Wanyama, 2008;

International Cooperative Alliance, 2010). Apart from improving the socio-economic conditions of poor groups, cooperatives have been recognised for their contributions to the global economy (Wanyama, 2009; International Cooperative Alliance, 2010, Mutuo, 2012, Resnikoff, 2012; Sáez-Fernández, Picazo-Tadeo and Llorca-Rodríguez, 2012). Table 2.2 presented an overview of the contributions of cooperatives from selected industrialised countries to the global GDP. This, coupled with the number of people employed in cooperative ventures globally, underscores the relevance of cooperatives to the international economic system. In addition, it demonstrates that cooperatives are not only for poor and vulnerable people. Rather, they constitute a unique mode of organising the market economy for any group of people that identify with the principles and values that underpin cooperatives.

Responses during interviews showed that the participant cooperatives were established in line with the internationally espoused values of cooperatives as well as the government's rationale for adopting the cooperative model. Besides C11 which was established as a market outlet, all interviewees reported that their cooperatives were established either to meet individual and community needs or as a tool for job creation and poverty alleviation. However, unlike cooperatives in advanced economies, participant cooperatives in this study were mainly survivalist cooperatives. Most of the participant cooperatives rely on government support without which they cannot engage in productive/entrepreneurial activities. This finding confirms other studies and reports to the effect that most cooperatives in South Africa are small, weak, and operate on the margins of the country's economy (Ortmann and King, 2006; Mthembu, 2008; Dlamini 2010; Department of Trade and Industry, 2012). Responses of most interviewees further buttressed the poor performance of the cooperatives. As noted in Chapter Six, only three interviewees reported being satisfied with the level of performance of their cooperatives.

Although a majority of participant cooperatives are underperforming economically, they have provided non-economic outcomes for cooperators as well as society. For instance, both C13 and C16 contribute some of their produce to addressing food insecurity in their communities. Similarly, C19 provides support for elderly members of the community. Furthermore, cooperators from C2 provide emotional support and encouragement to one another. In this regard, these cooperatives go beyond economic benefits to meeting the social needs of

cooperators and the community. Activities of these cooperatives are consistent with the ICA's definition of cooperatives.

Besides being relatively recently formed and underperforming, most participant cooperatives were small in terms of membership size and employees. On average, the cooperatives that took part in this study had 8.7 cooperators. Although this is above the legislated minimum number of 5 members²⁹, the figures shows that these cooperatives are small. The smallest cooperative (C3) had 4 members while C9, the largest cooperative, had 42 members. Schwettmann (2014) argues that the size of cooperatives is a determinant of success. The argument here is that cooperatives need to be relatively large in order to leverage economies of scale. Given the size of the participant cooperatives, it can be argued that they are not leveraging this benefit.

While cooperatives can address the challenge of small size by outsourcing production and services, this is not possible for participants in this study since nearly all of them are constrained by financial challenges. Compounding this is the fact that most of the cooperatives do not employ labour. In terms of employment creation, 8 cooperatives reported employing labour. 5 of these employ temporary labour while Lima employed 25 permanent staff for C5. Effectively, only 2 cooperatives have created long-term employment. What this finding shows is that cooperatives are not meeting the objective of employment creation. When this is juxtaposed against the stated objectives of the cooperatives, it can be concluded that they are underperforming. The baseline study of the South African cooperative sector by the Department of Trade and Industry (2009) made a similar observation noting that most cooperatives in South Africa do not create employment. Similarly, information about cooperatives in uMgungundlovu District indicated that a majority of the cooperatives have not created employment.

In addition to not creating employment, a majority of the interviewees reported that cooperatives were not generating income for cooperators. This further underscores the underperformance of participant cooperatives. Lack of income is a cumulative effect of other challenges. For instance, lack of market implies that interviewees cannot sell their produce and as a result, they cannot generate income. Similarly, lack of finance, inputs, and land

²⁹ As per the stipulation of the Co-operatives Amendment Act (Act 6 of 2013).

impact activities of cooperatives resulting in non-income generation for cooperators. The point raised by interviewee from C1 about how the costs of transporting goods to market consume all the income of the cooperative captures this view.

What the above demonstrates is that the cooperatives that participated in this research have failed to meet members' economic needs. The conceptual understanding of cooperatives showed that meeting members' economic needs is a critical feature of cooperatives (International Cooperative Alliance, 1995). The review of the South African cooperative sector showed that the adoption of cooperatives in South Africa is linked to their abilities to create employment opportunities, alleviate poverty and contribute to LED. These expectations have however not translated into reality for most cooperatives.

Judging from the above, coupled with responses of interviewees, performance is a challenge for most cooperatives in this study. Poor performance of participant cooperatives can be related to the absence of the success factors of cooperatives established in Chapter Four (see Table 7.1). Table 7.1 contextualises the success factors of cooperatives in uMgungundlovu District.

A common feature of participant cooperatives is that they are not bottom-up organisations formed to meet members' socio-economic needs. Rather, most were established either as a conduit for accessing government resources or by government as a tool for poverty alleviation, employment creation and LED.

Table 7.1: Black-Owned Cooperatives in uMgungundlovu District in Relation to Four Other Countries

Success Factors	UK	Spain	Kenya	Nigeria	uMgungundlovu District
Organic-bottom up organisations	√	√	-	-	-
Commitment to addressing members' needs	√	√	√	-	-
Presence of strong networks	√	√	√	-	-
Presence of strong CFIs	√	√	√	-	-
Absence/limited government interference	√	√	√	√	-
Favourable policy framework	√	√	√	-	√
Adaptability to new opportunities	√	√	√	-	-
Concern for community	√	√	-	-	√
Presence of large cooperative organisations	√	√	√	-	-

Source: Author

√ = factor present - = factor absent

Although most cooperatives were established through individual and group initiatives, underpinning these initiatives was the potential for accessing government resources. Against this backdrop, it can be inferred that without these resources, these cooperatives might not have been conceived. Cooperatives established either by government or as a conduit for accessing government resources are characterised by lack of members' commitment. In this study, cooperators demonstrated lack of commitment in their unwillingness to contribute finance towards the activities of their cooperative. In addition, there were reported cases of members' laziness in terms of engaging in activities of the cooperative. In this way, they failed to meet the third principle of cooperatives that requires member economic participation.

Although government has funded some of the participant cooperatives, finance continues to be a challenge as interviewees reported that government funds were not sufficient for running a cooperative. Such a situation resulted in interviewees from cooperatives such as C5 suggesting that government should pay stipends to cooperators. This stance is a further demonstration of the reliance of cooperatives on government. In addition, it reinforces the perception that the cooperatives are not true businesses. The sense of dependence was also apparent in unfunded cooperatives given that they hinged their operation on being funded by the government.

Related to financial constraint is the lack of tools/inputs. Of the 26 interviewees, 17 reported being constrained by this challenge. The high prevalence of this challenge can be attributed to the fact that most of the cooperatives were small-scale producer agricultural cooperatives. Of the 26 participant cooperatives, only 5 were not operating in the agricultural sector. Statistics from the Department of Trade and Industry (2011) show that about 30% of cooperatives in South Africa operate in agriculture. In this study, about 81% of cooperatives were involved in primary agricultural activities³⁰.

The diversification of the country's cooperatives from agriculture has been a perennial issue (Little et al., 2010, Nganwa, 2010; Ayadi, 2012). Despite attempts at diversifying the sector, agricultural cooperatives continue to dominate the landscape of the country's cooperative

³⁰ It is important to point out that some of these cooperatives combined agriculture with other activities such as bricklaying.

sector. Of particular importance is the fact that CFIs (identified as a critical success factor of cooperatives) have continued to be marginal in South Africa. Although there have been attempts in recent years to strengthen the country's CFIs, as evidenced in the enactment of the Cooperative Bank Act (Act No 40 of 2007) amended as the Financial Services Laws General Amendment Act (Act 45 of 2013) and the establishment of the Cooperative Development Bank Agency, CFIs are still insignificant (Co-operative Banks Development Agency and the South Reserve African Bank, 2013; Genesis Analytics, 2014; South African Reserve Bank, 2014). Interestingly, the government has been the initiator and champion of these recent initiatives. The extent to which the initiatives will be of relevance to a majority of cooperatives is yet to be seen.

In this study, none of the participant cooperatives were financial cooperatives. In addition, none reported having any linkage to a CFI. This finding resonates with the finding of the review of the South African cooperative sector which showed that there are only two registered cooperative banks in South Africa. Analysis of interviews revealed that participant cooperatives have only one source of funds; the government. The continued dependence of cooperatives on government for their financial needs while underperforming makes them a drain on government resources. This view emerged in the interview with C9 who stated that when they approached government for assistance, they were treated as a burden on government due to previous experiences of cooperatives that were formed merely to access government funds.

The review of the relationship between the state and cooperatives showed that reliance on government as the primary source of funds can undermine the independence of cooperatives (Satgar, 2007a; Satgar and Williams, 2008; Agbo, 2009). Moreover, the review of the Nigerian cooperative sector demonstrated how the government, through its financial control, used cooperatives as a tool for rewarding political allegiance. In the case of this researcher's fieldwork, it was found that continued provision of funds to cooperatives by the government can be a disincentive in looking for creative means to address financial needs. This is evidenced by the fact that only three cooperatives (C4, C16 and 26) have attempted to secure loans from commercial credit providers, albeit unsuccessfully.

In considering the relationship between cooperatives and government, it can be inferred that the nature of government's relationship with cooperatives is affecting the success of

cooperatives. Firstly, government's message to communities to form cooperatives in order to be funded could create a misunderstanding. Instead of being seen as an organisation formed to address members' socio-economic needs, government's message runs the risk of encouraging cooperatives to be viewed by their members as a means of accessing government social support. Secondly, the fact that government is the primary financier of cooperatives makes them dependent on government. Moreover, as demonstrated in the review of the Nigerian cooperative sector, this approach can reduce cooperatives to political tools for government officials and politicians³¹ (Agbo, 2009).

Lack of market is another challenge to cooperatives involved in this study's fieldwork. This finding is similar to other studies that have identified lack of market as a challenge undermining the success of cooperative in South Africa (Ortmann and King, 2007; Gadzikwa et al., Mthembu, 2008; Manciya, 2013). Experiences of the interviewees revealed that lack of market leads to loss of earnings as produce decomposes on farms. Interviewee from C11 attributed market constraints partly to market saturation due to the production of similar goods by cooperatives. Despite the prevalence of market constraints, responses elicited during interviews indicated that this problematic issue has not triggered networking among cooperatives to address the challenge. An overall lack of networking is evident in the fact that only one interviewee cooperative was a marketing cooperative.

Donor dependency is another challenge facing cooperatives in South Africa (Kanyane, 2009; Parliamentary Monitoring Group, 2010). The view in the literature is that continuous donor support creates dependency that prevents cooperatives from taking on the responsibility of managing their cooperatives. As noted in Chapter Six, cooperatives networking with NGOs listed a number of benefits including Lima employing 25 employees for C5. Activities of the cooperative will be severely affected without the employment opportunities offered by Lima. Donor dependency was also expressed in the concern by C25 that Lima was ending its support to the cooperative. Given that C25 relied on Lima for its operations, ending of the support could result in the demise of the cooperative. The concern of the interviewee shows that rather than being a means of enhancing the activities of the cooperative, Lima has become the very lifeline for the continued existence the cooperative.

³¹ It is instructive to point out that this research into KZN cooperatives does not indicate that the South African government is following Nigeria's example. However, it is important to sound a cautionary note about the danger associated with the adoption of that model.

7.3 Examining the Networking Activities of Cooperatives

To understand the dynamics of a network, it is important to comprehend the factor(s) that inform(s) its emergence. It has been argued in this thesis that factors such as natural disasters, increase/decline of commodity price, increased competition, drought, decline of natural resources, economic decline, and price fluctuations are some of the triggers of networks (Zeuli et al., 2004; Kruijssen, Keizer, Guiliani, 2006). In relation to cooperatives, favourable government policies as well as actions of external agents such as business and NGOs are drivers of networking (Zeuli et al., 2004).

Findings of this study show that participant cooperatives are networking although to varying degrees. Four categories of networks were identified: network with other cooperatives, government, NGOs and businesses. Table 7.2 shows that nearly all cooperatives (n=21) have networked with government while only three have networked with businesses. The prevalence of networks with government can be linked to the earlier assertion about associated benefits.

Table 7.2: Summary of the Networking Activities of Cooperatives

	Frequency
Network among cooperatives	6
Network with Government	21
Network with Businesses	3
Network with NGOs	5

Source: Summary of Field Interviews

Klijn (1997), Van Raaija (2006), and Garnevska, Liu, Shadbolt (2011) see networks as self-governing systems. This self-governance is a product of self-regulating structures that emerge due to repeated interactions among members of a network. A consequence of the foregoing is the prevalence of an informal mode of governance in networks. Through repeated interactions, members of networks establish trusts and norms of behaviour among networking parties thus eliminating the need for formal structures of governance (Brass et al., 2004; Darantininis, 2007; Yami et al., 2009; Hsueh et al., 2010; Nilsson et al., 2012). Furthermore, informal mode of governance is economically beneficial to cooperatives as it eliminates the cost of drawing up, monitoring, and enforcing contracts.

In this study, none of the participant cooperatives was engaged in formal networking. Although this is consistent with findings that emerged from the literature, the underlying rationale uncovered by this research differs from the literature, as does the theoretical justification for informal mode of governance in networks. While the literature demonstrated that informal governance is preferred in networks due to norms of behaviour established through repeated interactions, the prevalence of informal networks among participant cooperatives was mainly because these networks were ad hoc. Only the interviewee from C26 reported that the cooperative engaged in informal business relations with a local farmer due to familiarity between cooperators and the farmer. Other interviewees reported that they had infrequent relationships with their network partners. The finding implies that these cooperatives have not met the condition for informal mode of governance.

Besides infrequent contacts, it was also established by this researcher that enforcing a binding contract was not feasible since participant cooperatives lacked the capacity to keep to terms of agreement. For instance, interviewees from C6 and C11 observed that they did not have formal agreements with cooperatives that supply them because these cooperatives lacked the capacity to meet demands. Theoretically, this lack of capacity should be a reason/motivation why a producer cooperative should network so that it, as a collective, can enter into a formal agreement with cooperatives such as C6 and C11. However, this has not been the case. Due to the capacity constraint, both C6 and C11 considered it impractical to draw up delivery agreements when it was obvious that the agreement would be constantly breached. Furthermore, most cooperatives investigated during fieldwork, appeared to be passive participants and beneficiaries of the networks. Consequently, they were not in a position to dictate the terms of these networks. Besides C14, which has promoted an association of farmer cooperatives, none of the interviewees reported playing an active role in driving networks. Effectively, interviewees in this study engaged in networks through the initiatives of other actors.

7.4 Social Capital, Cooperation and Networks

The review of social capital demonstrated that it plays an instrumental role both in the emergence and sustenance of collective action (Sotero, 2009; Majee and Hoyt, 2010; Garnevska et al., 2011). Since cooperatives are conceptualised as collective action, social

capital among cooperators is important in their success. Social capital emerges out of repeated interactions that lead to norms of behaviour (Tapia, 2012). In addition, Coleman (1998) observes that through social learning, social capital contributes to the emergence of common values. Additionally, social capital reduces the costs of business relations such as access to information (Coleman, 1993; Putnam, 1995; Mellor, 2009; Tapia, 2012; Jerker, Nilsson, Svendsen, 2012). Through repeated interactions, social capital accumulates thus eliminating the need for formal contract regimes (Putnam, 1995; Mellor, 2009; Ortmann and King, 2010; Majee, and Hoyt, 2010; Nilsson, et al., 2012). Hence, the literature shows that a trust deficit is negatively correlated with social capital.

In applying the notion of social capital to participant cooperatives, this study examined the extent to which interviewees were happy with cooperation among cooperators and their relationship with other parties. Analysis of field interviews revealed that only 7 of the 26 interviewees were happy with the quality of cooperation in their respective cooperatives. The 7 interviewees attributed this satisfaction to five factors: familiarity among cooperators prior to forming a cooperative, trust among cooperators, small size of cooperatives, complementarity of skills, and common values.

Interviewees who were not satisfied with cooperation among cooperators identified a number of barriers, prominent among which was a trust deficit. Table 7.3 presents an overview of trust deficits in terms of cooperation among cooperators, network with other cooperatives, network with businesses and network with government. As shown in the table, 15 cooperatives reported not having trust in networking with other cooperatives. The prevalence of trust deficit has been linked to factors such as competition and fears about the ulterior motives of other cooperatives.

Table 7.3: Reported Trust Deficits across Networks

	Within cooperatives	With other cooperatives	With businesses	With government
C1	✓	n/a	n/a	n/a
C2	n/a	n/a	n/a	n/a
C3	n/a	✓	n/a	n/a
C4	n/a	✓	✓	n/a
C5	n/a	✓	✓	n/a
C6	n/a	✓	✓	✓
C7	✓	n/a	✓	n/a
C8	✓	n/a	✓	n/a
C9	n/a	✓	✓	✓
C10	✓	n/a	✓	✓
C11	n/a	n/a	n/a	n/a
C12	n/a	✓	n/a	n/a
C13	n/a	✓	n/a	n/a
C14	n/a	✓	✓	n/a
C15	✓	n/a	n/a	n/a
C16	✓	n/a	✓	n/a
C17	n/a	n/a	n/a	n/a
C18	✓	✓	n/a	✓
C19	n/a	n/a	n/a	n/a
C20	✓	n/a	✓	✓
C21	n/a	✓	✓	n/a
C22	✓	✓	n/a	n/a
C23	n/a	✓	n/a	n/a
C24	✓	✓	n/a	n/a
C25	n/a	n/a	✓	n/a
C26	✓	✓	n/a	✓

Source: Field Interviews

A trust deficit within participant cooperatives was evident in issues such as competition over leadership, questions around management of finance, and free-riding. As noted earlier, trust is a fundamental component of social capital. Its absence in these cooperatives implies that they are not harnessing the benefits of social capital. This finding contradicts arguments in the literature that collective action emerges due to the presence of social capital; by contrast, this study found that collective action emerged as result of existing incentives. Consequently, factors such as trust, common norms of behaviour and values which are key components of social capital are absent in most reported networks.

In terms of networking with businesses, interviewees expressed reservations about businesses not honouring agreements. Similarly, previous experiences of cooperatives that failed to repay loans to commercial credit providers undermine trust in funding other cooperatives. A

similar concern was raised in relation to networking with government: interviewees observed that government departments have a penchant for not honouring promises to cooperatives. Conversely, cooperatives that have failed to utilise government funds appropriately discourage government from funding other cooperatives. Another consequence of a trust deficit is the unwillingness of some cooperatives to engage in networks. For those who do network, a trust deficit entails reluctance to invest in the network, thus undermining the potential of such networks.

7.5 Benefits of Engaging in Networks

Studies have shown that organisations network when there is a prospect of benefits (Murray, Reynolds and Taylor, 2006; Tang and Xi, 2006; Karantininis, 2007; Menzani and Zamagni, 2010). Similarly, it was observed in Chapter Three that network emerges when it is more beneficial to address individual needs collectively (Ostrom, 1968; 1990; Novkovic and Holm, 2011). Possible outcomes of networking include access to market, resources, increased bargaining power, risk reduction, economies of scale, and reduced transaction costs.

As shown earlier, cooperatives participating in this study engaged in different forms of networking. Those that reported engaging in networking activities listed funds, inputs, education, training, linkage to market and conflict resolution as benefits. Table 7.4 presents a summary of the benefits that cooperatives have derived from networking with other cooperatives, businesses, NGOs and government.

Table 7.4: Summary of the Benefits of Networking

	Cooperative	Businesses	NGOs	Government
Market	2	2	n/a	10
Inputs	3	1	2	15
Information	3	n/a	1	11
Education and Training	n/a	n/a	3	12
Conflict Resolution	n/a	n/a	n/a	1

Source: Field Interviews

An outcome of collective action for cooperatives in this study was access to markets. As noted earlier, lack of market access is a challenge to cooperatives in South Africa. Although networks have a potential to address this challenge, most of the participant cooperatives have been unable to address the challenge. It is noteworthy, however, that in terms of market, C11

presents the ideal model of a network expected of cooperatives. The cooperative was established primarily as a marketing platform for other cooperatives. In this way, the existence of C11 is beneficial both to itself and to the cooperatives that rely on it to sell their produce.

In addition to cooperatives that have benefitted from networking in terms of market opportunities, an interviewee from C9 expressed optimism about becoming the preferred consumer cooperative for other farmer cooperatives. The interviewee noted that by buying in bulk, the cooperative could sell farm inputs to other cooperatives at cheaper prices. Examples presented in the literature of the networking activities of cooperatives identified economies of scale as one of the primary reasons for participation in networks (Assens, 2001; Dredge, 2006; Fox et al., 2009; Rouf, 2012). Leveraging the benefit of scale is particularly important for small-scale producer cooperatives who are constrained by high transaction costs (Méndez, 2002; Murray, Raynolds and Taylor, 2006). This benefit is a primary reason for the establishment of the Rochdale Society (Mazzarol, 2009). By contrast, during the course of this research, none of the participant cooperatives reported reaping this benefit of networking.

The literature on network showed that access to resources is an important benefit (Tang and Xi, 2006; Murray, Raynolds and Taylor, 2006; Deng, 2013). The review showed that networks provided access to resources to cooperatives in Canada (Fox, Jeannette and Gracie, 2009), Kenya (Co-operative Alliance of Kenya, 2014), Spain (Birch, 2011) and the UK (Kokkinidies, 2010). In these cases, networks were identified as significant contributors to the success of cooperatives. At first glance, this research seems to bear out the finding in the literature: interviewees reported accessing resources through networking. These resources include tractors, labour, seeds, fertilisers, produce of other cooperatives, education, training and finance. However, it is important to highlight that most of these benefits are limited to networking with government (see Table 7.4). These government-endowed benefits have been instrumental in the survival of a majority of the participant cooperatives.

A reduction in transaction costs is another benefit of networking. As observed in Chapter Three, reducing transaction costs is one of the factors that underpin the formation of producer cooperatives (Mazzarol, 2009). In the review of the transaction cost approach to cooperatives, it was noted that a reduction in transaction costs such as the cost of information search is a benefit of networking (Brass et al, 2004, Tang and Xi, 2006; Garnevska et al., Hsueh et al.,

2010; Deng, 2013). Since no organisation has infinite access to information, networking is critical in reducing the cost of information searches. Access to information improves the performance of cooperatives as it equips them with knowledge about marketing opportunities, new ways of doing business, and other network opportunities. Conclusions drawn by the literature are borne out by this research: cooperatives such as C13, C14 and C19 listed information sharing as benefits of networking. Both C13 and C14 noted that through information sharing, members of the association of cooperatives to which they belong have had access to farm inputs.

The review of the South African cooperative sector revealed that education and training are among the barriers to the success of cooperatives (Ortmann and King, 2007; Mthembu, 2008; Department of Trade and Industry, 2009; Department of Trade and Industry, 2010; Dlamini, 2010; Khumalo, 2014). In this study, interviews revealed that most of the benefits of education and training come from government. Besides government, NGOs have also played a role in the provision of education and training to cooperatives.

Another benefit of network formation as cited in the literature is conflict resolution. As a collective action, it is inevitable for conflict to arise among cooperatives/cooperators. An ability to manage these conflicts is a determinant of the success of cooperatives since conflict can tear a cooperative apart. However, in this study, only C17 reported conflict among co-operators, and listed conflict resolution as a benefit of networking with the DEDTEA.

7.6 Barriers to the Networking Activities of Participant Cooperatives

In the review of the networking activities of cooperatives, it was argued that although networking is not a panacea to the challenges facing cooperatives, it could contribute to their success due to associated benefits. This study's fieldwork examined barriers to the networking activities of cooperatives, as summarised in Table 7.5.

Table 7.5: Summary of Barriers to the Networking Activities of Cooperatives

	Cooperatives	Businesses	NGOs	Government
Experiences/Capacity	5	2	n/a	n/a
Lack of benefits	n/a	3	n/a	n/a
Free Residing	10	n/a	n/a	n/a
Geographic Distance	5	n/a	n/a	7
Lack of consultation	n/a	n/a	1	3
Lack of monitoring	n/a	n/a	n/a	8
Trust Deficits	16	7	n/a	13
Differing values	10	n/a	n/a	n/a
Communication/information	6	n/a	n/a	9
Political/religious differences	1	n/a	n/a	n/a
Lack of interest	n/a	3	n/a	n/a
Delays/ Non Response	n/a	n/a	n/a	15

Source: Field Interviews

Interviewees identified a number of factors that had a direct negative impact on their networking activities. One of these is the ability/capacity to network. According to Zeuli et al (2004), an ability to network is a prerequisite for networking. Interviews revealed that whilst there were on-going networks by participant cooperatives, there were reservations about the ability of some cooperatives to engage in networking. Interviewees identified the small size of cooperatives as well as lack of experience as barriers to networking. For instance, interviewee from C2 noted that the cooperative could not network with other cooperatives because C2 was newly established and had nothing to contribute to a network. An interviewee from C4 expressed doubt about networking with small cooperatives, arguing that these cooperatives do not have the ability to contribute to networks.

In addition to the above, interviewees from both C6 and C11 observed that it was challenging to network with small-scale producer cooperatives because they could not be relied on to meet delivery targets. Although C11 was established primarily as a market outlet for small producer cooperatives, it resorted to sourcing produce from private businesses since cooperatives were not producing sufficient quantities. In addition, the fact that cooperatives practice rain-fed agriculture meant that they could only produce at certain times of the year, thus necessitating the need for C11 to source produce from private businesses. Effectively, capacity constraints of producer cooperatives is undermining the ability of C11 to remain committed to advancing the needs of cooperatives.

While some cooperatives were open to networking with businesses, interviewees from other cooperatives argued vehemently that such networking is not beneficial. These interviewees

felt that networking wastes valuable times and resources. In Chapter Three, it was noted that organisations participate in networks to access embedded resources (Tang and Xi, 2006; Hsueh et al., 2010; Deng, 2013). When the benefit of networks is not equitably distributed, the legitimacy of the network is undermined. This is perhaps one of the reasons why only three of the participant cooperatives reported networking with business.

Free-riding was another barrier to networking identified by interviewees. As explained in the literature, free-riding is one of the barriers to collective action (Ostrom, 1990; Nilsson et al., 2009; Dlamini, 2010). Free-riding occurs when the cost of individual behaviour is born by the collective. Over time, the free-riding behaviour of a member could become the norm for other members resulting in failure of the network. In this study's fieldwork, however, the problem of free-riding only emerged in reference to networks among cooperatives. This finding can be attributed to the dynamics of the networking activities of cooperatives. As noted earlier, networks with businesses, NGOs and government did not entail contributions from cooperatives. Rather, they exist primarily because of associated benefits. Hence, by definition cooperatives cannot free-ride since they exist mostly as passive beneficiaries of networks.

Sotero (2009) identifies proximity as a criterion for network formation. Similarly, Majee and Hoyt (2010) argue that networking is possible through constant interactions. For this to happen, potential networking partners need to be located at close proximity in order to have frequent contact. In addition, networks are likely to occur in contexts where there is high density of cooperatives given that densification increases repeated contact among cooperatives (Menzani and Zamagni, 2010; Okem and Lawrence, 2013). During the course of this study's data collection, long distances between cooperatives and from government support centres were identified as barriers to networking.

Related to the above barrier is an information and communication constraint. Information search, as noted earlier, increases transaction costs which has implications for the success of cooperatives. In addition, lack of information/communication affects the formation and legitimacy of a network (Provan and Sydow, 2007). During interviews, this constraint was identified as a barrier to networking with cooperatives and government. For instance, the interviewee from C26 emphasised the importance of being certain of the kind of people they will be working with before forging any network. Interviewees from C2 and C7 raised similar

concerns about networking, noting that not being aware of the intentions of other cooperatives was a barrier to networking.

According to Zeuli et al (2004), identification of common problems or opportunities is an important step in network formation. This researcher's analysis of interviews indicated that besides C14, no cooperative was actively championing the formation or management of a network. Most of the interviewees came across as mere beneficiaries with little on-going consultation with network partners. For these cooperatives, networks were ad hoc and it was not clear as to how they define problems and implement solutions. In addition, most of the interviewees did not articulate an idea that they needed to contribute to networks. However, despite the observed lack of participation, interviewees from C7, C9 and C23 remarked that they would like government to consult them when devising support strategies for cooperatives. Similarly, interviewee from C20 was concerned that NGOs do not consult cooperatives. Their argument was that they were better informed about problems of cooperatives and how these could be solved. The concern raised by these members of cooperatives demonstrates that although some cooperatives are interested in active engagement with government and NGOs, their approaches to cooperatives do not create conditions for the realisation of this aspiration.

With regard to networking with government, interviewees expressed dissatisfaction with the lack of a monitoring framework to assess the success/failure of government support. Brass et al (2004) and Hsueh et al (2010) observed that elimination of the need for policing and enforcement of contracts is one of the reasons why organisations network. The argument that emerges from literature cited above is that the norms of behaviour established in networks reduce the need for policing a contract. In this study, however, interviewees from cooperatives such as C4, C4, and C23 noted that lack of monitoring system resulted in lack of accountability of government employees. This dilemma can be attributed to the nature of relationships between cooperatives and government. Due to the dependence of cooperatives on government for resources, they cannot play any monitoring role. The responsibility of monitoring therefore lies solely with the government. The government has acknowledged that the absence of a monitoring and evaluation framework is a challenge (Department of Economic Development and Tourism, 2010).

Related to the above challenge is a trust deficit in networks. The review of the theoretical approaches to cooperatives emphasised the importance of trust in collective action (Kruijssen, Keizer and Giuliani, 2006). In addition, it was noted that trust is a fundamental aspect of social capital, which in turn contributes to collective action (Putnam, 1995; Coleman, 1998; Mellor, 2009; Tapia, 2012; Jerker, Nilsson, Svendsen, 2012). Furthermore, trust deficit undermines the legitimacy of a network (Brass, et al., 2004). Once a network becomes delegitimised, it risks the prospect of both losing existing members as well as failure to attract new ones. Against the backdrop provided in the literature, this study examined trust within cooperatives and in their networking activities.

As shown in Table 7.5, according to participant cooperatives, a trust deficit is the most prevalent barrier to networking. The prevalence of a trust deficit is quite overt in the context of networking with other cooperatives. This, perhaps, accounts for the small number of cooperatives that are networking/have networked with other cooperatives. Interviewees from cooperatives such as C12, C22 and C26 observed that they do not trust that other cooperatives have good intentions. Fears about the ulterior motives of other cooperatives prevented some cooperatives from engaging in a network.

Moreover, interviewees noted that government and businesses did not trust the ability and capacity of cooperatives to perform. An interviewee from C14 asserted that businesses do not believe that cooperatives are business oriented. The interviewee related this lack of belief to previous poor performances of other cooperatives in dealing with business owners. Similarly, interviewee from C9 observed that government does not trust that cooperatives are serious business partners due to previous instances where cooperatives that were funded failed to perform. The foregoing demonstrates that a trust deficit has implications for the nature and extent to which cooperatives can network with government and businesses.

As identified in the literature, another barrier to the networking activities of cooperatives is lack of common values. According to Zeuli et al. (2004:3), collective action is underpinned by the desire to achieve a common goal. Similarly, Meinen-Dick, Di Gregorio, and McCarthy (2004) argue that the primary goal of collective action is the attainment of shared values. The presence of multiple interests creates dilemmas in collective action (Mazzarol, 2009; Greenwood, 2010). In the current study, lack of common values was only observed in networks among cooperatives. In this regard, interviewees from C2, C10, C12, C15, and C21

noted that some cooperatives engage in networks because they are motivated by associated financial gains. Effectively, these cooperatives network only when there is money not because they want to strengthen cooperatives. More importantly, the interest is not about gaining from productive business activities but organising in order to receive additional government funds. While finance is a benefit of networking, if the primary motivation of network is financial, it is likely that cooperatives will not be interested in networking if there are no financial gains. What this suggests is that these cooperatives do not sufficiently value other benefits of networks such as access to resources, skills, information, reduced transaction costs and so on.

Some interviewees observed that rather than being an avenue for cooperation and mutual support, networks could become a means for some cooperatives to demonstrate that they are better than others are. The ensuing competition among cooperatives could make network a barrier to rather than an enabler of the success of cooperatives. The presence of competition runs contrary to the principle of cooperation among cooperatives. What this entails is that the value that underpins the engagement of such cooperatives differs from those that genuinely aim to harness the benefit of networks. This difference in values has a strong potential to derail networks. When cooperatives see each other as competitors rather than partners, they fail to harness the power of collective action.

According to Kruijssen, Keizer and Giuliani (2006), group characteristics affect networks. The argument is that the more homogenous a group is, the more members are likely to work together. The converse is the case for heterogeneous networks. In the current study, religious and political differences were cited as barriers to the networking activities of cooperatives. This concern was raised in relation to networks among cooperatives. Interviewee from C4 (the only interviewee that raised this point) noted that the extension of religious and political intolerance to cooperatives affects the ability of cooperatives to work together. The implication of political and/or religious differences is that only cooperatives whose cooperators belong to the same religious group or political party will network. Besides limiting the economic potential of cooperatives, this attitude reinforces religious and political prejudices in communities. Such cooperatives, instead of being a tool for community development, undermine social cohesion. In this way, the identity of cooperatives as organisations established to advance the good of community is lost.

In relation to networking with businesses, interviewees observed that businesses are not interested in networking with cooperatives. Interviewees from C5, C14, and C15 observed that opportunities exist for collaboration with businesses but lack of interest from businesses continues to be a barrier to harnessing this opportunity. For instance, the interviewee from C15 cited the case of a local businessperson who supplies potatoes to schools but refuses to buy from the cooperative. Related to this was a point raised by the interviewee from C5, namely, that businesses do not see cooperatives as true business. This perception could be attributed to limited capacity of cooperatives. As pointed out earlier, interviewees from C6 and C11 observed that cooperatives lack capacity to meet delivery targets. Despite this, C11 continues to patronise these cooperatives because it was established primarily to advance the cooperative movement. This, however, may not be the case for private businesses whose primary motivation is profit maximisation. What this entails is that cooperatives will be unable to attract collaboration from the private sector if they fail to demonstrate that they are committed to sound business practices.

Delayed/non-response was a common challenge cited by 15 cooperatives in relation to networking with government. The concern raised here was that government was either too slow in delivering support to cooperatives or failed to respond to requests for support. This has significant implications for the activities of cooperatives, particularly those in the agricultural sector. For instance, some interviewees emphasized that their cooperatives had missed planting seasons because of delayed supply of tractors and other inputs by government. An outcome for cooperatives of government delay or non-delivery is loss of revenue when they miss planting seasons. In such cases, poor performances by cooperatives are a product of government's poor performance.

7.7 Characterising the Topologies of Networking Activities of Cooperatives in uMgungundlovu District Municipality

Findings of this study have shown that participant cooperatives are networking albeit to a limited degree. Analysis of interviews presents a unique characteristic of the networking activities of participant cooperatives, namely that networks by participant cooperatives were mainly ad hoc and lacked structure or clear definition of the rationale for the network. This kind of network differs greatly from those reviewed in the literature. Similarly, networks with

government, businesses and NGOs may not be characterised as true networks since cooperatives do not contribute to the networks. If anything, cooperatives network with businesses, NGOs and government mainly to be assisted or given donations. What this demonstrates is that cooperatives are conceptualised not as self-reliant businesses but as entities that survive mainly on donations (from government, businesses or NGOs). Consequently, the notion of member economic participation as well as member contributions appears alien to most interviewees.

It is noteworthy that the dependence of participant cooperatives on government mirrors the situation in Nigeria where cooperatives thrived mostly because of government support. Although most of the cooperatives are being/have been supported, they remain weak and unable to function as successful businesses. As the comparative study in Chapter Four demonstrated, cooperatives that rely on government in order to function are highly likely to be unsuccessful. At best, such cooperatives exist mainly as a medium for accessing government resources.

In specific regard to the work of Menzani and Zamagni (2010) on the Italian cooperative sector, is instructive inasmuch as it identified five network typologies: horizontal networks, vertical networks, complementary networks, financial networks and network of networks. A common defining characteristic of these network typologies is that they all have structures and defined mode of governance. In relating Menzani and Zamagni's network typologies to cooperatives that participated in this study, it is noteworthy that none could be characterised in terms of the five typologies. What the foregoing demonstrates is that Menzani and Zamagni's network typologies are not sufficient to explain all the dynamics of networking activities of cooperatives in general.

To account for the nature of the networking activities of participant cooperatives, it therefore is necessary to extend Menzani and Zamagni's typologies. Table 7.6 extends the typologies by adding a sixth category. The extended version includes a category of network called 'dependence network'. The label 'dependence network' is utilised because the nature of support and relationship in the network is one that creates conditions for dependence. This finding applies to network activities engaged in by cooperatives that participated in this study. As shown in Chapter Six, the networking activities of participant cooperatives with government, businesses, and NGOs exist mainly because cooperatives were being supported or

expected to be supported by network partners. In addition, dependence networks do not have any governance systems. Relationships in the networks are ad hoc and cooperatives do not contribute to the network.

Table 7.6: An Extension of the Typology of Cooperative Networks

Type	Definition	Key characteristics	Governance
Horizontal	Networks to increase market power, to rationalize production, to offer common services, to share risks and opportunities	Very integrated system, long lasting, sometimes they prelude to mergers, generally used by small and middle size firms	Governance with special committees, consortia or other shared legal instruments
Vertical	Networks between suppliers and clients in a long value chain, developed to allow the concentration of each firm in its core business and at the same time the control of the entire production chain	Vertical specialization, logistics coordination, product specifications, network used by many kinds of firms	Governance by a partner who provides coordination in a stratified system
Complementary	Networks between complementary goods and service producers, to offer complete packages to their clients	Latent relationships, generally activated upon client's demand	Steady alliances, equity cross-holdings, cooperative groups, consortia, common strategies, integration
Financial	Financial support networks	Supply of credit; temporary or long-term equity holding, with financial and technical qualified services in view of company consolidation	Strategically oriented independent agencies, with a view to promote business
Network of networks	Strategic coordination networks	External representation; lobby; cooperative identity defense; synergies among networks, common services, and basic strategic decisions	Elective and managerial system governance
Dependence Networks	Exist mainly to provide finance, education, training and other kinds of supports	Networks are mainly ad hoc, exists primarily because of on-going support or expectations of support, creates dependence	No clear governance structure

Source: Adapted from Menzani and Zamagni (2010)

While the review of cooperatives in Chapter Four indicated that networking among cooperatives is important for the success of cooperatives (Joshi and Smith, 2002; Chaddad, 2006; Menzani and Zamagni, 2010; Chaddad, 2012), only 6 of the 26 participant cooperatives were networking with other cooperatives at the time of interviews. Of these, only 2 belonged to an association of cooperatives. This finding further shows that a majority of participant cooperatives have not grasped the value of cooperation among cooperatives. Cooperation among cooperatives is the seventh principle of the cooperative movement (International Cooperative Alliance, 1995; Novkovic, 2008; Birchall, 2009; Novkovic and Holme, 2011). According to the International Cooperative Alliance (1995), this value is important not only for fostering solidarity among cooperatives: it is also instrumental in ensuring their success through reduced transaction costs and the building of social capital.

The networking activities of cooperatives that participated in this study are summarised in Table 7.7. The table shows that besides networking with government, other networks are uncommon across participant cooperatives. In addition, the networks are mainly ad hoc and informal. While some barriers are common across the three categories of networks, others are unique to a particular category of network. For instance, free-riding as well as political and religious intolerance are barriers unique to networks among cooperatives. However, a barrier such as a trust deficit is common across the three categories of network.

Table 7.7: Summary of the Networking Activities of Participant Cooperatives

Type	Key Characteristics	Barriers
Network among Cooperatives	<ul style="list-style-type: none"> • Highly uncommon • Ad hoc • Mainly informal 	<ul style="list-style-type: none"> • Trust deficit • Distance between cooperatives • Lack of information about other cooperatives • Free-riding • Political and religious intolerance • Absence of foreseeable benefits • Lack of capacity to collaborate • Low density of cooperatives
Network with businesses	<ul style="list-style-type: none"> • Highly uncommon • Ad hoc • Mainly informal • Defined in terms of dependence 	<ul style="list-style-type: none"> • Trust deficit • Absence of interest from businesses • Lack of sufficient experience by cooperatives • Absence of foreseeable benefits • Lack of capacity to collaborate • Disregard for contracts
Network with NGOs	<ul style="list-style-type: none"> • Highly uncommon • Ad hoc • Mainly informal 	<ul style="list-style-type: none"> • Lack of consultation with cooperatives
Network with government	<ul style="list-style-type: none"> • Highly prevalent • Ad hoc • Mainly informal • Brought about by expectations of government support • Defined in terms of dependence 	<ul style="list-style-type: none"> • Trust deficit • Delayed response to request for support • Lack of monitoring system of network • Lack of communication channels • Lack of support in securing fund • Lack of consultation in problem definition and solution formulation

Source: Field Interviews

7.8 Conclusion

The primary goal of this Chapter was to discuss and analyse the findings from the empirical component of the study in light of the literature reviewed in previous Chapters. The Chapter showed that the status of participant cooperatives was similar in many ways to the findings which emerged from the review of the South African cooperative sector. The Chapter also highlighted that participant cooperatives were relatively recent in origin, weak and dependent on government support for survival. In addition, most participant cooperatives operated in the agricultural sector, thus lending credence to earlier reports on the predominance of agricultural cooperatives in South Africa. Furthermore, interviewees articulated challenges to the survival of cooperatives which resonate with those discussed in Chapter Five. Resonant challenges include lack of marketing opportunities, education, training, finance, tools, and other inputs.

The Chapter further showed that participant cooperatives lack a number of the success factors of cooperatives established in Chapter Four. What is interesting is that although the country's policy framework espouses the principles and values of cooperatives, in the case of participant cooperatives there is a demonstrable disjuncture between government's policy statement and its implementation thereof. This is evident in the fact that most of the participant cooperatives are not bottom-up organisations formed to address members' needs. Additionally, the reliance of participant cooperatives on government funds shows that they are dependent organisations. Furthermore, the kind of network engaged in by participant cooperatives is deficient in many ways.

Although some of the participant cooperatives were engaged in some form of networking from which they were benefiting, the nature of these networks differed from those presented in the comparative review. Among other differences, the networking activities of participant cooperatives were largely limited to government where the possibility of financial support was high. While this kind of relationship with government mirrors the situation in Nigeria, it is similar to the situation in Kenya only before the transition to a liberal economy, and has no similarities with the situations in the UK and Spain.

Additionally, the Chapter showed that participant cooperatives are constrained in their networking activities by challenges such as lack of information/communication, benefits, experiences/capacities, education, free-riding, trust deficits and geographical distance. Given these challenges, most of the cooperatives that participated in the study have failed to leverage the benefits of networking.

CHAPTER 8

CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

8.1 Introduction

The primary objective of this study was to understand factors that underpin and perpetuate the high mortality rate of cooperatives in South Africa, using uMgungundlovu District Municipality as a reference point. In this Chapter, I will provide a summary of the research findings. The summary draws on both the literature reviewed and the empirical data collected from participant cooperatives in uMgungundlovu District Municipality. The Chapter will also proffer recommendations on how to address challenges identified in the study. These recommendations are relevant to the government, development agents as well as to researchers with a focus on cooperatives. In the last part of the Chapter, I point out possible trajectories for future research.

8.2 Conceptual and Theoretical Underpinnings of Cooperatives

To understand the research problems investigated in this study, it was considered paramount to provide a clear conceptual and theoretical foundation of cooperatives in Chapters Two and Three. In Chapter Two, it was observed that cooperatives are autonomous self-help organisations established to address the social and economic needs of people. For this reason, cooperatives are member-owned and member-controlled organisations. It was argued that cooperative is a unique model of organising the market economy. In this regard, cooperatives are defined by principles and values that set them apart from conventional IFOs. Due to their unique organisational form, cooperatives simultaneously address members' social and economic needs. In recognition of the roles of cooperatives in socio-economic development, countries around the world, including South Africa, have adopted the cooperative model.

While Chapter Two provided justifications for the formation and participation in cooperatives, Chapter Three examined theoretical approaches to understanding cooperatives.

Four theoretical approaches were reviewed: the TCT, collective action, social capital and networks. The primary argument is that people/organisations network when confronted with challenges that they are unable to address individually. In addition, it was noted that working together (either as individuals or organisations) becomes an option when the benefits of working together outweighs the costs. Through networks, organisations/individuals enhance their success by reducing transaction costs. Additionally, networks provide access to opportunities and resources of network partners.

Although individual gains are the force that drives collective action, this is not diametrically opposed to collective gains. The examination of the networking activities of cooperatives in Chapters Three and Four further buttressed the values and benefits of the networking activities of cooperatives. From the review, it was inferred that the need to network is particularly important for small and emerging cooperatives that are plagued by high transaction costs, shortage of skills and other inputs required for productive activities. Essentially, the theoretical approaches to cooperatives emphasise the values and benefits of collective action.

The historicity of cooperatives in South Africa provided in Chapter Five revealed that the adoption of a cooperative model in both pre-democratic and democratic South Africa was and is aligned to the view of cooperatives as a valuable tool for socio-economic development. However, while the pre-democratic government focused mainly on white-owned cooperatives, the focus of the democratic government has been on black-owned cooperatives. The focus of the democratic government is consistent with its broad redistribution policy aimed at redressing socio-economic imbalances created by the Apartheid regime. Such a policy stance could however achieve the unintended consequence of making cooperatives appear relevant only to the sector of society that is the primary target (in this case, poor black South Africans situated in rural areas). In addition, emphasising the roles of cooperatives in facilitating LED and improving the socio-economic conditions of the poor and the vulnerable could make it unattractive to the general population. By positioning cooperatives as tools for poverty alleviation and LED, cooperatives will continue to be seen as an economically advantageous only for poor rural dwellers. The dream of achieving a diversified cooperative sector cannot be achieved if the current policy approach persists. Ultimately, this could negatively affect the extent to which the country's cooperative movement could grow and contribute to the economy.

Analysis of interviews indicated that the rationale for the existence of participant cooperatives were similar to those that underpin the cooperative movement as a whole (that is, improving the socio-economic conditions of both members and the community in which they operate). Despite this similarity, the South African cooperative sector remains weak with only a 12% survival rate. In addition, most cooperatives have neither created employment opportunities nor contributed to the economic development of their communities. Rather than being driven by the ideals of improving the socio-economic conditions of members and community, most participant cooperatives were established mainly as conduits for accessing government resources.

8.3 Revisiting the Success Factors of Cooperatives

One of the objectives of this study was to establish possible success factors for cooperatives in South Africa. To facilitate this objective, a comparative review of cooperatives in four other countries was undertaken. The review noted that successful cooperatives are bottom-up organisations established to meet members' needs. Other success factors of cooperatives gleaned from the review include the presence of networks, limited or non-existent government interference, favourable policy frameworks, adaptability to changing economic climates, and presence of CFIs. When applied to the South African cooperative sector in general and the cooperatives that participated in this study in particular, there was a noticeable absence of most of the success indicators of cooperatives. This thesis therefore argues that the absence of many success indicators contributes to the high mortality rate of cooperatives in South Africa.

Despite the presence of a favourable policy framework aligned to the principles and values of the cooperative movement, the interviews revealed that implementation has failed to include other success factors. For instance, most of the cooperatives involved in this study were not established as bottom-up organisations aimed at achieving collective ends through member economic participation. Rather, these cooperatives were established either by government or by cooperators as mediums through which to access government resources. Consequently, they are characterised by member apathy and lack of collective commitment.

In addition to the above, none of the interviewees expressed any ideas about forming financial cooperatives to address the challenge of funding despite the pervasiveness of financial constraints among participant cooperatives. Furthermore, no interviewee was aware of any CFI. By contrast, the review of cooperative movements in Kenya, Spain, and the UK all demonstrated that the presence of strong CFIs (built on member contributions) is one of the determinants of a successful cooperative sector. This has not been the case in the South African scenario where CFIs are weak and largely non-existent. Although there have been attempts in recent years to strengthen the country's CFIs, the initiatives are mainly driven by government with minimal participation from cooperatives. The review of the Nigerian cooperative sector demonstrated that the reliance of cooperatives on government for finance could make them vulnerable to wholesale political manipulation by government. The reluctance of cooperators to contribute finance to cooperatives further demonstrates the extent to which financial constraints will continue to persist. Just like the formation of apex cooperative organisation, government's push towards the formation of CFIs might not attract the interest of cooperatives. The strategy of providing grants to CFIs further reinforces the argument that cooperatives in South Africa are dependent on government for their financial needs. As argued previously, such an approach is not a sustainable way to grow and strengthen the cooperative sector.

Compounding the above is government positioning itself as the primary financier of cooperatives. An implication of this position is that cooperatives have little incentive to access funds from other sources. This view was evident among participant cooperatives given that none of the interviewees mentioned members' contributions as a possible source of finance. Additionally, only two cooperatives had attempted to access funds from commercial financial institutions. The remaining 24 cooperatives either have been funded or are awaiting funds from government.

Related to the foregoing is government's message to communities to form cooperatives in order to be funded. The implication of this message is that some cooperatives are established not out of genuine concern to address members' needs but due to the prospect of having access to government funds. A concomitant implication is the proliferation of cooperatives without the consolidation of existing ones. The continuation of government's current approach will entail the perpetuation of a weak cooperative sector that is characterised by a high mortality rate.

When government takes on the role of forming cooperatives, it removes from cooperators a sense of ownership, which is both a factor for the success of cooperatives as well as a principle of the cooperative movement. A definitive problematic of government-established cooperatives is that since cooperators have little or no investment in the cooperative (besides accessing government resources), they have little incentive to contribute their time and other resources to making it successful. This was evident in concerns raised during interviews about members' laziness and unwillingness to contribute finance to cooperatives. Unlike Kenya, Spain, and the UK, cooperatives that participated in this study lack the capacity for self-preservation, governance and development.

Unlike countries such as Kenya, Spain and the UK where cooperatives constantly adapt and diversify to reap the benefits of changing economic realities, cooperatives in South Africa have remained largely unchanged and continue to operate mainly in primary agricultural activities. This characteristic is not unique to the participant cooperatives. As shown in Chapter Five, only 2% of the country's cooperatives are involved in secondary agricultural activities. Findings of this study showed that a majority of participant cooperatives were small worker cooperatives engaged in primary agricultural activities in rural areas. Unless government addresses infrastructural challenges and works towards linking rural to urban areas, small primary agricultural activities will remain the main business livelihood for cooperatives.

From findings of this study, it can be inferred that participant cooperatives neither are bottom-up organisations nor businesses that can produce profitable economic outcomes. It has been argued that cooperatives that emerge organically through a bottom-up approach are more likely to be successful because such cooperatives are formed out of people's shared needs to improve their socio-economic conditions. In such cooperatives, members are committed to promoting the cooperative through active participation. Black-owned cooperatives that emerged in post-Apartheid South Africa cannot be described as bottom-up organic organisations. Most emerged through a government-led top-down approach. This can be inferred from the sharp increase in the number of cooperatives following government's drive to provide finance and other forms of support to cooperatives. This is similar to the Nigerian experience insofar as black-owned cooperatives in South Africa formed since 1994 were often motivated by an intention to access government resources. The argument against this approach is that although it may very well result in increased number of cooperatives,

this is no indication of the strength of the cooperative sector. The South African scenario shows that although the number of newly registered cooperative has increased significantly since 1994, the sector has remained largely weak. There is no accumulation of national data showing substantial growth in employment creation, economic growth output, or goods and services produced by post 1994 black-owned cooperatives. On the contrary, the available evidence suggests that government has utilised interventionist strategies and made more support (both financial and human) available to cooperatives.

Besides the above, this study has shown that a majority of the participant cooperatives are not accessing the benefits of collective action. The thesis examined the nature and characteristics of the networking activities of cooperatives that participated in the study.

8.4 Underpinnings of the Networking Activities of Participant Cooperatives

In this study, analysis of interviews with members of participant cooperatives identified eight categories of challenges. Theoretically, the challenges provide a basis for formation of and participation in networks. For example, findings from the theoretical and empirical components of this study have demonstrated that networks can play an important role in the success of cooperatives. In this study, cooperatives that have engaged in networks have attained benefits, albeit to a limited degree. Benefits of participation in networks include access to finance, education, training, information, market, inputs and linkage to support.

It has been argued that although the presence of constraints, which cannot be solved individually, is a precondition for the emergence of networks, this in itself is not a sufficient condition for network formation. For a network to be established, it has to be driven by an individual or a group of individuals. In relation to this study, an individual cooperative, government, business, NGO, or a combination of two or more of these actors can drive network formation. Findings of this study revealed that participant cooperatives played a minimal role in driving the formation and governance of networks.

The predominant form of network (network with government) was mainly driven by government. In this network, the relationship between cooperatives and government can best be characterised as dependency relationship. The prevalence of cooperation with government

has a number of implications for cooperatives. Among other implications, it makes them overly reliant on government for survival. This could be construed as one of the factors that contributes to the small proportion of cooperatives that network with other cooperatives, businesses, and NGOs.

While the literature showed that networks are formed to leverage resources, maximise scale production and specialisation, evidence from this study revealed that cooperatives engage in networks primarily in the expectation of being supported by networking partners. This view came through in interviewees' accounts of networks with government, businesses and NGOs. Effectively, the networking activities of most the participant cooperatives are characterised by deep-rooted dependency. On the evidence provided by cooperatives whose members participated in the study, cooperatives do not see themselves as collective entities but as organisations formed to access government resources. For this reason, most have not been proactive in seeking opportunities for networking. In addition, the nature of relationship with government is a disincentive to networking with other cooperatives since they rely on government for most of their needs. For instance, analysis of interviews showed that participant cooperatives relied mainly on government to meet financial needs such as startup and operational capital. In addition, some interviewees expressed the view that government ought to pay stipends to cooperators since cooperatives are not generating income. This view defeats government's rationale for adopting the cooperative model. Rather than contribute to poverty alleviation, income generation and reduction of economic inequality, the above view implies that cooperatives have become a drain on government resources. Indeed, some interviewees provided accounts of the attitudes of some government officials which indicated a growing perception of cooperatives as parasitic.

With regard to their networking activities, cooperatives can best be characterised as passive recipients of donations and support. Effectively, these relationships are top-down and there is little room for incorporating the views of cooperatives. As a result, they are not consulted in defining problems that they face; nor are they consulted in designing solutions to these problems.

In this study, interviewees revealed that their networks were largely informal and had no clear or formal governance structure. This mode of governance, as previously argued, cannot be attributed to norms of behaviour established through repeated interactions in the network.

Rather, the prevalence of informal mode of governance is due to the ad hoc nature of networks as well as the dependence of cooperatives on network partners.

Besides their lack of involvement in problem definition, analysis of interviews also showed that cooperatives are not proactive in defining constructive relationships with businesses. Most interviewee failed to offer constructive views about opportunities they have identified for networking. From the foregoing, it can be inferred that the participant cooperatives are not fully utilising the benefits of networks. Their relationship with businesses, NGOs and other cooperatives mirror those with government, which is defined in terms of the support they can receive. This is evident in the fact that some interviewees stated that they have approached or intend to approach business and ask for donations.

Although shortage of skills was identified as a challenge by most interviewees sharing of skills among cooperatives was barely mentioned. Only one interviewee made the point that cooperatives need to network in order to share skills. Aside from being oblivious to the benefits of leveraging the skills of other cooperatives, the participant cooperatives lacked the capacity to train their members. It thus can be inferred that cooperatives have failed to meet the fifth principle of the cooperative movement (member education, training and information).

The comparative review of networking activities of cooperatives showed the relevance of apex cooperative organisations to the success of cooperatives. In Kenya, Spain and the UK, apex cooperative networks are maintained by cooperatives for the advancement of their collective good. Conversely, in South Africa, the emergence of apex cooperative networks is a top-down initiative by the government. The recent attempt by government to establish the South African National Apex Cooperative runs the risk of alienating it from grassroots cooperatives. This is akin to the Nigerian cooperative sector where there is disconnect between apex cooperative organisation and cooperatives at grassroots.

Although government policy and direct actions informed the formation of most of the cooperatives that participated in this study, there was no indication that the policy has encouraged cooperatives to network. What emerged from the interviews was that government departments are not encouraging cooperatives to network among themselves. Although most interviewees mentioned being educated by government about cooperatives, the obvious lack

of network among them demonstrates that the value of networking was not emphasised in the education and training they received. Where cooperatives engaged in networks, these are often characterised by trust deficits. Theoretically, trust is a fundamental requirement of collective action. The prevalence of trust deficits indicates that cooperatives will persistently fail to reap the benefits of engaging in productive networks.

8.5 Contributions to New Knowledge

Unlike other studies and reports (Lyne and Collins 2008; Department of Trade and Industry, 2009; 2011; 2012a; Mosenogi, 2012; Khumalo 2014) that have recommended increased government support to cooperatives, this study concludes that additional government support will not solve the problems facing cooperatives in uMgungundlovu District. The study has shown that there is ample government support for cooperatives. This researcher further argues that the nature of government support has created a system of dependence that is not conducive to cooperative empowerment and prosperity. .

In exploring the challenges facing cooperatives in South Africa, the focus of previous studies has been on cooperatives themselves. Conversely, findings of this study show that the challenges facing participant cooperatives are not only limited to cooperatives themselves. Indeed, the very action of government also undermines the success of cooperatives that it seeks to promote.

While previous studies on the networking activities of cooperatives have focused largely on networks among cooperatives, findings of this study indicate that it is important to examine how cooperatives network with non-cooperative institutions/businesses. This is primarily because the nature and structure of such relationships could have a direct bearing on the success/failure of cooperatives. Although interviewees indicated that their cooperatives network only to a limited extent with businesses and NGOs, there are benefits associated with this mode of networking such as reduced transaction costs as well as market opportunities. In addition, cooperatives participating in such networks could outsource some of their activities to the network partners, enabling them to focus on their core business.

Finally: in relating the dynamics of the networking activities of cooperatives to Menzani and Zamagni's typologies of cooperative networks, this study found that the typologies were not sufficient to explaining networks by participant cooperatives in uMgungundlovu District. The study therefore extended Menzani and Zamagni's typology of cooperative networks by creating an additional typology, namely, dependence networks. By including a new typology (derived from interview analysis), the study was able to cater for the characteristics of the networking activities found among participant cooperatives.

8.6 Recommendations

The South African President's recent pronouncement about government's drive to fund and facilitate cooperative-run agri-parks and clusters exemplifies the type of government action that perpetuates dependence. This thesis argues that government spearheading and funding this initiative will further entrench the dependence of cooperatives. The recent Presidential pronouncement indicates that, despite its good intentions, government will continue to contribute to the practice of incentivising the formation of ineffective and dependent cooperatives. As can be inferred from the comparative study, cooperatives can proliferate when government strategy promotes the formation of cooperatives as means of accessing government funds and other resources. The proliferation of cooperatives does not necessarily correlate with the development of a strong cooperative sector. This study therefore recommends that government restructure its support of cooperatives to ensure that well-intentioned provision of support does not have the paradoxical effect of becoming an obstacle to the success of cooperatives.

Findings of the empirical component of this study showed that most of the participant cooperatives were established either by government or as a means of accessing government resources. Although one cannot over-generalise on the basis of district cooperatives in one province, the correlation between increased government support and the increased number of cooperatives is indicative of a similar experience nationally. This suggests that, overall, there is a problematic understanding of the cooperative movement in South Africa. The study therefore recommends critical review of existing support to determine whether it distorts the principles and misapplies the practices of the cooperative as a universal concept and developmental model. .

Additionally, it is recommended that government shift its emphasis from the establishment of more cooperatives to creating an enabling environment in which extant cooperatives can flourish as autonomous entities. It is not the government's function to establish cooperatives. Cooperatives, by their very nature, are organic organisations that emerge bottom-up to address people's needs. Instead of playing a dominant role in establishing cooperatives, government should redefine its role as that of enabler and facilitator. Moreover, it is recommended that government encourage cooperatives to define their own problems and structure their own solutions. . Active participation of cooperatives in this process will ensure that problems firstly, are appropriately contextualised; secondly, not misdiagnosed; thirdly, that solutions are adopted that address the needs of given cooperatives. In short, a top-down approach that treats cooperatives as passive recipients of government support is beneficial neither to cooperatives nor to government.

By investigating the historical contexts from which cooperatives emerged in both pre-democratic and democratic South Africa, the study has been able to explain why and how the democratic government's policy stance facilitated the rapid growth of weak and unsustainable black-owned cooperatives (as evident in the 12% survival of cooperatives in the country). This study argued that the continuation of the policy stance, which focuses only on emerging black-owned cooperatives as tools for poverty alleviation and LED, would only make the sector appealing to certain sector of the society. It is therefore recommended that, after approximately 2 decades of democratic rule, government should move past its preoccupation with the roles of cooperatives in poverty alleviation and LED. Rather, it should emphasise that the cooperative model is suitable for any group of individuals that subscribes to its principles and values. By extension, it is important to revisit the current focus on black-owned cooperatives given that the intersection of black-owned and white-owned cooperative could facilitate networks across established and emerging cooperatives. This could ultimately lead to growth of the country's cooperative sector.

The study's empirical component revealed a marked lack of knowledge about the values of networks among members of participant cooperatives. To facilitate the development of networks of cooperatives where none exist, the United Nations Industrial Development Organization (2001:18) recommends the following steps:

1. Promotional and motivational activities of potential network partners

2. Assistance in strategic planning of network activities
3. Pilot projects (usually short-term activities to promote trust)
4. Strategic projects (longer-term and of more strategic nature)
5. Self-management

The steps show the need to begin with creating awareness about the values of network since cooperators might be unaware of the benefits of network and may engage in behaviour that undermine it. Through awareness, members of cooperatives come to appreciate network. This is followed by assistance in building beneficial relationships with other partners. It is therefore recommended that the government should tailor future education and training of cooperatives towards imparting knowledge about the values of network. Such education and training should equip cooperators with requisite skills and knowledge that will aid them in the formation, participation and management of networks. The success of such education and training will depend on the extent to which cooperatives are trained to eliminate barriers to networks. Additionally, the nature of support offered to cooperatives should emphasise the value of networking. This can be achieved through the kinds of support given to cooperatives. For instance, support of cooperatives (either by government or NGOs) could be provided, not to individual cooperatives but to groups of cooperatives. Through interaction among members of discrete cooperatives during training, they might come to understand and appreciate areas of mutual need and strategise on how to work together in addressing their shared needs.

8.7 Suggestions for Future Research

This study has provided insights into factors contributing to the failures of cooperatives in uMgungundlovu District in KwaZulu-Natal province and suggested how these can be addressed. Future research should include cooperatives from across the nine provinces of the country. This will contribute to furthering understanding of the similarities and differences of the research area across the provinces, thus extending the scope of general findings and conclusions about the national cooperative movement.

This study was grounded on interpretivist research paradigm. Data generated from semi-structured interviews provided robust insights into the status, perspectives, incentives and disincentives of the networking activities of cooperatives in uMgungundlovu District.

Although the research method adopted in this study was suitable for the objectives of the study, it is recommended that future studies use a mixed methods approach. . This will facilitate the generation of both qualitative and quantitative understandings of the research area. It is further recommended that instead of using cross-sectional research design, future research adopt action research. Such research should come up with innovative protocols that will create conditions for cooperatives to network. Ultimately, findings from such studies could contribute to building a strong and dynamic cooperative sector in South Africa as a whole. Lessons from such studies could also be valuable in strengthening the cooperative sector across Africa.

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