

# The role of co-operatives in the socio-economic development of Dutywa villages.

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**2010**

The role of co-operatives in the socio-economic development of Dutywa  
villages

By

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Submitted in partial fulfilment of the requirements for the degree of Masters  
in Arts: Development Studies at the Nelson Mandela Metropolitan University

December 2010

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#### **DECLARATION**

I, Cwaka Batandwa Mqingwana, student number 20991 1906, hereby declare that the research study for students' qualification to be awarded is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a horizontal stroke at the end.

C B Mqingwana

## **ACKNOWLEDGEMENT**

This research report is a product of constant and consistent discussions of ordinary men and women of this country. This has been the product of those shared experiences. However, words of gratitude go to those who have directly or indirectly contributed to the completion of this study.

I wish to express the warmest appreciation and gratitude to Ms E. Saunders, my supervisor for her academic guidance, words of encouragement and all her patience during all the time of research.

My great gratitude goes to my wife, Nokuzola and children, Yanga, Anga, Kuhle and Sihle for their emotional support which enabled me to pursue the program as well as conduct this particular study.

I am heavily indebted to my mother and my brothers, Wonga, Luntu (late), Zazi, Qonda and Phelo for their empowering and fruitful debates we've shared around social-economic, political and academic issues including this one.

Many thanks to my friends and classmates especially Mr Mno Mapukata and Mr Bayanda Ntshaba for their friendship and sharing for all the time we have learnt and stayed together.

I would like to send special thanks to the members of those co-operatives in the Dutywa area, whose willingness to work with me enabled me to conduct the fieldwork without any hindrance.

And lastly, my colleagues at work who have allowed me space and time to do the field work whilst everything went smoothly at work.

Cwaka Batandwa Mqingwana  
Willowvale, South Africa, 31 December 2010

## **ABSTRACT**

The purpose of the study was to investigate how the co-operatives can be used to uplift the standard of living in the rural, with specific reference to Dutywa villages of Ngcingwane, Mangati and Mbewuleni. In other words is 'how do we make co-operatives work'.

The overall purpose of the study was to investigate whether co-operatives have contributed to positive change in the socio-economic conditions in the three villages of Dutywa.

The research further analyzes the performance of the co-operatives in terms of their leadership and management structures.

The research was also to find out what the challenges are and what are the gaps associated with the performance of the co-operatives.

The research was also to look at how the support from different government departments and other government agencies are used to enhance the co-operatives governance.

Lastly, the research was to find the best model for co-operative development and what needs to be done to enhance the capacity of the co-operatives.

In the study that was carried out, four different approaches were used. The research was based on action research which involved a range of instruments like questionnaires, focus group interviews, conversation and observation.

Both comparative and qualitative research frameworks were used for different purposes and at different times. Comparative approach is used when the three co-operatives are compared to each other. Differences on governance and administrative issues on governance such as capital, market and the impact thereafter is reported on.

The research assumption was that co-operative development is a viable tool for economic development of the rural areas. This can help many South Africans and many communities come out of poverty. However, there are

limitations that are caused by the inability of government to co-ordinate co-operative development.

Despite the role that co-operatives play in South Africa, co-operatives still experience a number of challenges. These challenges are, amongst others, lack of access to finance, lack of access to market, lack of business skills, lack of infrastructural facilities and lack of knowledge about the co-operative.

In view of the challenges facing the co-operatives, the government instituted a number of state departments and parastatals for funding and other necessary support. These are DTI, DEDEA (in the Eastern Cape), ECDC, SEDA, Department of Labour and municipalities. The objectives of these support institutions are to provide necessary support needed by co-operatives and to ensure that co-operative development is sustainable.

The findings of this study suggest that co-operatives play a vital role in the socio-economic development of the rural villages. Co-operatives create self-employment and sometimes employment through temporary employment offered; provide space and time for socialization and lastly co-operative members are sometimes through their produce able to provide basic foodstuffs to the family.

In view of the socio-economic benefits of the co-operatives in rural villages of Dutywa, it is highly recommended that various support programmes that are already there within the departments should be enhanced.

Assistance to co-operatives should not only be limited to government funding for co-operatives but more concentration should be on finding market for their products.

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## CHAPTER 1: BACKGROUND AND INTRODUCTION

### 1.1 INTRODUCTION

This research project will examine the history and levels of success achieved by three co-operatives in three villages, namely Ngcingwane, Mangati and Mbewuleni in the Municipality of Mbhashe in the Eastern Cape Province in the Republic of South Africa.

After sixteen years of constitutional democracy, South Africa is still faced with vast challenges of poverty, high rates of unemployment, crime, low levels of education, huge income gaps and diseases like HIV/AIDS and Tuberculosis.

The Eastern Cape remains one of the poorest provinces in South Africa. Although it is largely rural, the economy of the former Transkei where Mbhashe Municipality is located is primarily based on retail and in the wholesale and retail sector remains the largest in Mbhashe (ECSECC, 2010).

The Municipal area of Mbhashe covers an area of 3 030.47km and includes the three former magisterial districts and the towns of Dutywa, Willowvale and Elliotdale.

Mbhashe is predominantly rural, with high levels of unemployment, poverty and dependency. Between 75% and 90% of the people of Mbhashe live below the poverty line with an unemployment rate of 70%. The total annual household income in Mbhashe is R396 647 400. Most households are poor, earning less than R800 per month or R7 500 per year (Mbhashe Municipal IDP 2009/2010).

According to Stats SA Community Survey 2007, the current population is 262 011 with 53 199 households. The average household size is 5 – 6 people. The population is almost entirely African (99.88 percent of the total). The bulk of the population relies on subsistence agriculture for living. The agricultural sector is not well developed and poverty remains the threat to the lives of many households in the area.

Comparatively the poverty figures are as follows:-

Table 1.1: Comparative poverty figures

AREA	Total numbers living in poverty	Percentage of the population living in poverty
Republic of South Africa	19 681 942	40. 60
Eastern Cape Province	3 671 348	58.33
Amathole District Municipality	936 365	57.08
Mbhashe Local Municipality	186 286	70.10

ECSECC, 2008

The Mbhashe Spatial Development Framework (Mbhashe SDF, 2009/2010) shows that the entire Mbhashe area is regarded as an important agricultural area and supports the approach that agriculture must be the cornerstone of rural development and economic upliftment of Mbhashe.

#### 1.1.1 Ngcingwane Administrative Area

The Ngcingwane Administrative Area is located 6 – 7 km from Dutywa Town en route to Willowvale (see Annexure C). The DR 08045 road has been recently upgraded and makes for easier access to the

town. The area is one of the rural areas with high population figures. The location is home to former State President Thabo Mbeki and his mother, who has been very active in community projects and community initiatives, resides in the area. Unemployment levels are generally the same as that of the Mphashe average. The community has access to water, electricity, and schools, including the recently built Nomaka Mbeki Technical High School named after Thabo Mbeki's mother. The area is controlled by Amamfengu, and people have respect for the chiefs. People in the area live their traditional lives and participate in household agriculture (crop and livestock farming), beading and weaving for self-sustenance.

It is this traditional way of life and reliance on self-employment that led to the formation of the group of crafters calling themselves "KhanyisaNtsimbi". Another motivating factor for the establishment of the group was tourism potential, as the domestic and international tourists visiting the home of Mbeki increased. The co-operative is dominated by women who work together to do beading, weaving, knitting and sewing.

### **1.1.2 Mangati Administrative Area**

The Mangati (see Annexure C) area is located 3 – 4 km from Dutywa Town, with a gravel road connecting them with the town through what appears to be a deep rural area. Most of the population living in the area arrived there in the early 70s. They were previously living in the deep rural Willowvale and they wanted to be closer to town. Their recent arrival creates weak cultural connections among the population.

Because of the Land Trust, household yards are quite small and this makes household agriculture difficult. Most of the people do not even own ploughing fields as they are new to the area. This makes poverty even worse in the area as there are no food gardens and people rely on temporary work they find in town, which is close enough to enable them to reach on foot. The population of the area remains largely dependent on grants. There are a few educated young people that are familiar with government programmes, and they help the other unemployed youth, by, for example, borrowing unused ploughing fields for initiatives such as hydroponic production. The Inkuthalo Co-operative is located in this area.

### **1.1.3 Mbewuleni Administrative Area**

This is one of the least developed areas in the district, with a high illiteracy rate. The area is located some 15 to 20 km from Dutywa Town en route to Ngcobo (see Annexure D). The road (DR 08257) has been upgraded to a permanent surface in the recent past. The land in the area is not suitable for cultivation and most people rely on stock farming for survival, farming with sheep and selling the wool. The Thwalisanani co-operative is located in this administrative area.

## **1.2 THE RESEARCH PROBLEM**

The central question is how the government's grand strategy of co-operatives can best be utilized effectively to fight poverty and change socio-economic situations in the rural villages. In other words, how do we make co-operatives work? There is a need for the assessment of the performance of the co-operatives, first with regard to increasing the standards of living of the members and, secondly, the contribution it makes to the community as a whole. The research will show that challenges facing the co-operatives range from government support, literacy, levels of

training, leadership and marketing. All of these hinder the performance of the co-operatives, which render them unable to effectively change the lives of the members.

### **1.2.1 Government support**

Throughout the world, various government departments have attempted to undertake the role of agents to strengthen co-operative institutions. Evidence shows, however, that in many cases governments were unable to perform effective, sustainable and timely support and monitoring, which is an issue raised by Adams and Vogel, (1990. cited in Requejo, 1997). The limited success of government support and monitoring may be attributed to poor government co-ordination, problems of political patronage, corruption, weak enforcement procedures towards delinquent borrowers, and inconsistency of government policy. In addition, when the government is too closely involved, the sense of ownership and joint responsibility of members is generally lost (Requejo, 1997).

As a result, co-operatives remain grant dependent despite the many initiatives taken by government and this applies also to South Africa. Governments' efforts to assist the co-operatives is fragmented and neither organized nor integrated. Sometimes one finds out there exists no specific link between the community initiated co-operative and the Integrated Development Planning (IDP) or LED strategy of the municipality.

Government departments do not attend meetings nor consult the municipality regarding the assistance they have for the co-operatives. With the different mandates being carried out by government officials from different departments, the focus of economic development in the rural communities is confusing the people rather than assisting them.

Lastly, the market for the goods manufactured by the co-operatives has not been created, the procurement policies of the state departments and the municipality do not particularly target the co-operatives and therefore their economic status and survival remain perilous.

### **1.2.2 Co-operatives level**

Although his research is based particularly on agricultural co-operatives, Prakash (2003:06) identified factors that enhance the impact of such co-operatives that are also relevant to others:-

- trained, professional and motivated staff
- enlightened, dedicated and selfless leadership
- comprehensive programmes for members' education and information.

Lack of education can lead to situations where co-operatives fear the unknown. In South Africa, for example, many co-operatives fear that SARS compliance will put them in debt, and as a result, the co-operatives do not apply for tax clearance (as prescribed by law) and this renders them unable to do business with government.

Prakash (2003: 1) notes that "most of the countries follow a three tier system, i.e. primary co-operatives at the village level, co-operative business federation at the secondary level and apex organisations at national level."

In addition to this, the South African regulatory framework for co-operatives allows the formation of a secondary co-operative by two or more primary co-operatives. Chapter 2, Section 6 of the Co-Operatives Act reads, “An application to register a co-operative must be made by – (b) a minimum of two or more primary co-operatives in the case of a secondary co-operative”.

Further problems are caused by an apparent lack of leadership in the co-operatives, lack of innovations on the part of the co-operatives, and the fact that the co-ops do not come together to form a secondary co-op for the sake of supplying goods and services, even when they struggle to do that as individual co-operatives with limited capacity.

All these challenges tend to result in little positive impact on the standards of living of members or the communities in which the co-operatives are located.

### **1.3 THE RESEARCH QUESTION**

The purpose of the study is to investigate how the co-operatives can be used to uplift the standard of living in selected rural areas in the Eastern Cape, with specific reference to the Dutywa villages of Ngcingwane, Mangati and Mbewuleni - in other words, how do we make co-operatives work.

### **1.4 RESEARCH AIMS AND OBJECTIVES**

The overall purpose of the study is to investigate whether co-operatives have contributed to positive change in the socio-economic conditions in the three villages around Dutywa.

The research will further analyze the performance of the co-operatives in terms of their leadership and management structures.

The research will assess the similarities and differences among the three co-operatives.

The research will also establish what the challenges are and what are the gaps associated with the performance of the co-operatives.

The research will be used to look at how the support from different government departments and other government agencies can be used to enhance the co-operatives governance.

Lastly, the research will be used to find out the best model for co-operative development and what needs to be done to enhance the capacity of the co-operatives.

### **1.5 CONCLUSION**

Having defined the area, outlined the research problem and dealt with the research aims and objectives, the following chapter will focus on the regulatory environment on which the co-operatives function across the world and in particular South Africa.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This case study on co-operatives is set in a rural South African context. In investigating whether the co-operatives have contributed to the positive change in the socio-economic conditions, one will need to look at the various approaches to rural development. The literature review will look at how co-operatives are led and managed in different countries. Other important matters that will be reviewed include the role of government and the relevant legislation or policy related to co-operatives, problems facing co-operatives and also some success stories.

### **2.2 THE ROLE OF CO-OPERATIVES IN RURAL DEVELOPMENT**

According to the South African Integrated Sustainable Rural Development Strategy (ISRDS, 2000:02), 'rural' is characterized as an area where "populations are spatially dispersed. Agriculture is often dominant, and sometimes the exclusive economic sector and opportunities for resource mobilization are limited".

The Strategy further states that South African rural areas are "characterized by high levels of poverty... Approximately 70% of South Africa's poor people live in rural areas, and about 70% of the rural residents are poor. Their incomes are constrained because the rural economy is not sufficiently vibrant to provide them with remunerative jobs or self-employment opportunities. Their cost of living is high because they spend relatively more on basic social services such as food and water, shelter, energy and education, transport and communications service" (ISRDS, 2000:06). The situation at rural level needs to be changed by way of improving the living conditions there and hence countries introduced the term "rural development" to address the socio-economic conditions of rural populations that are largely poor.

Rural Development should be the focus of development in the rural population by emphasizing the enhancement of productivity levels in the rural areas. Jayalakshi, (2009:1) describes Rural Development as the "process of improving living conditions, providing minimum needs, increasing productivity and employment opportunities and developing potentials of rural resources through integration of spatial, functional and temporal aspects".

Different individuals and countries have used different approaches to rural development.

Rural Development is viewed in different ways by different people. Petrin (1994), for example, sees entrepreneurship as a strategic development intervention that could accelerate the rural development process. He notes that, "The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development, without it other factors of development will be wasted or frittered away" (Petrin, 1994:01).

India's approach to rural development was aimed at provision of job opportunities to rural communities in order to raise their income. This was done by involving a number of programmes like poverty alleviation programme, Integrated Rural Development, development programmes for women and children, etc. Those programmes were designed to achieve the fundamental objectives namely



- the creation of socio-economic infrastructure necessary for rapid development of rural areas, and
- increasing income of individual rural people by providing productive jobs (Jayalakshini, 2009).

The Japanese did not focus on rural development but on agricultural development and the improvement on agricultural productivity. Japanese approaches are mostly centred on technical transfers, such as construction of irrigation facilities and the introduction of new farming technique". The agricultural approach alone was not sufficient; as a result methods such as the non-agricultural income generation and capacity building for farmers were used. (Effective Approaches for Rural Development, [www.jica.go.jp/english/publications/reports/study/topical/spd/pdf/chapter\\_4.pdf](http://www.jica.go.jp/english/publications/reports/study/topical/spd/pdf/chapter_4.pdf), p176).

The present strategy for co-operatives in South Africa is not directly linked to its Rural Development Strategy (ISRDS). For example, the rural development strategy only refers to community based income generating projects where it acknowledges that "many opportunities available to rural communities are productive in nature and involve the generations of income for individuals or groups" (2000:53).

### **2.3 CHARACTERISTICS OF CO-OPERATIVES**

A review of the literature indicates that a co-operative is a business, although of a particular type (<http://coopfin.org/ASP/financial.asp>). A co-operative is a private business organization that is owned and controlled by the people who use its products, suppliers or services (<http://www.sf.ucdavis.edu/cooperatives/whatis/html>). Authors like Robinson (1993) describe co-operative in a manner that distinguishes it from other forms of ownership whilst concurring that it is just another form of ownership. He describe it as "distinguished from other forms of public or private organization in that they are democratic structures owned and controlled by their members". He says furthermore that "They provide a legal framework through which a community can maintain ownership over local resources while providing a service to members and to the local community" and that "The fundamental objective of a co-operative is to make the needs of members the driving force of the organization" (Robinson, 1993:01). From the descriptions one can conclude that co-operatives are suitable forms of enterprise for rural development. Rural development can be driven through the use of co-operatives and therefore the South African government can use co-operatives in its rural development strategy, providing, of course, that mechanisms are in place to ensure that co-operatives work.

### **2.4 OBJECTIVES OF CO-OPERATIVES**

Different countries have different purposes for co-operative formation. In the South African context, the purpose of the Co-operatives Act, Act no. 14 of 2005, Chapter 2 states;

- Promote the development of sustainable co-operatives that comply with co-operative principles, thereby increasing the number and variety of economic enterprises operating in the formal economy;
- Encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register co-operatives in terms of this;

- (c) Enable such co-operative enterprises to register and acquire a legal status separate from their members;
- (d) Promote equity and greater participation by black persons especially those in rural areas, women, persons with disability and youth in the formation of, and management of co-operatives.

When asked about the promotion of co-operatives at an International Labour Conference (2001), countries responded in different ways,

- The Argentineans saw that the problem of unemployment required that national governments devote attention to the promotion of co-operatives.
- The Mexicans believe a new instrument (referring to co-operatives) might be an alternative way of creating jobs, and could promote co-operatives and encourage discussion and enactment of laws and regulations which apply to them.
- The purpose of the Co-operative Companies Act in New Zealand is to allow co-operative owners to conduct business on a mutual basis, where they engage in 'co-operative activity'.
- The Indians saw the purpose of their National Co-operative Development Act as the provision for the incorporation and regulation of a corporation for the purpose of planning and promoting programmes for the production, processing, marketing, storage, foodstuffs and certain other commodities on co-operative principles and for matters connected with.

## **2.5 WHAT IS EXPECTED OF CO-OPERATIVES AND ITS MEMBERS**

Duffey and Wadsworth (2001) commented on the role of co-operatives and what they are. They note that “members provide sufficient financial support so (that) the co-operatives can operate”. Expanding on what is expected from the members, they argue that “The success of a co-operative hinges on the commitment of its members. They must be committed to using it, controlling it and financing it” (Duffey and Wadsworth, 2001:10). This justifies the fact that the cooperative organization is a member owned organization for the benefit of the members and must be financed largely by the members themselves.

Katherine Hanson concurs, noting that (2002:25) “members are the backbone of a co-operative. They organize it to serve their needs. Their support, through patronage and capital investment, keeps it economically healthy”.

Beside the financial support, there are other factors that may impact on the work of co-operatives, these are:-

- Trained, professional and motivated staff
- Enlightened, dedicated and selfless leadership
- Comprehensive programmes for members' education and information (Prakash, 2003)

## 2.6 PROBLEMS FACING CO-OPERATIVES

In a presentation by Timothy Woods from the University of Kentucky on Co-operative Development, he made mention of the following as challenges facing co-operative:-

- Access to capital
- Cost of member and public education
- Investment in democratic processes
- Limit in scope of operations
- Co-operatives are only as good as their members ask them to be.

If members don't have enough capacity to raise capital, government are generally expected to provide financial support to the co-operatives. In some parts of the world, the co-operatives themselves form credit co-operatives. Das et al (2006:2) say "the co-operative credit system of India has the largest network in the world and co-operatives have advanced more credit in the Indian agricultural sector than commercial banks". Eighty percent of co-operative structures in India are agricultural co-operatives, and of that sixty percent are credit co-ops.

The United Nations concurs: "credit co-operatives can be positioned as part of a country's overall poverty reduction strategy by providing financial resources to those who do not have access to them ..." (United Nations, Co-operatives at Work, 2008: 1).

It is not only the financial support that is important. Raquejo, (1997) notes the lack of financial monitoring as a particular challenge facing co-operatives.

In a discussion on problems and challenges facing a group of crafters, Binion and Ely (2000:12) note that, "Crafts [producers] had problems and frustrations, such as,

- Lack of market contact. Craft producers who live in isolated rural areas often have limited access to markets
- Lack of access to supply sources. The same isolation that separates many craft producers from potential markets also restricts the availability of supplies needed to produce their crafts
- Lack of business training. Training in craft production may be handed down from one generation to another or learned through a technical school or university, but the training a producer needs to become a successful businessperson is not always available".

These problems compelled such groups of crafters to form co-operatives.

Mather and Preston (1990:16) noted that co-operatives are subjected to the same conditions as other businesses, but added to that are the limitations that relate directly to their inherent nature of being co-operatives. These authors indicated that particular problems facing co-operatives include the following:-

- Production control i.e. members' production could not be controlled because their basic role is viewed as marketing the available supply.
- Farming based on labour input. Referring to this type of co-op, the writers note that "frequently incentives are lacking, problems occur in decision making and dissatisfaction results from the distribution of net income" (1990:17).
- Price fixing. Co-operatives could not fix prices because of their inability to control production. They are compelled to use the prices as used in the market whether it would be to their disadvantage.
- Market power. Not all co-operatives acquire the leadership and financial abilities to deal effectively with other firms in the market place (1990:19).
- Influence on process and services. When a co-operative is first organised, the general tendency is for gross margins of firms serving the area to narrow and prices for supplies decrease. ....after a few years ... members tend to forget the situation that prompted them to form a co-operative (1990:20).
- Frailties of human nature. Some of the members and directors may not be trained enough and may lack information; some have little realistic knowledge about business activities or how effectively their co-operative is operating or what it can be expected to accomplish.
- Decisions by large numbers. Sometimes discussions that involve a large number of people could lead to delays in the flow of information and delays in action. The boards of directors do not have authority to make major decisions. .
- Member attention and support. Not all members have the commitment and will and that may greatly limit a co-operative's ability to fully develop its potential.

Monitoring and evaluation of the co-operatives, and which agency should assume this responsibility, pose a further challenge.

The keys to success for co-operatives are viewed by many writers as the following:-

- Leadership
- Assess all of your risks
- Planning strategically
- Member/board/manager communication

## **2.7 THE SOUTH AFRICAN CO-OPERATIVES POLICY FRAMEWORK**

In responding to the general objectives of co-operatives establishment, the South African government, through the Department of Trade and Industry (DTI), has launched a co-operative development strategy (2004-2014) which identified the following objectives:-

- “Ensure the existence of strong, viable, self-reliant, autonomous and self-sustaining co-operative enterprises.
- Ensure that co-operatives are making a meaningful contribution to economic growth, employment creation, social and cultural development and income generation”.

The South African co-operative strategy recognizes the potential of co-operative enterprises in creating and developing income generating activities and sustainable decent employment ; developing human resource capacities and knowledge, strengthening competitiveness, increasing savings and investment, improving social and economic well-being, contributing to sustainable human development; establishing and expanding a viable and dynamic distinctive sector of the economy and in contributing to broad based economic empowerment (South African Co-operative Strategy, 2004:1).

Concurring with Jayalakushmi, the co-operative strategy also identified as set of objectives which amongst them is ensuring that co-operatives are making a meaningful contribution to economic growth, employment creation, social and cultural development and income generation. What is evident here is that co-operative formation is meant to create competitive and viable enterprises that will help contribute to economic growth and development.

In its Preamble, the South African Co-operatives Act recognizes and re-affirms government’s commitment in providing a supportive legal environment to enable co-operatives to develop and flourish. The Act also confirms the government’s intention regarding co-operatives, including provision of targeted support for emerging co-operatives and, more especially, those owned by blacks. The purpose of the Act therefore is promotion of co-operatives in order to increase the number of economic enterprises operating in the formal economy. The Act also mentions the importance of effective co-ordination and reporting mechanism across all spheres of government through a specific department.

The strategy further affirms the government’s commitment to integrate support for co-operatives in addition to the Small Medium and Micro Enterprises (SMMEs). The strategy reads, “Government will also endeavor to strengthen existing structures at local and provincial level to deal with co-operative enterprises...” (RSA Co-operative Strategy, 2004:10).

In terms of the Eastern Cape Rural Development Strategy (also referred to as “Ilima Labantu”), co-operative development is included as one of the strategic interventions as a necessary approach towards the vision of sustainable growth and development for improved quality of life. The co-operatives are envisaged to play a major role in the implementation of “Ilima Labantu” (meaning “people co-operatively at work”). The strategy states, that “it should emphasise co-operation both at the level of production, but more importantly at the level of distribution, consumer co-operatives, buying co-operatives and processing and beneficiation” (Eastern Cape Rural Development Strategy, 2010:49).

## **2.8 CO-ORDINATION AND INTEGRATION**

In addition to these policies, the Inter-Governmental Relations Framework Act (IGRF) was formulated to ensure proper and effective co-ordination between government departments and agencies.

The DTI through its Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise Framework (2005) acknowledges the importance of integration of a wider variety of institutions for small enterprise development and the inculcation of a more co-operative approach.

The IDP becomes the principal planning document at a local level that integrates all governments' programmes including the Local Economic Development initiatives of the municipality. It is therefore expected that the municipality should identify its role in LED promotion, and thus its role to support co-operatives that operated in the area of the municipality.

The Mbhashe Municipality's draft LED strategy (October 2009) states the strategic goals of the strategy as "attracting investment and support the development of SMMEs within Mbhashe so as to improve economic activity through defined high impact programmes" .

In its LED Plan, the municipality acknowledges the need for co-operative strategy development. The With reference to bakery projects, the school nutrition programme is seen as an opportunity for co-operatives: The LED Plan (2009:07) states that "with the school nutrition programme taking shape, the bakery projects have easy access to the market with the excess going to the locality". The Plan further states in its methodology that "Co-operative development can assist in growing the baking industry with the support from the Department of Education in terms of using local or ward based co-operatives for the supply of food to schools".

The IDP process can play an important role in integration and co-ordination, also of promoting and supporting co-operatives. The IDP Guide Pack (2000) provides the following useful information: "Realizing the objective of developmental local governance is a challenging task for municipalities. Integrated Development Planning is a key instrument which municipalities can adopt to provide vision, leadership and direction for all those that have a role to play in the development of a municipal area. Today, municipalities must play a role in ensuring integration and co-ordination between the various sectors and cross-sectoral dimensions of development, to achieve social, economic and ecological sustainability". The IDP serves as a useful tool for integration of all government programmes including the co-operative approach to development.

## **2.9 ROLE OF THE STATE IN SUPPORTING CO-OPERATIVES**

Co-operatives in many countries, especially in the developing world, rely considerably on the support given by the state, but this has not been the case in all countries. In Brazil for example, for proper monitoring of co-operatives, the co-operatives were allowed to work independently of government. Raquejo, (1997: 4) notes that, "...co-operatives received functional and administrative autonomy and began operating independently and outside of the government tutelage. As a result of the government withdrawal from the supervision of co-operatives, state co-operative organization became the supervisory body...".

Whilst research shows that state initiated co-operatives had successes, it also acknowledges that they often result in less sustained existence of those co-operatives and that it is important that individual skills and material contribution, and a need for co-operating for marketing and supply purposes must be the cause for forming a co-operative. The government need to guide and mentor co-operatives through the process of registration, training and reporting mechanisms.

Monitoring and evaluation of co-operatives are also seen as a role that should be played by government. Adams and Vogel (1990, quoted in Raquejo, 1997:04) note that “various governments attempted to undertake the role of monitoring agents to strengthen co-operative institutions, in particular agricultural co-operatives. Evidence shows, however, that in many cases governments were unable to perform effective sustainable and timely monitoring”.

Over the past years, the South African Government, through the DTI, has conducted a study on co-operatives and the final report was released in February 2009. On the support of co-operatives the study says that “the general history of co-operatives has shown that the major sources of support for co-operatives in all most countries, both developed and developing, is the state” (2009:5).

It is further stated in the report (2009:07) that “co-operatives have the potential to and can contribute to lifting whole groups of people out of poverty ...”

In South Africa, the co-operatives strategy is led by the government and the DTI fully supports the co-operatives, as do other organs of state.

The strategy is, however, not without its challenges. The present structure of co-ordinating co-operative support in South Africa is at national and provincial levels. Both the strategy and legislation fails to put the co-ordination at the local level where the co-operatives exist and where they go for support and mentoring. This is an issue that should be addressed to allow local co-operatives to reach their full potential.

## **2.10 CONCLUSION**

What is evident from this overview is that co-operative approaches to development can assist in the improvement of socio-economic conditions among poor communities, particularly those in impoverished rural areas. It is clear, however, that different authors and different countries have different approaches with regard to the role of the state, the factors enhancing the success of a co-operative and co-operative formation.

## **CHAPTER 3: METHODOLOGY**

### **3.1 INTRODUCTION**

In the study that was carried out, four different approaches were used. The research was based on action research which involved a range of instruments like questionnaires, focus group interviews, conversation and observation.

### **3.2 METHODOLOGICAL APPROACH**

Basically, two approaches were used; these were a participatory development approach and a development economist approach. The study assessed and examined how the members of each of the co-operative participate in the decision making and its planning activities. This was done in the form of interviews and observed at least in one meeting for 30 minutes in each co-operative. Observation was based on how the co-operative members take decisions. For some, the researcher saw and read the minutes of their previous meetings. A comparison is also made on their success based on factors such as market and financing. The development economist approach was used to measure the co-operative's success and how the co-operatives were able to provide jobs and income to the households where members belong. The flow of money in terms of income generated and how it is shared between the co-operative reserves and members was examined and reported on.

### **3.3 METHODOLOGICAL FRAMEWORK**

Both comparative and qualitative research frameworks were used for different purposes and at different times. Comparative approach is used when the three co-operatives are compared to each other. Differences on governance and administrative issues on governance such as capital, market and the impact thereafter is reported on.

Qualitative research framework is deemed to be more suitable when co-operatives are asked about issues relating to the formation, and their opinions and views on the future of the co-operative and the role they think the government play or should play. The primary research i.e. document searching was done before the actual field research starts. However the results of the document search was not so successful as the respondents or government departments could not release certain information. The document search was based on the programmes that government departments have for the co-operatives especially those in the area of Dutywa. In the field work; questionnaires, unstructured interviews were used.

### **3.4 RESEARCH ASSUMPTIONS**

Co-operative development is a viable tool for economic development of the rural areas. This can help many South Africans and many communities come out of poverty. However, there are limitations that are caused by the inability of government to co-ordinate co-operative development.

### **3.5 DELIMITATION OF THE AREA**

There are just fewer than 50 co-operatives registered in the Mbhashe municipal database for co-operatives; this is evidenced by a copy from a municipal official working on co-operatives and Small Medium and Micro Enterprises (SMME). There are also other social groups of both women and men



that exist in the area. Such groups are formed for different purposes, such as burial societies and money saving clubs. The research was unable to encompass all those social groups, because the question is centred on the co-operatives and whether co-operatives manage to change the socio-economic circumstances in their communities.

Instead of doing research on the whole number of co-operatives and communities; only the three were sampled for their distinct characteristics. One of the considerations included the nature of products they produce, i.e. one specializes in traditional wear and beading, the second focusses on agriculture and the third on both traditional wear and agriculture.

### **3.6 RESEARCH DELIMITATIONS**

Contact was made with the co-operatives and the dates for visits were arranged. The first three meetings took place without encountering problems. The co-operative members formed one focus group and the interview started with the chairperson leading in all the three meetings. Members agreed to the information being presented by the Chairperson and he/she headed the response team being interviewed by the researcher. The interviews were not necessarily confined to the research questionnaire and some probing and follow-up questions were also asked.

The co-operatives were unable to be specific on the money earned and repeatedly used estimates on the income generated by the co-operative.

### **3.7 RESEARCH DESIGN**

The study was descriptive and qualitative because the research involved a “subjective description of the research topic” (Balian, 1988:87). Focus groups, interviews, observation were among the formal approaches that were used.

In the research, focus groups were used in the form of round table interviews. An insight into people’s concerns, motivations and aspirations was gained using qualitative research. It was interesting that their concerns regarding problems facing the co-operatives dominated the interviews. The members’ perceptions and perspectives on the nature of support given by the government were researched. Unstructured material such as minutes of meetings from the co-operative members was analysed.

### **3.8 SPECIFIC METHODS**

#### **3.8.1 Data Collection Processes**

The information or data found from co-operatives assists in the understanding of the ways in which co-operatives are run. A comparison from one co-operative to the other is also done. The data also assists in understanding the government’s role in co-operative development and assess whether co-ordination need to be improved.

A variety of relevant research methodology was used to collect information. The purpose was to ensure that the information provided by the members of the co-operatives was sufficient. The data was gathered using the following:-

1. Observation

Observation was conducted over a period of two weeks (instead of the planned three week period) with three visits to each co-operative. Due to several reasons, such as bad weather conditions or unavailability of members, the number of hours devoted to observation had to be cut from five hours to one hour a day. This was mostly evidenced in Thwalisanani co-operative, as the members work at their homes. The manner in which co-operatives go about their business at their workplaces was observed. This included issues such as the times that the participants worked.

## 2. Conversations and Interviews

Conversations with some members of the co-operative were conducted in the form of semi-structured and unstructured interviews. These conversations and semi-structured interviews included questions such as:-

- (a) What makes you happy being a co-operative member?
- (b) Does it assist your family? If so, how?
- (c) Are you managing to buy groceries and pay school fees out of the co-operative income?
- (d) Are you still looking for a job elsewhere?
- (e) What else do you do for a living other than working in the co-operative?
- (f) How do you make a living when you say that the co-operative does not provide an adequate income for members?
- (g) Is there anyone else at your home that is working?

These interviews were conducted in the form of brief conversations during the day and on one on one bases. It was initially planned to use a tape recorder to record the interviews, but members became suspicious and this device was abandoned. The conversations were thereafter treated as casual conversations where none of the responses was directly recorded. Only a notebook was used by the interviewer to make a few notes and to summarise the contents of the conversation after the interview had taken place.

## 3. Focus Group Interviews

A questionnaire was used as a form of data collection for the three co-operatives. These interviews were conducted formally in a focus group composed of the co-operative members. The meeting dates were scheduled prior to the visit and each group together with the researcher honoured the dates and time. In each group, not all the co-operative members were present, but the majority of members were present. The audio-tape together with the notebook was used to assist in recording the information. The audio assisted when the answers or information given went beyond what the questionnaire required.

The interviews took the form of both structured and unstructured interviews. In structured interviews, "the researcher asks a standard set of questions and nothing more" (Leedy, and

Ormrod, 2005:184). An identical set questionnaire (see annexure 2) was administered to each of the three co-operatives. The interviews helped to get information on the following:-

- Co-operative formation
- Leadership and governance
- Government support and
- Income generation

The interview used the semi-structured type of interviews to get more information and to clarify some points. In these type of interviews “the researcher followed the standard set of questions with one or more individually tailored questions to get clarification or probe person’s reasoning” (Leedy, and Ormrod, 2005:184). Respondents were allowed to speak out without being interrupted, unless the interruption comes from the other members of the co-operative themselves.

#### 4. Official records and documents

Official records and documents are other important sources of information. Records such as business plans, funding proposals, and funding policies used by various government departments were consulted. Other policies that pertain to the co-operative development other than the National Co-operative Development Strategy, such as LED Strategies, were assessed. Very few documents or correspondence between the co-operative and any funding institution were available from the co-operative.

#### 5. Questionnaires

Information on several programmes that are run by the government in assisting co-operatives and SMMEs was gathered through a questionnaire survey. The process employed by a government entity before it approves the funding or any other form of assistance to the co-operative, was also investigated. All this information was obtained through a formal questionnaire that was sent to several government departments. These included the Department of Social Development, Department of Economic Development and Environmental Affairs, Department of Agriculture, Department of Labour, Department of Sport, Recreation, Arts and Culture, Eastern Cape Development Corporation (ECDC), Small Enterprise Development Agency (SEDA), National Development Agency (NDA), Amathole District Municipality and its development agency, ASPIRE, and Mbhashe Municipality. The questionnaire was sent to the respondents through e-mail and by hand and follow-ups was made by telephone to ensure quick and reliable responses.

This questionnaire survey among government departments and entities was the most difficult aspect of the research, as most government departments were absolutely not prepared to assist in answering the questionnaire. It took the researcher about two months to get a substantial number of government departments and even then they provided little information to write about. Those who responded were the Department of Economic Development and Environmental Affairs (DEDEA, also known as the Department of

Economic Affairs, Environment and Tourism or DEAET), the Department of Agriculture, the Department of Social Development, the Eastern Cape Development Corporation (ECDC), the Amathole District Municipality (ADM), and Mbhashe Municipality.

### **3.8.2 Research Process**

The following process was followed:-

#### **1. Sampling**

To choose the three co-operatives, a cluster sampling technique was used to consider the area and the co-operative groups. The three co-operatives sampled were based in the rural areas near Dutywa. Prior knowledge of the co-operatives in the area was utilised to determine the sampling strata.

When conversations with the co-operative members were taking place, the random sampling technique was used, as respondents were sometimes found in the village and not necessarily in their respective workplaces. A simple random sample was used to select the respondents and questions were posed to those members that were present at the time of the visit. There are an average 15 members in each of the co-operatives and at least three members from each were chosen with similar kind of questions being asked. The questions were similar and not exactly the same because of the probing questions which are dependent on the respondents answers. In the end, three respondents were interviewed from KhanyisaNtsimbi and Thwalisanani and four from Inkuthalo.

#### **2. Field Work**

Data was then collected through the use of various data gathering techniques which have been mentioned earlier. This data was then kept in a safe place. The collection of all data was made through the use of paper and pen, and tape recording the information was later captured on computer to store.

#### **3. Data analysis**

Charts, graphs and text material will be used as forms of data analysis. These will be used to refine and summarise the data collected. The following methods of data analysis were used:-

- **Content analysis**

Documents, such as policies and other important information gathered in the field, are analysed to identify gaps, similarities and differences between policies and action.

- **Phenomenological analysis**

Responses from conversations and interviews are analysed to illustrate how the co-operatives view the issues in relation to their type of business.

### **3.9 PROBLEMS/LIMITATIONS**

Limitations or shortcomings to this research were largely caused by the unwillingness of government departments to participate. No deviations from the norm were evident from the co-operative members; they seem happy to respond, if only to please the researcher.

An important issue to be guarded against is the information the co-operative provide when interviews are conducted. The respondents commonly try to depict the organisation in a good light. There may be exaggeration on the inability of the state/government to assist the co-operatives and the problems they are facing as co-operatives. Because the researcher was a municipality official who was familiar to the members, there was a tendency to favour the municipality over the government departments.

To address the shortcomings, the researcher tried to re-introduce himself as a student rather than a government or municipality employee. No research assistants were used as was previously planned.

### **3.10 CONCLUSION**

Having conducted the research using the three co-operatives as sample, I am confident that this research was able to gather information that will help us to answer important questions, such as how the grand strategy of co-operatives can best be utilized effectively to fight poverty and change the socio economic situation in the rural villages. Using these various approaches, designs and methods that are mentioned above, it was possible to investigate the contribution of the co-operatives to positive socio-economic change.

## **CHAPTER 4: REPORT ON EMPIRICAL FINDINGS FROM THE STUDY OF THE SOCIO-ECONOMIC IMPACT OF CO-OPERATIVES IN RURAL VILLAGES**

### **4.1 INTRODUCTION**

The findings that are presented in this chapter are a product of more than two months of engagement with the co-operatives and a wider search for relevant information. The findings to be analysed are a product of different forms of data collection. The analysis is based on the results obtained by the fieldwork.

The chapter begins by an overview of each of the groups. The overview will provide the historical background and the organisational development, including issues such as membership and leadership, of each of the co-operatives. The extent of funding and support from government and other sources will be considered.

Thereafter a comparative analysis of various issues and challenges will be presented. Successes or failures and reasons for these will be addressed. Work ethics, the extent to which the co-operatives have addressed socio-economic issues and the role of the state organs will be discussed. This is all concluded by an overall discussion on the interpretation of the findings.

#### **4.2.1 KHANYISA NTSIMBI**

##### **4.2.1.1 Background**

Ngcingwane is the home of the former President of the Republic of South Africa – Thabo Mbeki and the roots of the Khanyisa Ntsimbi co-operative can be found in the efforts of his mother. Epainette Mbeki, a businesswoman in her own right, did sewing at her home with one person she employed. She encouraged and motivated other women and was joined by seven others to form a sewing group. There was a second group calling themselves the Sinako Project that was also doing sewing. In order to access funding from the Department of Arts and Culture, the two groups merged to form what is known as “KhanyisaNtsimbi”, meaning “with beads, things will be bright”. Mambeki (as she is affectionately known) being the 18<sup>th</sup> member, provided elementary training, on the understanding that those she trained were expected to train others as well.

Assisted greatly by Mrs Mbeki and with limited contributions from their own pockets, the group c with beadwork and making traditional wear that was sold in the local area. This newly merged larger group could not be accommodated in Mrs Mbeki’s house and started working at their own homes, bringing their completed products back to her home from which the individual products were then marketed and sold collectively. If the member’s products were sold, that member would get 50 percent of the value of the sales and the other 50 percent would be put aside to buy more beads and pay Mrs Mbeki for the use of her premises, groceries, the use of her telephone and other resources, her loans to the co-operative and her time in helping the co-operative with access to markets.

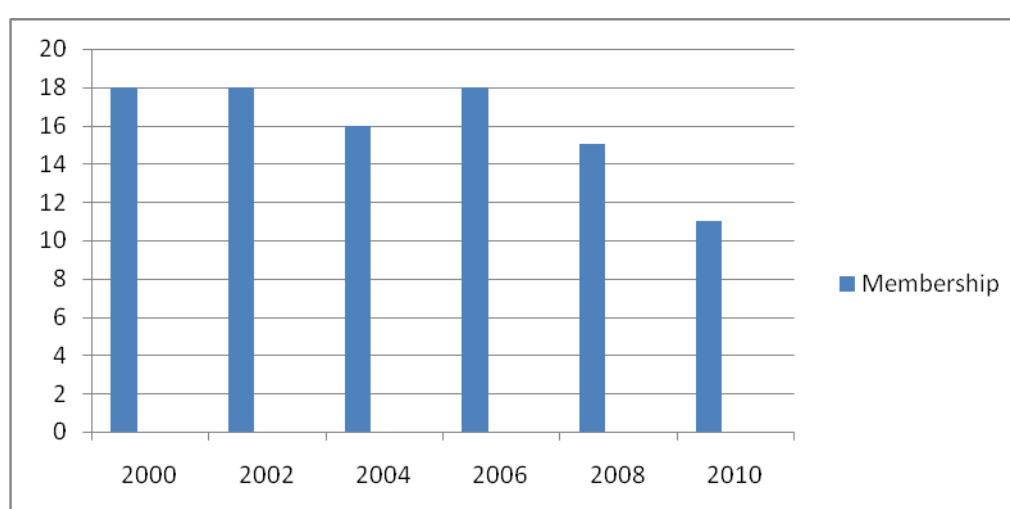
The group in time found land and when funding became available, a new centre was constructed where the members continue to work.

The group has faced many challenges over the past ten years. In the early years the members did not have enough equipment and income was initially limited, even though they branched out to produce school uniforms for local schools. Even when grant funding was made available, their lack of administrative and financial skills contributed to financial constraints that challenge the group until this day.

#### 4.2.1.2 Membership

The co-operative started out with 18 members and membership remained fairly constant until about 2007. Membership fluctuated according to levels of income and personal circumstances. By 2008 the membership had declined from 18 to 15 due to low incomes from the sale of their products and only 11 members remained by 2010 (Figure 4.1).

**Figure 4.1: Membership of the co-operative from 2000 to 2010**



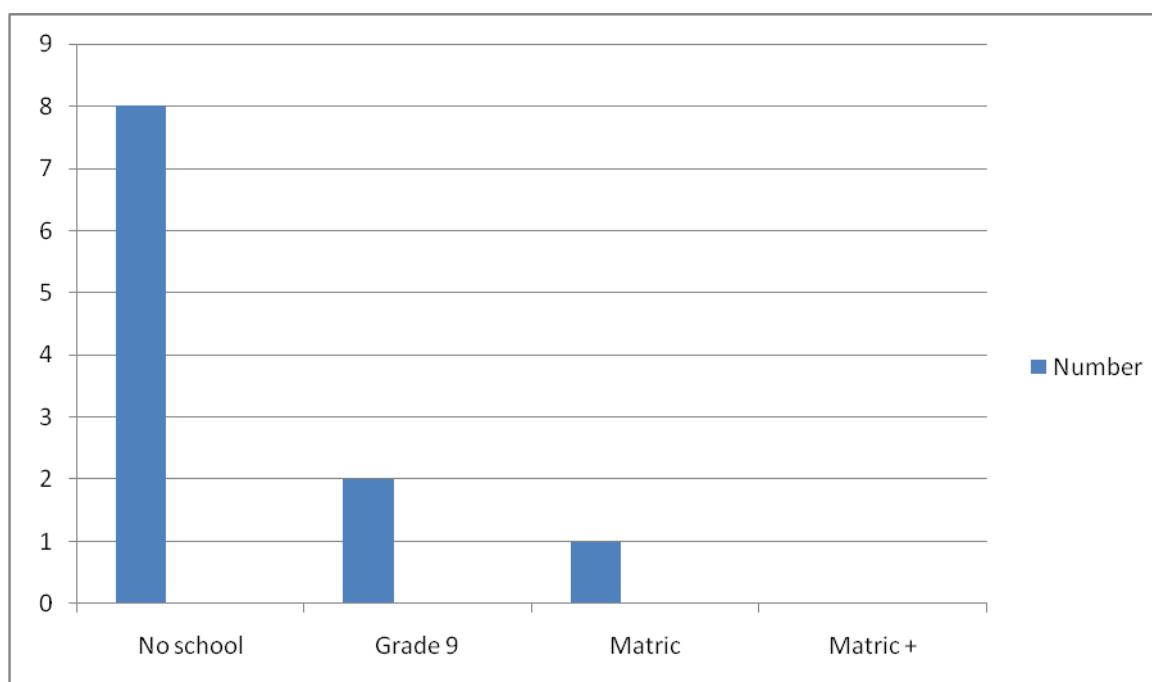
Although the co-operative's membership is not restrictive, it is largely dominated by women and this is reflected in the co-operative's certificate of registration, which puts the membership at 100 percent women. The group recruited some men when they became involved in leather work, but by 2010 only one of the 11 members was male.

Most of the members of the project are elderly or middle aged. Only two of the current members are young people.

Most of the members of the co-operative have low levels of education and poor literacy skills. Only one of the members of the group has obtained a matric certificate (Figure 4.2). The poor educational levels have been an important contributory factor in the administrative challenges that have troubled the group.

The co-operative members acknowledged that they lacked administrative skills and identified a young man who was an educator in the area to come and work with them to assist them with general administration and management. The identified person agreed to assist, but in the end he was unable to do so. As a result the co-operative is still not keeping adequate records.

**Figure 4.2: Level of education for co-operative members, 2010**



#### **4.2.1.3 Leadership and Management**

The ideals and practices of a co-operative were always central to the members of the group even before the legal registration could take place. The group has an Executive with five members acting as Chairperson, Deputy Chairperson, Secretary, Deputy Secretary and Treasurer. Co-operative principles are followed when decisions are taken, actions are decided and implemented.

The co-operative's five-member committee meet once a week and regular general meetings would be called with all the members. This is the main platform for democratic control and decision making.

The co-operative is well organised. Members agreed on a constitution that they adhere to. While the constitution does not clearly spell out the co-operative values and principles, these are inherent in the members themselves, due to their upbringing in the village with its value system of "ubuntu", i.e. co-operating and helping each other willingly without any expectation for re-imbursement.

Minutes of the meetings clearly reflect how the co-operative functions and how decisions are taken.

From the start, new members were trained by the already experienced members. The co-operative also encouraged volunteers and young people from the village to join, and these are also trained by the other experienced members of the co-operative.

The money earned through the sale of beads, tracksuits, uniforms and other special requests is saved in the name of the co-operative at the bank. The group sometimes uses this money to buy more material.



#### **4.2.1.4 Government Funding and support**

The merged group applied successfully for funding and by 2004 had received a grant of R300 000 from the Department of Arts and Culture (DAC), as well as training. Over the next two years the group received additional support in the form of training on sewing and additional sewing machines from the Department of Labour, the Amathole District Municipality and the private company, Old Mutual.

As the income from the sale of their goods was still low, the members of the group started paying themselves a stipend, first R400 and later R800 per month, from the funding that remained from the DAC grant. It was unfortunate that financial records were not kept and this would remain a challenge to the group over the years.

The group decided to find a central place where they could work, were allocated a piece of land and in 2006 received a grant of R50 000 from the Mbhashe Municipality to fence the property. In 2008 they were fortunate to receive a substantial grant of R3.5 million from the Independent Development Trust (IDT) to build a centre, a grant of R250 000 from the Department of Social Development for embroidery machines, as well as support from the Department of Minerals and Energy for training to make jewellery and additional equipment. Over the next few years the Department of Social Development granted an additional R500 000 for sewing and embroidery machines to enable the group to increase production.

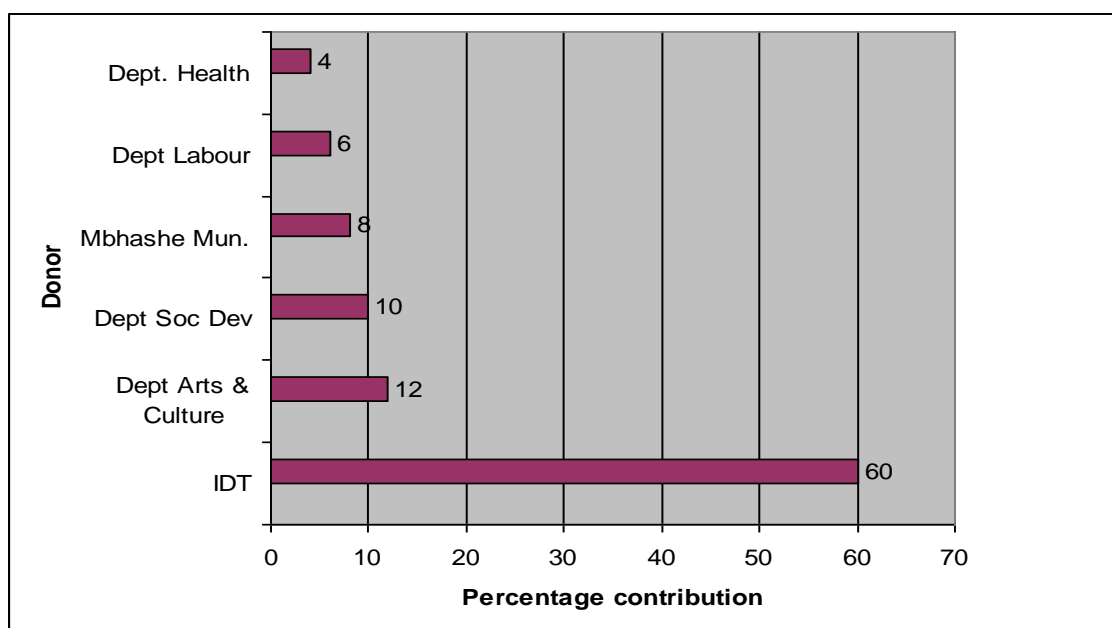
**Images 4.1 and 4.2: The centre funded by the IDT where the Khanyisa Ntsimbi co-operative works**



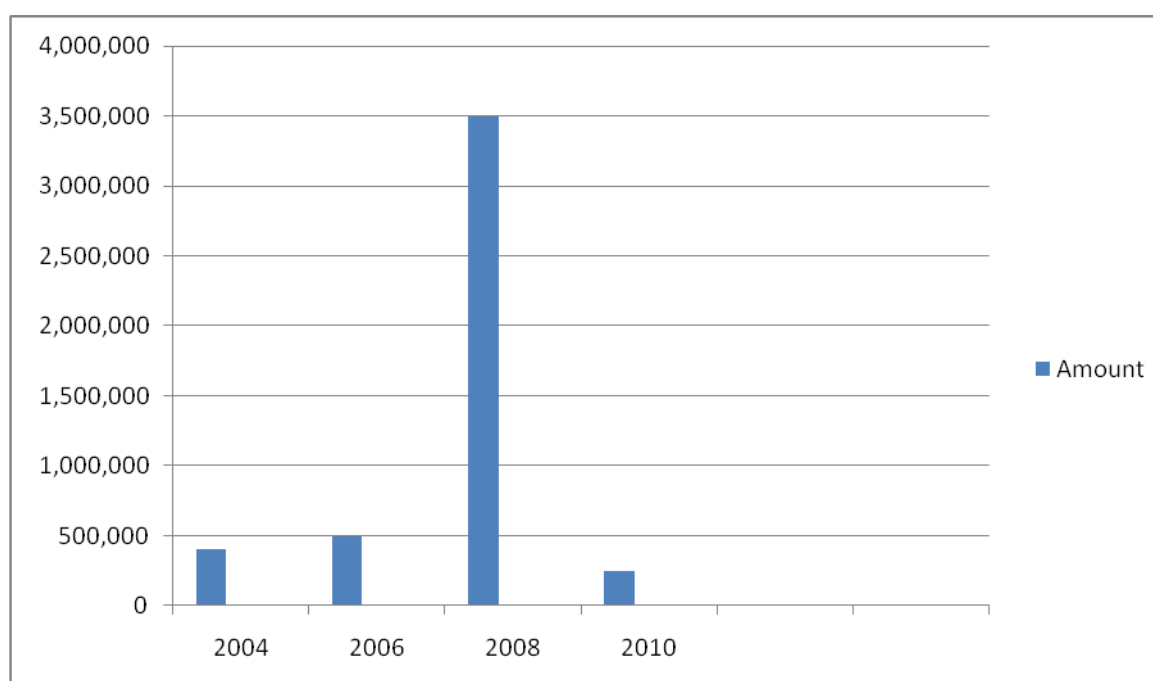


Figures 4.3 and 4.4 give graphic illustrations of the origins and extent of government support to the co-operative between 2004 and 2010.

**Figure 4.3: The origins and extent of government support to the Khanyisa Ntsimbi co-operative**



**Figure 4.4: Government funding to the Khanyisa Ntsimbi co-operative, 2004-2010**



The figures reflect both financial grants and contributions in kind such as the sewing machines. Quantification of the value of training and of material donated is difficult, but an effort was made to quantify the contributions based on estimates of the cost of training and materials at the time of the grants.

Despite these considerable grants and improved marketing, such as at craft exhibitions, the group did not thrive. The jewellery initiative did not get off the ground as there was no electricity to use the equipment and in time the youth that was trained left the co-operative.

Financial management remained a problem and the money from which they had paid themselves the stipends ran out. Once the new buildings were completed, the co-operative opted to employ a watchman at a monthly salary of R1000 to guard against vandalism and theft, and this further limited their financial viability. To this day the group does not keep financial records and attempts to recruit someone to assist them have thus far been unsuccessful.

#### **4.2.1.5 Comments on the Khanyisa Ntsimbi co-operative**

This overview draws attention to both positive and negative issues that have affected the performance of the Khanyisa Ntsimbi co-operative.

On the positive side, the members have shown commitment to the co-operative in the difficult early years by working together and, when possible, by making financial contributions to fund on-going work. The spirit of co-operation extends to working with other individuals and co-operative should this become necessary. When, for example, the co-operative got large tenders, the co-operative members usually ask others to assist in order to meet the targets on time. They are also prepared to assist when asked by other co-operatives to do some work for them.

Whilst there might have been other reasons for failure, the fact that this co-operative has not thrived, despite considerable injections of capital and training support from government and other sources, is a cause for concern.

The lack of co-operative governance and planning played a role.

- The members received training in sewing and jewellery making, but, it appears, no business skills training.
- Only a single person was trained on jewellery making. When the jewellery making did not take off, this person had no prospects of earning an income and left the group.
- There appears to have been a lack of co-operation and coordination among the different spheres of government. One example is that the expensive new centre had no electricity connections. This meant that equipment that needed electricity, which was donated after the completion of the new centre, has to this day never been used.
- It is clear that there has been inadequate monitoring and evaluation of the use of the grant funding by the donors. When members were not earning a sufficient income, they resorted to using the remainder of the grant from the Department of Arts and Culture to pay themselves a monthly stipend. Had the newly acquired capital been used, as was intended, for purposes of increased production, the co-operative would have generated enough revenue to allow the members to make a living.

These were undoubtedly major contributing factors in the inability of the members to earn decent incomes.

#### **4.2.2 THWALISANANI CO-OPERATIVE**

##### **4.2.2.1 Background**

The Thwalisanani co-operative (meaning “carrying the luggage together”) operates from the village of Mbewuleni, which, like the previous co-operative, is the home area of former President Thabo Mbeki. The members of the Thwalisanani co-operative have a 13-year history of working as a collective and registered as a legal co-operative in 2005.

A group of 10 people in Mbewuleni started baking bread in March 1997. The group was contracted by an NGO called Shalom to bake and distribute bread to nine public schools in the Dutywa area as part of the government’s School Nutrition Programme. At that stage, the group used indigenous and cost saving baking methods such as “iwonti” – a mud stove.

After some months, government’s delayed payments, the decision to by-pass local groups in the awarding of the school nutrition tenders and the disappearance of Shalom with the co-operative’s money, led to the bankruptcy of the co-operative and several of the members left the group.

The Department of Health nevertheless continued to support the group with a grant of R8 000 and a new stove. Unfortunately the power that was demanded by the new stove was inadequate so that the stove could not work. This led to further members leaving the co-operative.

It was only five years later, in 2002, that the co-operative again participated in the School Nutrition Programme when it was subcontracted by a large bakery to bake and distribute bread to three local schools. This responsibility required the hiring of a delivery vehicle for deliveries that further reduced the income they received. The group carried this financial burden for two years before once again collapsing in 2004.

The group then branched out to vegetable gardening as a source of more sustainable incomes. Despite receiving land from the chief and a grant of R40 000 for fencing from the local Municipality, the new venture was also unsuccessful. The members then decided to do beading and sewing. To keep the co-operative going, they decided to sell their products on credit as the only market they had was the local community. When incomes proved to be low, disappointed members left the group, leaving only eight members remaining. These were determined to continue working from home. They recruited new members and embarked on diverse economic activities, including vegetable gardening, sewing, poultry farming and baking.

In 2006, with the support from Amathole District Municipality, the remaining 11 members registered as a co-operative. They decided to call themselves “Thwalisanani” – meaning “help each other in every burden” and the name reflects the difficult times that they had gone through together in the previous years.

#### **4.2.2.2 Membership**

The membership of the group increased and decreased over the years due mainly to fluctuating incomes. When the bakery project for the school nutrition programme failed in 1997, the membership dropped from 10 to six. As soon as there were prospects of making money, membership increased. In the period after 2004, when the group was engaged in beading and sewing, the membership grew to 15. It is possible that beading and sewing could be done at home and did not need much in terms of start-up funding, and this might have attracted new members to join the group. When incomes proved to be low, disappointed members left the group, leaving only eight members remaining. Once these remaining members embarked on diverse economic activities, including vegetable gardening, sewing, poultry farming and baking, which promised to make money, the membership grew to 23. When the group registered as a formal co-operative in 2006, the numbers stood at only 11. By September 2010, three of these had left, but seven new members had joined the co-operative, bringing the membership to 15.

The membership of the co-operative was never restricted to any one group of people, but in 2010 the co-operative has only one male and no young people as members. There are two young women, but they are married and thus not regarded as ‘youth’. The dominance of females reflects the perception that the work that is done is ‘women’s work’.

#### **4.2.2.3 Leadership and Management**

During the entire period they have operated, even prior to even being legally registered, the members operated based on values of co-operation and trying to address common needs mutually. The members felt they were jointly owning and democratically controlling the business. Core members of the co-operative have always stood steadfast by these norms. They also demonstrated a commitment to the economic contribution by members. This was clearly demonstrated when they

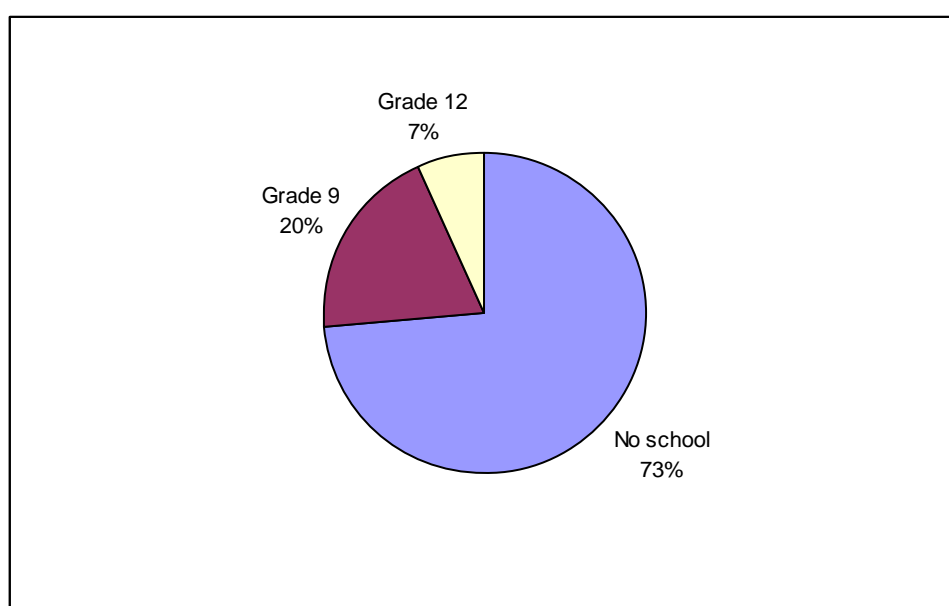
decided many times that they must donate some funds from their own pockets in order to keep the business going.

Members have never been trained on the principles of the co-operative. The co-operative way of doing things reflects the traditional way of doing things. For them, the co-operative did not mean any change of values or principles. Formalising the co-operative was rather a way of attracting government funding, as they heard that projects stand a better change of being funded once it has registered as a co-operative.

The co-operative has an Executive with the chairperson responsible to call the meetings of the co-operative. Other than is the case in the Khanyisa Ntsimbi co-operative, meetings of the Thwalisanani co-operative are rarely held, as there are no specific institutional arrangements for calling meetings. Members more or less work individually and they are called together only when there is something that that needs their mutual attention.

Minutes of the meetings are kept by the secretary and are available on request. This is commendable, as almost three quarters of the members have never attended school. Figure 4.5 shows the levels of education of the members (based on 15 members of the co-operative).

**Figure 4.5: Levels of education for Thwalisanani co-operative members**



There is not a single member with a post matric qualification and only one with matric. This poses a serious challenge for the co-operative in terms of its administration and record keeping.

After many years of operating without a constitution, the members have since developed one on their own without any assistance.

The co-operative's core activities are sewing, baking, gardening and poultry farming. Looking back at the history of the co-operative, those activities were all done at one stage or another. The members are presently doing poultry farming at household level. They make Umbhaco or traditional wear only on order. They have recently been getting many orders from locals and were

once asked by the Amathole District Municipality to provide clothing for a special event they were holding.

The co-operative does not have a business plan. Failure to have a business plan means that there is no planning and this has been a major contributory factor to the failure of the project. It is often said that “failing to plan is planning to fail”.

Financial planning is poor and no records are kept of the expenditure incurred and income earned. When an income is realized and expenditure incurred, only verbal reporting is done to members without proper written detail. The subsidiary groups, i.e. bakery, sewing and gardening, all have banking accounts in which they bank the surplus money left after the raw material have been bought. A portion of the remainder is shared amongst the beneficiaries. The co-operative as a unit does have a banking account, but there are no funds in it.

#### **4.2.2.4 Government Funding and Support**

When the initial Zizamele Project started, the Department of Health supported the project with equipment and a grant of R8 000 in 1999. At that time, the Department of Education also supported such local groups, first by awarded contracts to local bakeries like Zizamele and later encouraging sub-contracting to local groups, so that the group benefitted from the School Nutrition Programme.

The local municipality in turn assisted the co-operative with fencing of the vegetable garden. Despite this grant of R40 000, the garden never produced vegetables because of the drought and general poor weather conditions in the area. No business planning and feasibility studies were done before funding the project and it is no wonder that the initiative failed.

The municipality again supported the co-operative with the purchase of bakery equipment worth more than R70 000. There was once again a lack of proper planning, as this equipment did not work because of a lack of electricity. It also points to a failure to integrate the programmes of the municipality with those of the sector departments and parastatals.

The Thwalisanani co-operative members received training on technical skills from both the district and local municipalities. They did not, however, receive training on establishing the co-operative, drawing up the constitution and marketing and the co-operative is to this day struggling to understand exactly how a co-operative is supposed to function.

The co-operative has never been exposed to the Municipal IDP and the municipal IDP planning processes. Lately, a structure called “Co-operatives Forum” was established of which the co-operative is a member and the municipality confirms that the Forum is registered as one of the stakeholders to participate in the IDP processes. Whilst that is the case, the co-operative has established good working relations with the Local Economic Development (LED) office in the municipality that deals with co-operatives.

The co-operative has on two occasions been asked by the Amathole District Municipality to make bags to be used at a particular event. The total value of the tender was R100 000. Unfortunately, the co-operative lacked the capacity to undertake the task themselves and they had to share with other co-operative to meet the deadline.

The total financial support from the government amounts to R58 000 from the Department of Health and R110 000 from the Mbhashe Municipality.

### **4.2.3 INKUTHALO CO-OPERATIVE**

#### **4.2.3.1 Background**

In 2004, there was a bridge being constructed in the village called Aukland, which is part of the bigger Mangati Administrative Area. The majority of people employed in the site were the previously unemployed youth from the village. They realised that they are employed until the project is complete, but not permanently. They decided to make provision for the future by donating R70 each from their fortnightly wages and to put this in a back account under the name “Sekunjalo” – “meaning now is the time”. They thought it was the right title as it means the time has come for them to move out of poverty and unemployment.

With the money collected, they lent the money to members at an interest rate of 30 percent. More importantly, even while they were still employed on the bridge-building project, they borrowed un- or underutilized gardens from villagers on which they planted vegetables like cabbages, green peppers and carrots. They were fortunate to get support locally and marketed their products through Ngumbela Fruit and Veg and the Spar Supermarket.

#### **4.2.3.2 Membership**

At the formation of the co-operative i.e. Sekunjalo, the members were fifteen in total, but after the bridge was completed, several left the group for different reasons (Figure 4.6). Most of the project members that left were concerned that the group would not be able to generate enough money for members to make a living. At that stage, the name “Sekunjalo” was also rejected by the Registrar of Companies. The co-operative’s name was changed to “Inkuthalo” and the names of the eleven members appear on the Certificate of Registration.

Over time, membership numbers changed due to death and further concerns about the ability of the group to make money. The co-operative now has seven members comprised of 5 men and 2 women. The membership of the co-operative is restricted to the youth only.

Compared to the other co-operatives in the study, the Inkuthalo co-operative members are well educated (Figure 4.6). All have attended school, over one half have matriculated and over one quarter has some post-school education. These higher educational levels make the group better off than the others in terms of management and administration skills.

#### **4.2.3.3 Leadership and Management**

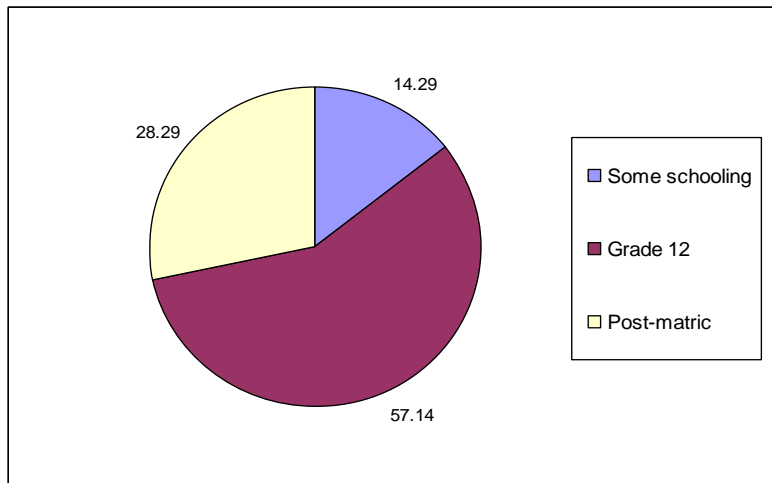
Even none of the members ever received training, co-operative values and principles are ingrained in the members of the co-operative. This is evidenced by the manner in which they took a decision to pay fortnightly contributions as part of their capital contribution to start the business. Secondly, the co-operative has a constitution which guides how the organisation functions in terms of roles and responsibilities and other work that is performed by the executive committee members.

Surprisingly, despite the youthfulness of the members of this co-operative, they operate on a very flexible basis and anyone is free to call a meeting of the members if they feel that there is an



important issues to discuss. This is despite the fact that they meet almost daily when they work in the vegetable gardens. It is a clear demonstration of a group of young people showing their preparedness to work together as a co-operative without too much red tape, as long as they respond quickly to address issues and get the job done.

**Figure 4.6: Levels of education for Inkuthalo co-operative members**



Once they acquired their gardens from which to work, the members paid a consultant from their own funds to draw up a business plan.

The co-operative concentrates on only one product, namely vegetables. Nobody assisted the co-operative with finding a market for their produce. The vegetables are marketed in the surrounding locations, either sold to the Spar Supermarket or else sold by the members themselves in the streets of the nearest town, Dutywa (Image 4.3).

**Image 4.3: Inkuthalo Co-operative members selling vegetables in the streets of Dutywa**



Because of the high literacy rate in the co-operative, the members keep a record of all the information regarding the incomes and expenditure. The only exception is a cash book.

All the donor funds are kept safe at the bank in the name of “Sekunjalo”, their original name. The funds are mostly used to buy more seeds and other requirements and used for the advancement of the project. The donor funding is not divided amongst members. Members earn incomes for the work that they do in the co-operative garden and the sale of vegetables.

#### **4.2.3.4 Government Funding and Support**

Asked about government support, the co-operative responded that since 2004, there has been little support from government for the co-operative apart from some grant funding. There has never been assistance on any of the following areas:-

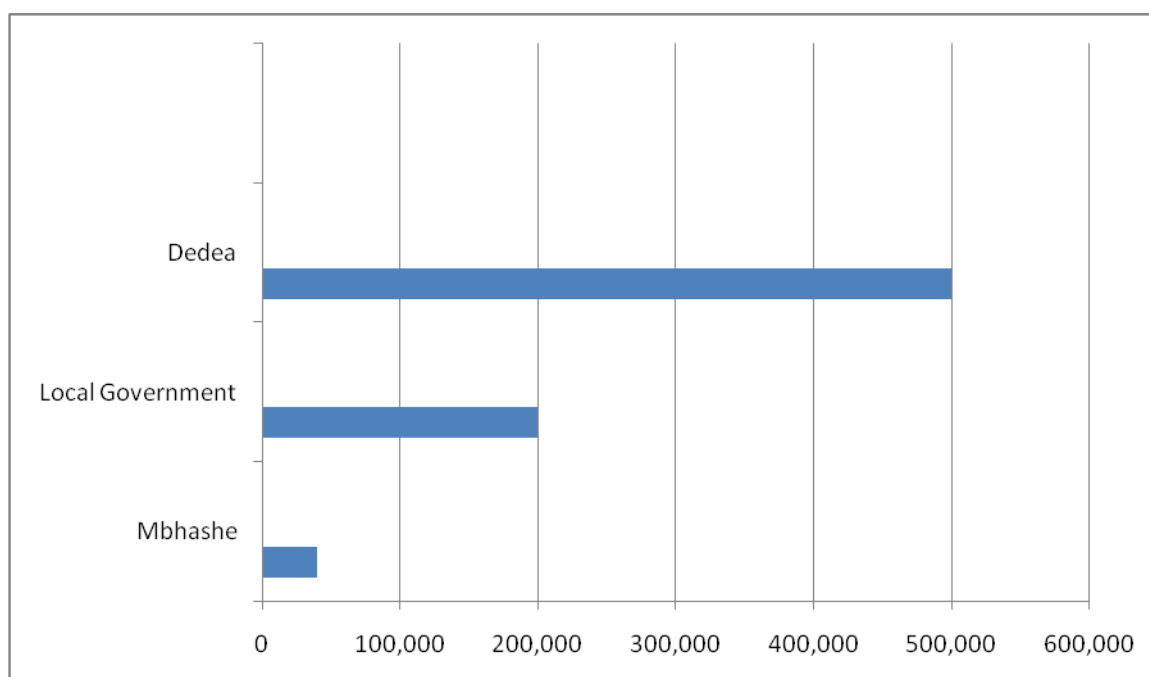
- Establishment of a co-operative
- Drawing up a constitution
- Business planning and training
- Technical support
- Marketing

There have always been promises from the Department of Agriculture to train the members on how to cultivate different kinds of vegetables but this has never happened.

Assistance from the Municipality was received in 2005, where the co-operative was granted R40 000. The funds were used for fencing the newly acquired garden and they erected a house for storage purposes. In the same year, about R200 000 was received from the Department of Housing and Local Government through Integrated Sustainable Rural Development Programme (ISRDP). The money was channelled through the municipality to ensure effective monitoring and evaluation. While the intention was sound, this process later proved to be a cause for delays in releasing funds.

The Department of Economic Development and Environmental Affairs (DEDEA) promised to fund the group to a maximum of R500 000 for horticultural tunnels. The fund was deposited in the Amathole District Municipality’s bank account in 2007. The ADM appointed a service provider to erect the tunnels, but they were destroyed by heavy winds. Again, the failure to plan effectively was apparent, as there was no protection for the tunnels from the wind. At the time of writing, the co-operative is still waiting from the District Municipality to appoint another service provider to reconstruct the tunnels.

**Figure 4.7: Level of government support to the Inkuthalo Co-operative (in Rands)**



The graph points to the amounts of funding the group got from the government. It includes the funds that were allocated to them even if the task they were meant for was never completed, as was the case of the tunnels.

As was the case in other projects, the lack of electricity has limited the progress of the project. The group noted that if there was an electrical water pump, they would be doing exceptionally well beyond what they are doing now. Applications have been made to ESKOM to connect electricity to their land, but there has been no response to their application. This once again indicates that there is little or no integration among government programmes that are supposed to address the socio-economic needs of poor communities.

The group has never been exposed to the Integrated Development Planning (IDP) processes of the municipality. As things stand, the group does not want to listen to any municipal official and do not know their role in the municipal planning processes. There is no link whatsoever between the co-operative and the municipality and they are happy to work independently of government because of all the broken promises and delays.

#### **4.2.4 WORK ETHICS AND DISCIPLINE AMONG CO-OPERATIVES**

##### **4.2.4.1 Khanyisa Ntsimbi Co-operative**

Records of times-in and times-out are not kept. Co-operative members have agreed to work on a flexi time basis when there are no special jobs to be done.

##### **4.2.4.2 Thwalisanani Co-operative**

Although the members of the Thwalisanani co-operative are supposed to be engaged in a wide range of activities, the members have become disillusioned due to various obstacles. They go to the designated place of work only when a special meeting is called.

Whilst on the location, a member who I spoke to emphasized the fact that they need sewing machines. The woman reported that the co-operative recently won a tender to make 200 bags for Amathole District Municipality. They were, however, unable to make even one due to lack of sewing machines and they had to ask the assistance of other co-operatives in order to get the work done. As a result of the lack of equipment, they feel that they don't have to go to to report at the workplace and most work from home on the poultry project.

#### **4.2.4.3 Inkuthalo Co-operative**

Members of the Inkuthalo co-operative go to their fields every day. Early in the morning they irrigate the plants and then may come back later in the day to do some work. In most cases, the researcher could not find them at midday as they don't spend the entire days in the fields.

#### **4.2.5 ADDRESSING SOCIO-ECONOMIC ISSUES**

Ten members of the various co-operative were asked to answer questions on socio-economic issues. The interviews were done very informally and members were approached in a manner that would make them feel comfortable and talk freely and honestly.

Many acknowledged the fact that they are still struggling to make incomes that could feed their families, but they hope they will one day succeed. With the vegetables that are produced by Inkuthalo, co-operative members take the unsold produce for home use. Most of them are youthful and still stay with their parents. As they are not seen to be the breadwinners, they are not expected to provide anything for the household, but their families are very grateful to them for making a contribution.

Seven respondents said they are happy to be co-operative members, but they expressed their concerns about the unwillingness of government to assist. Three of the respondents said that they were not absolutely happy, because despite promises from people who visit the co-operatives, support is not forthcoming.

All the respondents appreciated the co-operative for different reasons. Six of them said they divide the profits (sales income) amongst themselves. The remaining four respondents said they are able to provide some basic foodstuffs for their families through the co-operative.

When questioned about the ability of the income from the co-operative to fulfil their family needs for schooling, three respondents noted that they could afford to pay school fees because it is not expensive, another three said they rely on family members for school needs, while another three did not have children,. Only one of the ten respondents came out strongly saying it is not possible to pay school fees because there's not enough income generated at the co-operative. Discussing the matter further, it was found that this respondent does not use the public schools, but sends the children to the more expensive private or former model C schools.

Five of the respondents were youth and five were elderly. Four of the five youths confirmed that if they could get a job elsewhere, they would willingly take the job, even though one said that he is happy as a self-employed person. He added that he is also involved in the construction business, so has other options for self-employment. The five elderly respondents said they don't envisage themselves leaving their homes (and thus the co-operatives) for other work at this stage.

Two respondents stated that they are involved in the construction business, which supplemented their income from the co-operative. The other eight responded by saying they do gardening at homes in order to supplement whatever they are getting from a co-operative.

None of the ten co-operative members were sole family providers. Seven of the 10 respondents said there are others in their households who are working, either the parents or other close relatives. The other three indicated that they rely on close family members who get government grants.

It would therefore appear that the co-operatives do not provide the interviewed members with sustainable incomes that will allow them to support a family. The co-operative can at best supplement household incomes. Older members appear to be happy to work as part of the co-operative to supplement grants or other household incomes. Young people will, however, not be kept in the rural areas by the uncertainties and low incomes offered by the co-operatives. It is likely that the youth will see their participation in the co-operative as a stepping stone to a better job elsewhere, particularly when they too decide to start their own families and are expected to become breadwinners.

From this perspective, the three co-operatives are succeeding partially to improve the socio-economic conditions that prevail in the rural areas. No matter how little the incomes, members of the co-operatives have benefited, else they would not continue to participate. With better support, training and management, co-operatives could play a significant role to improve the socio-economic conditions in rural areas. One example from the present study is the case of the first three years of the Thwalisanani co-operative, when the members were earning steady incomes by participating in the school nutrition programme.

#### **4.2.6 COMPARISONS BETWEEN THE THREE CO-OPERATIVES**

The following tables summarise comparisons among the three co-operatives in terms of the following:

- Membership numbers and gender
- Grant funding
- Income generated
- Administration

**Table 4.6: Membership of the three co-operatives**

<b>Co-operative Name</b>	<b>Start</b>	<b>Now</b>	<b>Variance</b>
KhanyisaNtsimbi	18	11	-07
Thwalisanani	10	15	+05
Inkuthalo	15	07	-08

**Table 4.7: Membership according to gender**

Co-operative name	Male	Female
KhanyisaNtsimbi	01	10
Thwalisanani	02	13
Inkuthalo	05	02

In the earlier discussions on the membership of the three co-operatives it was clear that membership numbers increased and declined over time, mainly related to incomes. KhanyisaNtsimbi and Thwalisanani currently have smaller numbers than when they started, and membership numbers probably reflect the fact that these co-operatives have experienced many challenges.

The youthful Inkuthalo group is focussed and working hard and appear to be making a living, however meagre. The participation of these well educated young people in the co-operative is undoubtedly a reflection of the lack of employment in the immediate area. Furthermore, most of the members are males who saved money while working on a bridge-building project to self-fund their new business venture.

**Table 4.8: Capital injected since formation**

Co-operative name	Grant (Rands)	Own (Rands)
KhanyisaNtsimbi	4 650 000	Nil
Thwalisanani	168 000	5 000
Inkuthalo	740 000	10 500

**Table 4.9: Comparative figures on incomes generated by co-operatives since their formation**

Co-operative name	Estimates (Rands)
KhanyisaNtsimbi	250 000
Thwalisanani	100 000
Inkuthalo	45 000

**Table 4.10: Profitability calculation - Income generated as percentage of capital injected**

Co-operative name	Capital	Income	Percentage
KhanyisaNtsimbi	4 650 000	250 000	5.38%
Thwalisanani	173 000	100 000	57.80%
Inkuthalo	750 500	45 000	6%

Whilst some of the information is based on estimates, the group that shows the highest profitability ratio is Thwalisanani at 57.80%. The members are poorly educated and they lack administrative skills, but appear to have found a niche market making traditional wear. If the group's administrative weaknesses can be addressed, they have the potential to do even better.

The Inkuthalo co-operative has not been generating much income, but this youthful group is committed to make a success of their vegetable production business. It is unfortunate that their largest government grant, to build vegetable tunnels, has been a complete failure. It is possible that they will greatly increase their income if the tunnels are well planned and well constructed and if the various government departments' work together to ensure that water and electricity is made available.

The worst return on investment is KhanyisaNtsimbi. This co-operative received huge sums of money from the government and although its income thus far is higher than those of the other two co-operatives, it is relatively small when compared to the huge capital injection that it has received. The members came together initially to access government funding, but have not been able to realise the potential of all these millions. The conclusion is that the funding was awarded without effective planning at the initial stages. The co-operative members have low education levels and they acknowledge that they have poor financial and administrative skills. The members urgently need training and mentoring to improve these important skills to enable them to improve their business and to ensure that all this government funding is not wasted.

Overall, the incomes earned by the co-operatives are very low when compared to the capital investments. It is nevertheless the sole source of incomes for most of the members and should therefore be seen as social projects. In order to avoid a waste of state funding, it is imperative that the co-operatives should be assisted and trained to improve their performance so that they may truly play a role to improve the socio-economic conditions in the areas in which they are located.

**Table 4.11: Summary of documentation available**

<b>Document name</b>	<b>Khanyisa</b>	<b>Thwalisanani</b>	<b>Inkuthalo</b>
Constitution	Yes (not a standard co-op constitution)	Yes	Yes (not a standard co-op constitution)
Business Proposal	No	No	No
Business Plan	Yes (meant for Social Development)	No	Yes
Feasibility report	No	No	No
Cash Book	No	No	No
Receipt Book	Yes	Yes	Yes
Bank Account	Yes	Yes	Yes
Record of payments	No	No	Yes

All three co-operatives have some sort of institutional structures, even though not all have constitutions. It is clear from the information available that not all function equally well administratively. They need better business plans and feasibility studies, which would have avoided some of their worse failures. None keep cash books and only one of the three keeps records of payment. Administrative, business and financial skills training is likely to benefit all of the groups.

#### **4.2.7 ROLE OF THE STATE ORGANS**

##### **4.2.7.1 Enterprise Development Assistance**

Attempts were made to obtain information from the different spheres of government and government agencies that are expected to support the co-operatives in some way or another. Information was obtained from DEDEA, the ECDC, Department of Agriculture, Department of Social Development, the Amathole District Municipality and the Mbhashe Local Municipality.

Government departments base their support for enterprises on different policies, legislation and programmes. While these programmes are supposed to be mutually supportive, sometimes they clash or overlap.

DEDEA gave its main functions as the social upliftment of the standard of living through economic empowerment. They say that this is based on the seven provincial pillars for economic growth and development.

In ECDC, the economic development programme is guided by their “project development programme” which is mandated by the Industrial Development Framework, EC Rural Development Strategy and EC Information and Communications Strategy. Their focus is on business development rather than poverty alleviation.

The Department of Agriculture’s core mandate is support to farmers in order to increase agricultural output. This is done through the Comprehensive Agricultural Support Programme (CASP), which acts as a policy guide.

The Department of Social Development has a lot of funds allocated in support one of their programmes called “Development and Research”. Contrary to other departments that support co-operatives, this department does not offer support specifically to co-operatives; their mandate is focused on the marginalized and poor households and the beneficiaries should meet specific criteria set by the department. The department assists the groups to register as Non-Profit Organisations rather than as co-operatives. The department communicates its programmes through awareness campaigns. The official from the Department of Social Development who was the respondent confirmed that they did not consult anyone before the approval of the project or the funding. The department only consults the municipality after the approval of the project. The respondent further acknowledged that this is something that leads to the failure of many projects.

The ADM as the district municipality has a LED Unit which supports small business enterprises. The work of this Unit is guided by the Amathole Regional Economic Development Strategy (AREDS), the PGDP and the Comprehensive Rural Development Programme.

The local municipality, like all municipalities, derives its mandate from sections 152 and 153 of the Constitution of the Republic of South Africa. From the constitution and other government policies and strategies, the municipality established a LED unit to ensure that support is given to rural enterprises, which includes the rural co-operatives.

One of the key support organisations for small and emerging businesses is the Small Enterprise Development Agency, or SEDA. No information could be found on whether this government agency



has ever offered training and support to the three co-operatives. It is possible that the Municipality can play a role to obtain such support from SEDA.

#### **4.2.7.1 Development Assistance to Co-operatives**

Whilst most government departments and agencies offer some support for co-operatives, their approaches are different and could cause tension amongst the organisations.

For the co-operatives, DEDEA derives its mandate from the Co-operatives Act, Small Business Act, BBBEE Act and Provincial Growth and Development Plan (PGDP). The support the department gives includes the following:-

- Co-operative registration
- Training
- Advice
- Financial support through the Imvaba Fund administered by ECDC.

ECDC support co-operatives involved in the primary, secondary and tertiary economic sectors. The support is in the form of:-

- Providing finance through Imvaba Fund
- Enterprise Development Support

The Department of Agriculture assists all co-operatives who need assistance and who does agriculture as their core business activity. The following are the core assistance programmes:-

- Formation of co-operatives
- Co-operative registration
- Business planning
- Feasibility studies

The ADM has the following support mechanisms for co-operatives:-

- Land acquisition
- Registration of co-operatives
- Training
- Funding and ensuring that co-operatives get funding

Mbhashe Municipality also supports co-operatives through the following:-

- Training
- Capacity Building
- Registration of co-operatives

- Financial assistance through capital equipment given to them

The Department of Social Development does not assist programmes that are aimed at developing business potential, and they only support Non Profit Organisations.

#### **4.2.7.3 Co-operation among Organs of State**

It is clear that there is no compelling legislation that binds government departments to work with one another on co-operative development issues. Each seems to consider funding applications or requests for non-financial assistance independently, without consulting the other government departments or agencies. The government departments and agencies do not feel compelled to approach other government entities, such as Eskom, to discuss project needs before providing grant funding. None, except the Department of Agriculture, see themselves as compelled to consult the local municipality when initiating or funding co-operatives at the local level. The Department of Social Development ask for letters of support from the municipality only after that Department has already approved funding for a certain project non-profit organisation in the area. The municipality agrees to write the letters as a matter of compliance and not as a commitment to partner with the department in the project planning and implementation.

### **4.3 CHALLENGES AND GAPS IDENTIFIED**

#### **4.3.1 CO-ORDINATION AND ADMINISTRATION**

There appears to be no government integration of programmes that support co-operatives. Based on information obtained from the co-operatives, it has become clear that whichever government department or agency offers support to a co-operative does not plan these interventions in collaboration with the other government departments. For example, many projects fail through lack of electricity: the government departments supply equipment that needs electricity to localities where electricity is not available. Government's support programmes are often extensive, but there is a clear lack of co-ordination and co-operative governance.

The administrative systems in the government have played a role in the failure of some of the projects. The administrative protocol that leads to late payments is detrimental to the life of the co-operatives and SMMEs in general.

Government operates mostly on a year to year budget. This means that the grant for a particular co-operative is meant for one year and the following year support is given to another one. This often results that nothing in a particular project is ever completed.

#### **4.3.2 STRATEGIC PLANNING**

All of the co-operatives in the study indicated that no feasibility studies had been done before the implementation of a particular project. This is despite the Department of Agriculture response that they assist with feasibility studies on projects related to agricultural.

No feasibility and no business planning were ever done before donating money to the initiatives. This is easily visible, because in one instance the Municipality donated baking equipment to the value of R50 000 that could not be used because there was no electricity. This clearly shows the need for business planning and feasibility studies before the of the projects are undertaken.

The Municipality acts without plans and is needs responsive. This is evidenced by the response on the need for fencing - the municipality responded by fencing the piece of land. When there followed a request to provide shelter, a container was provided and later a generator when there was no electricity provided by Eskom. In the end, despite all of these interventions and considerable amounts of money that was invested in the projects, this was not able to rescue the affected projects or make them profitable.

#### **4.3.3 MARKETING**

The markets that the co-operatives have to rely on are generally unstable. The fact that market research is not done, results in the inability of the co-operatives to find sustainable markets for their products. Some of the co-operatives produce enough that is ready for the market, but they are unable to find a stable market. DEDEA and the Municipality are the ones to assist with regard to finding markets and generally to train the producers how to price their products. For example, when selling poultry, the co-operatives ignore the time and costs of raising poultry when pricing, trying simply to find buyers on days when social grants are distributed.

Hawking was never a good marketing tool as one cannot be sure of the market. The Inkuthalo co-operative hawks most of their vegetables in the town, but this is not a steady and sustainable market and, unless other market options can be found, could lead to the failure of the co-operative.

#### **4.3.4 VISION AND DRIVE FOR FORMING A CO-OPERATIVE**

The intentions of forming a co-operative are not always based on a true co-operative vision. Many co-operatives register as co-operatives because they wish to access government funding. There is no training or information given to prospective co-operative members on aspects such as values, principles, ethics and its constitution.

Generally youth migrate from one point to another searching for jobs or better incomes, while others may go back to school. This leads to problems related to consistency in a youth dominated co-operative, as membership is always changing and that has serious implications for the constitutionality of the co-operative.

Another important factor that is common is as the uncertainty of incomes. Without stipends or salaries, many co-operative members leave the co-operative to, for example, migrate to town where they hope they can find work. Rural to urban migration is a problem in all countries. Strategies are needed to keep people in rural areas in productive work using the co-operative programme. To do so, the government's co-operatives programme must be better planned and implemented.

#### **4.3.5 ILLITERACY AND TRAINING**

Poor levels of education are the main culprits behind the failure of many co-operatives. Illiteracy remains the stumbling block towards proper management and understanding proper procedures. The respondents acknowledged this and some went so far as to mobilise the educated youth to be part of their project, even if as a manager and not as a worker. The extension of Adult Basic Education and Training programmes to the rural areas may be one way to address illiteracy among older members of the co-operatives.

Coupled with illiteracy is the shortage of youthful population as part of the groups. Only one of the co-operatives in the study was initiated and managed by youth. The fact that young people are mobile leads to lack continuity in the co-operatives.

Another important challenge faced by co-operative is the lack of training in critical areas, such as how the co-operatives function, business management skills, financial management and general administration. Training was not done on important aspects such as co-operative formation and principles, marketing, business planning and general business skills. Without these skills, the co-operatives are destined to fail.

#### **4.3.6 INFRASTRUCTURAL PROBLEMS**

Most of the areas in which the sample co-operatives are located are reasonably well served by roads and municipal services. There are, however, areas that are poor in infrastructural services such as water and electricity. Some people do not have access to water as there are no nearby rivers and the people cannot afford rainwater conservation because they cannot afford water tanks. In the area of Mbewuleni for example, there are high levels of unemployment and people are dependent on remittances and grants, which cover only the basic household needs. This situation also affects the co-operatives that generally consist of poor people that work together in order to make a living.

The government's failure to provide the necessary infrastructure and monitor the way some of the funding was spent might have contributed to the demise of the baking project, as it was a running project.

The emphasis on monetary grants rather than funding for infrastructure and training may contribute to the failure of projects.

The government and its public entities have, however, installed some infrastructure, such as telephones. Unfortunately most of these are now vandalised, so that even this service is now unavailable to people without land lines and cellphones. The picture below (Image 4.4) was taken in Mbewuleni location and shows one such public telephone that is now broken and unused.

**Image 4.4: Vandalised telephone booth at Mbewuleni**



#### **4.4 INTERPRETATION OF FINDINGS**

##### **4.4.1 CHANGES IN THE SOCIO-ECONOMIC CONDITIONS**

Co-operatives can create jobs in the form of self-employment for people who otherwise would have remained unemployed. Co-operatives can also provide temporary employment. This was done by Inkuthalo, which at times offered casual employment to the citizens of the rural village of Aukland.

The ability of the Thwalisanani co-operative members to provide bread to the schools in the area proved that co-operatives could play a major role in changing the lives of many in the rural areas by participating in government programmes.

##### **4.4.2 LEADERSHIP AND MANAGEMENT OF CO-OPERATIVES**

The formation of co-operatives is frequently not based on the values and principles of co-operatives. This study has shown that some people form co-operatives merely in order to comply with requirements for government funding.

On the other hand, the democratic system of control and management of the group has generally been central to the co-operatives. The co-operatives manage meetings in a democratic manner. They respect the constitution which allocates particular duties to each executive member.

It is true, however, that sometimes poor management decisions are taken as members. One example is the case of the KhanyisaNtsimbi co-operative, when members paid themselves stipends before they worked out production volumes and the size of the market to ensure sustainability.

#### **4.4.3 SIMILARITIES AND DIFFERENCES AMONG CHALLENGES FACING THE CO-OPERATIVES**

All of the co-operatives struggle with markets, but the way in which they approach marketing differs from one to the other. Some co-operatives sell their produce on the days that welfare grants are paid. Some hawk their produce in the nearest town. Some depend on orders or contracts. All of these do not provide consistent markets and sales at times are dependent on luck. There are no marketing strategies that have been developed either by the co-operative or by the municipality.

The lack of training and capacity on issues such as marketing, business planning and market research, result in poor performance and a subsequent loss of interest among co-operative members. One example was when the Thwalisanani co-operative developed a vegetable garden only to find that it is difficult to source water to the garden. The project failed because no feasibility studies were done before the project was implemented.

Solving basic infrastructural problems such as electricity, water and the road network can make co-operatives work better. Some of the problems associated with the failure of co-operatives may be attributed directly to the lack of infrastructure in the areas of operation. The lack of electricity supplies has badly hit all the co-operatives where this study was conducted.

Members remain with the co-operative as long as they benefit financially. Once the external funds are exhausted and the project was not making enough money to pay the members, many leave the project. This is clearly shown by the fluctuating membership over the years. The fact that membership numbers have declined in two of the co-operatives proves the point.

#### **4.4.4 ENHANCEMENT OF CO-OPERATIVE GOVERNANCE**

There is a lot of government funding available to co-operatives, but this is scattered across different departments and parastatals. There is no integrated and co-ordinated approach among government departments and agencies on the funding of co-operatives. Each department and agency has its own application procedure and criteria for the allocation of funding. At times government departments allocate funding at the end of the financial year simply to ensure that there are no roll-overs, rather than awarding funding in a co-ordinated and well planned manner.

The study has shown that there is a shortage of management skill in the co-operatives. This is related to the issue of low education levels and illiteracy that is hampering the growth of several of the co-operatives. Raquejo (1997) noted that when the levels of education of both managers and members are weak, it is not uncommon to find cooperatives with weak and incompetent leadership, poorly defined managerial objectives, arbitrary decisions and a lack of sound and reliable accounting and controlling. The most common problem on the co-operatives is their level of education which is weak (1997:04). In this study area, both KhanyisaNtsimbi and Thwalisanani show great growth potential, but low levels of literacy remains the stumbling block.

#### **4.4.5 MODEL FOR CO-OPERATIVE DEVELOPMENT**

Departments are governed by their own mandates and tend to overlook the regional or district strategy where a particular co-operative is located. It may happen that, when various governments departments are responsible for the registration of co-operatives, a situation will arise where we end up with a great number of co-operatives with the majority not functioning effectively.

As things stand, there is no model for proper co-operative development; each department functions within its own mandate without consulting the other.

Co-operative members themselves do not know of the IDP and their participation in this planning process is minimal. There is little knowledge among co-operatives of the development assistance that is available to them (other than funding) and even if they do, they lack the knowledge and skills to access these support services. What is needed is for government departments and agencies, as well as the local sphere of government, to work together to develop a model for co-operative governance and to create a “one-stop shop” without unnecessary “red tape” to guide, assist and support both existing and new co-operatives.

#### **4.5 CONCLUSION**

If the state is truly committed in uplifting the standard of the people living in rural areas, the lessons learnt during the study on co-operatives calls for more research to be done on topical issues related to co-operative development.

The combined efforts of the people involved in co-operative development, not only government but also NGOs and the private sector, can make co-operatives work better and more effectively.

General recommendations will be made and detailed in the last chapter.

## **CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

Poverty, infrastructural backlog and illiteracy are amongst the most serious factors that inhibit growth of co-operatives in South Africa. The present socio-economic challenges facing the poor, particularly in rural areas, encourage people to form co-operatives even if there is no demand for their produce in the marketplace. They do so for the sole purpose of attracting government funding so that they could get something to eat while government funding is still available. If co-operative formation is not intended to provide only short-term incomes, then the entire mechanism to guide, manage and support co-operatives need to be re-examined.

### **5.2 SUMMARY OF THE FINDINGS**

The co-operative sector in South Africa has grown since the dawn of democracy. Government has seen co-operative development as an interventionist approach in the fight to address socio-economic imbalances in the country. At the same time government is also seen as one of the inhibiting factor in the co-operative development in South Africa because of its uncoordinated assistance.

From the research, it has become apparent that co-operative formation is thus seen by many to be critical in addressing the socio-economic challenges facing South Africa. Co-operatives are depicted as the engines of employment creation, poverty reduction and income generation at rural areas.

Despite the role that co-operatives play in South Africa, co-operatives still experience a number of challenges. These challenges are, amongst others, lack of knowledge about the co-operative, lack of access to finance, lack of access to markets, lack of business skills and lack of infrastructural facilities.

In order to address the challenges facing the co-operatives, the government mandated a number of state departments and parastatals to fund and provide the necessary support to co-operatives to ensure their sustainability.

The findings of this study suggest that co-operatives may indeed play a vital role in the socio-economic development of poor rural villages. Co-operatives create self-employment and sometimes also temporary employment. Co-operatives contribute to household livelihoods by providing some income and food for the families. They also provide space and time for socialization.

On the other hand, the research has drawn attention to the fact that the returns on government investments in co-operatives are low. There are many reasons for the failure of the co-operatives, but one of the contributing factors is the lack of a co-ordinated approach by all the government departments and agencies to not only fund the co-operatives, but to provide business skills training, market research and product development.

Equally as important is the need to carefully monitor and evaluate the co-operatives that receive government funding to ensure that the funding is effectively applied and that taxpayers' money is not wasted.

Adams and Vogel, (1990), quoted in Raquejo, 1997 was earlier quoted as noting that "Various governments attempted to undertake the role of monitoring agents to strengthen co-operative



institutions, in particular agricultural co-operatives. Evidence shows, however, that in many cases governments were unable to perform effective sustainable and timely monitoring". This is confirmed by the findings of this report and government institutions themselves acknowledge their lack of monitoring that should go beyond mere financial grants.

## **5.3 RECOMMENDATIONS**

### **5.3.1 RECOMMENDATIONS FOR THE MUNICIPALITY**

Municipalities are not expected to establish co-operatives, but should promote the establishment of co-operatives as a means of addressing poverty, particularly in the rural areas.

They also have a role to play to ensure that co-operatives are supported through training provision on co-operative values, principles, constitution and how the co-operative works. Municipalities should also ensure that the co-operatives have access to information on technical and business skills training. It is likely that the municipalities cannot do the required training on their own, and they must establish partnerships with relevant government departments and agencies as well as with NGOs to ensure that the co-operatives receive training and support.

Municipality can play an important role to establish monitoring and evaluation teams at local level. The team is likely to be composed of the municipal LED officials and representatives from other funding and support organisations. The team's fundamental task is to assess progress in each of the co-operatives in the municipal area and whether the funding is well managed and then to report back on the performance of the co-operatives to the LED Forum or other government forums on a regular (e.g. quarterly) basis.

Municipalities, with the aid of government departments and agencies, are responsible to provide and maintain the necessary infrastructure such as roads, water and electricity. Without the basic infrastructure many projects will never succeed. Without water the chicken and vegetable projects that Thwalisanani attempted was unlikely to succeed and without electricity not one of the projects in the study could continue.

Municipalities may also encourage functional co-operatives to tender for municipal work. This principle should be captured in the municipal IDP.

In order to empower co-operatives, the municipal IDP process should include representatives from co-operatives. In municipal areas with many co-operatives, it may be necessary to encourage co-operatives to organise themselves into interest groups that can then represent the co-operatives on the IDP Forum. This will allow them to speak with one voice to bring their concerns to the attention of the municipality and government departments and then to report back to their members.

### **5.3.2 RECOMMENDATIONS FOR THE STATE DEPARTMENTS**

The Thwalisanani example shows that some of the co-operatives are able to achieve reasonable returns on investment and that co-operatives can play a role to achieve positive change in the socio-economic conditions of people living in poor rural areas. The research has proved that they do, however, need much more support from the state organs. It is therefore recommended that special efforts should be made by the state to ensure that co-operatives are able to find markets for their

products. While such high levels of poverty persist, this may need special legislation that creates captive markets for the produce of co-operatives. Another option is that co-operatives must get preferential treatment in state tenders. Examples of these are the school nutrition programme, the supply of bricks to low cost housing projects or the supply of food to correctional centres. As was mentioned earlier, if co-operatives are contracted to participate in the Extended Public Works Programme, this will allow them to work in a structured environment that will allow them to become empowered to afterwards continue to operate sustainably.

It is necessary to centralize registration of co-operatives for the whole province in one single entity, for example DEDEA. Proper criteria for registration are needed for the registration of co-operatives. Under the present conditions it is possible to have many registered co-operatives, all of which will claim funding support from government. In many instances a considerable proportion will then misuse the funds, particularly if effective monitoring is not in place. A tighter management of registration criteria (such as a sound business plan and feasibility study) will go some way to eliminate the formation of co-operative for the sole purposes of lobbying for government funding.

It is critically important for government departments and agencies to co-ordinate their funding and support efforts to co-operatives. The current “silo mentality” in government leads to the situation where a single department or the municipality would fund the co-operative on one particular aspect, such as equipment and inputs, whilst there may be no suitable road to the area to bring the produce to the market. Many of the problems and failures of co-operatives can be traced back to the lack of co-ordination and planning among the support organisations. The provisions of the Inter-Governmental Relations Act should be applied to address this lack of co-ordination and co-operative governance among the organs of state. Much of the failure of co-operatives was because of this behavioural pattern.

Government must settle the problem of conflict of mandates. There is a great deal of funding aimed at developing the poor people in the rural areas, but conflicting mandates from the departments lead to failures to achieve the objectives of such funding. The respondent from the Department of Social Development agreed that when a co-operative applies for funding from that Department, the Department re-registers the co-operative as a Non-Profit Organisations (NPO). The Department of Social Development programmes focus on reducing poverty through the poverty alleviation, community development, youth development, HIV/Aids and the development of the NPO sector programmes. At times some members of co-operatives have been asked to leave programmes, as they were seen to be benefiting from their participation in the co-operative and thus are not seen to fall within the category of indigent and poor.

Support is needed to make sure that co-operatives have productive equipment, such as irrigation or tractors in the case of agricultural co-operatives. There are instances when government departments or the Municipality would donate the equipment without the necessary feasibility or business planning done.

Government departments should introduce a phased approach to funding. This may require a multi-year funding stream to particular co-operatives to ensure that co-operatives receive progressive assistance that will allow them to grow incrementally and sustainably. Government has a tendency to support the co-operative for a year only. Furthermore, officials in government departments at times allocate funding simply for the sake of spending money. None of these

applications of funding really help the plight of the co-operatives. They should be allocated funding against viable feasibility studies and business plans, which may demand incremental and multi-year funding in order to achieve self-sufficiency.

It may be useful to link some co-operatives with government programmes, such as the EPWP. Co-operatives may, for example, participate in an EPWP project for a set period, e.g. not exceeding 18 months. Such arrangements will build the experience and capacity of co-operatives and teach them how to comply with set timelines and targets. This will allow co-operatives to work for a year or more on a sustainable project and without interference or disturbance. It will also allow the co-operative members to earn a stipend during this time of gaining experience. At the end of such a period of targeted work the co-operative should have required some essential skills to allow it to strike out on its own

### **5.3.3 RECOMMENDATIONS FOR CO-OPERATIVES**

It is unfortunate, but understandable in poor societies, that the drive for co-operative formation is to access government funding. A true spirit of co-operation should rather focus on the objectives of a group of people that prefer to work together to produce and market goods communally. The type of co-operative should be based on the expertise of the members and be suited for the local conditions and local demand. In rural areas these may be to provide beadwork for the tourist market, or, more commonly, based on the agricultural experience of the members. In his work on agricultural co-operatives, Prakash (2000:04) made a similar recommendation, when noted that in poor rural communities, 'farm produce must be the basis for seeking group action'.

[www.uwcc.wisc.edu/info/intl/daman\\_cabc.pdf](http://www.uwcc.wisc.edu/info/intl/daman_cabc.pdf)

The low education levels and high rates of illiteracy among most rural co-operatives necessitate the need to introduce adult basic education and training for the members. Co-operative meetings can then function not only as a centre of work and socialization, but of education as well.

Financial management capacities have to be developed. These will cater for the management of receipts and payments, bank accounts, and focus on the importance of keeping financial records. Without sound financial record-keeping the members will be unable to monitor the use of grant funds or of their incomes and expenditure, which will inevitably lead to financial ruin.

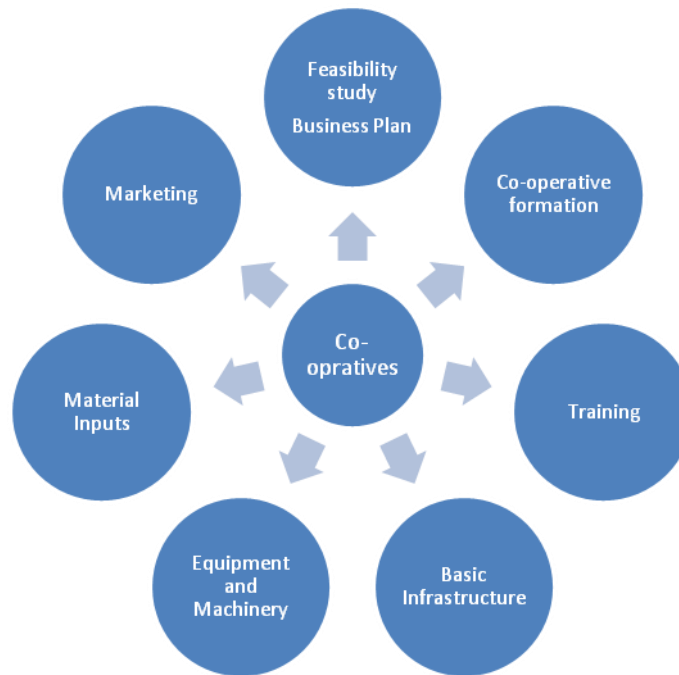
The co-operatives themselves must create a web of knowledge and support for co-operatives. The proposed web depicted as Figure 5.1 was based on the problems identified in the study; the web provides and lists some of the issues a co-operative may need to thrive and grow. Co-operatives themselves must know where to source certain information, as dependency on others does not build the capacity of the members and over time deepens dependency.

Ideally the co-operatives should know where to get information regarding each of the items listed in this diagram. The study has shown, however, that most co-operatives are interested mainly in obtaining government donor funding. Poor levels of education and literacy may prevent members from understanding the need for non-financial support. The web model highlights various areas in which support may be required.

The members should make a concerted effort to obtain information on non-financial forms of support for co-operatives from the government and others organisations. Members should be pro-

active and approach the local municipality and the local offices of government departments for information on what they can offer the co-operatives. These may also be sources of information on the government agencies and NGOs that can assist in providing the co-operatives with non-financial training and support, which may include feasibility studies, market research and product development that are required to underpin viable business plans.

**Figure 5.1: Web of support the co-operative needs**



## 5.4 CONCLUSION

The scope of this study was relatively small (three co-operatives) and local (located in the rural areas in the Municipality of Mbhashe in the Eastern Cape Province) and the results therefore are based on a particular defined study area. The results show that co-operatives may impact positively on the socio-economic conditions in rural communities. These results further show that with government's commitment to working with co-operatives, they can yield greater returns for the people, the government and the nation as a whole. Currently GDP figures do not show much contribution by co-operatives, but with more co-ordinated and targeted support co-operatives may in time make a greater distribution to both their immediate areas and the economy of the country. Some of the contributions that co-operatives can make are employment creation, income generation, GDP growth figures as well as better socio-economic living conditions. Co-operatives are therefore a suitable alternative to larger agricultural or LED programmes to eradicate poverty in the rural villages.

In order to reach their objectives to advance socio-economic development in the rural areas, co-operatives may, however, need targeted intervention from government. Currently, as the study showed, government programmes are uncoordinated and assistance to co-operatives consists almost entirely of grant funding. This diminishes the true objectives of co-operatives and

encourages dependency on donor funding for their survival. Targeted intervention may include support from government to create captive markets through preferential tendering until co-operatives are able to provide employment and create sustainable incomes through the consistent production of goods, which, over time, will assist co-operatives to move away from dependency.

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**QUESTIONNAIRE FOR GOVERNMENT DEPARTMENTS  
AND OTHER ORGANS OF STATE**

Co-operatives are argued by many as the most suitable way of fighting poverty in the rural areas. The central question is how the grand strategy of co-operatives can best be utilized effectively to fight poverty and change socio-economic situation in those rural villages.

As part of my post-graduate studies, I am conducting research into co-operatives in the Mbhashe Municipality. Your organisation has been identified as a key partner in these endeavours. Kindly assist by completing the questionnaire and then e-mail it back to [mqingwanac@webmail.co.za](mailto:mqingwanac@webmail.co.za) or fax to 086 218 1738.

I will be happy if you can forward it back before the 20<sup>th</sup> of September 2010.

**1. ORGANISATIONAL DETAILS**

1.1	Name of the Organisation	
1.2	Address	
1.3	Telephone number	
1.4	Fax number	
1.5	Your actual position in the organisation	

**2. ENTERPRISE SUPPORT**

2.1	What is the organisation's core business?	
2.2	What programmes does your organisation have in support of enterprises in rural communities?	



2.3	What policy framework guides you for the enterprise support you are giving to communities?	
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### 3. SUPPORT FOR CO-OPERATIVES

3.1	Is there any support your organization offer to co-operatives?	
3.2	If yes, what type of support does the organisation offer to co-operatives?	
3.3	If no, what type of enterprises do you offer support to?	
3.4	What informs you to support a particular co-operative over the other, i.e. criteria for selection?	
3.5	How do you communicate or market your services?	
3.6	Does the organisation support only operational co-operatives or do they also assist in their establishment or both?	
3.7	Does your organisation first consult or liaise with the local municipality before becoming involved in supporting co-operatives?	
3.8	How do you monitor the co-operative beyond the support you've provided i.e. is there any after care service	

Thank you for taking the time to fill this questionnaire on behalf of your organisation. Your responses are much valued.

Thank you for your quick response.

## ANNEXURE 2



### QUESTIONNAIRE FOR CO-OPERATIVES

The purpose of the study is to look at how co-operatives work and assist the co-operative members and the community in terms of social and economic upliftment.

#### 1. ORGANIZATIONAL DETAILS

1.1	Name of the organisation	
1.2	Address (Admin area)	
	Address (Location)	
1.3	Telephone number	
1.4	Your position in the co-operative	

#### 2. CO-OPERATIVE FORMATION

2.1	What prompted or influenced you to form a co-operative?	
2.2	Who assisted you in forming a co-operative?	
2.3	What did you do before joining the group?	
2.4	Why did you choose the group formation like a co-operative rather than each working alone?	
2.5 (a)	How many were you at the formation of the co-operative?	
(b)	How many are you now?	
2.6	Do you know why some of the original members left the co-operative? If yes, explain	
2.7	Is the membership of the cooperative restrictive to certain types of people, for example, youth, women, disabled etc	Yes or No
2.8	If Yes, please explain which type of people and why?	

### 3. GOVERNANCE

3.1	Who usually calls the meetings of the co-operative or whose responsibility is to call members to meetings?	
3.2	How often do you hold your meeting e.g. weekly, quarterly, when the need arises?	
3.3	Who chairs your meetings?	
3.4	Do you keep minutes of the meetings?	
3.5	Does your organisation have a constitution?	Yes or No

### 4. INCOME AND MARKETING

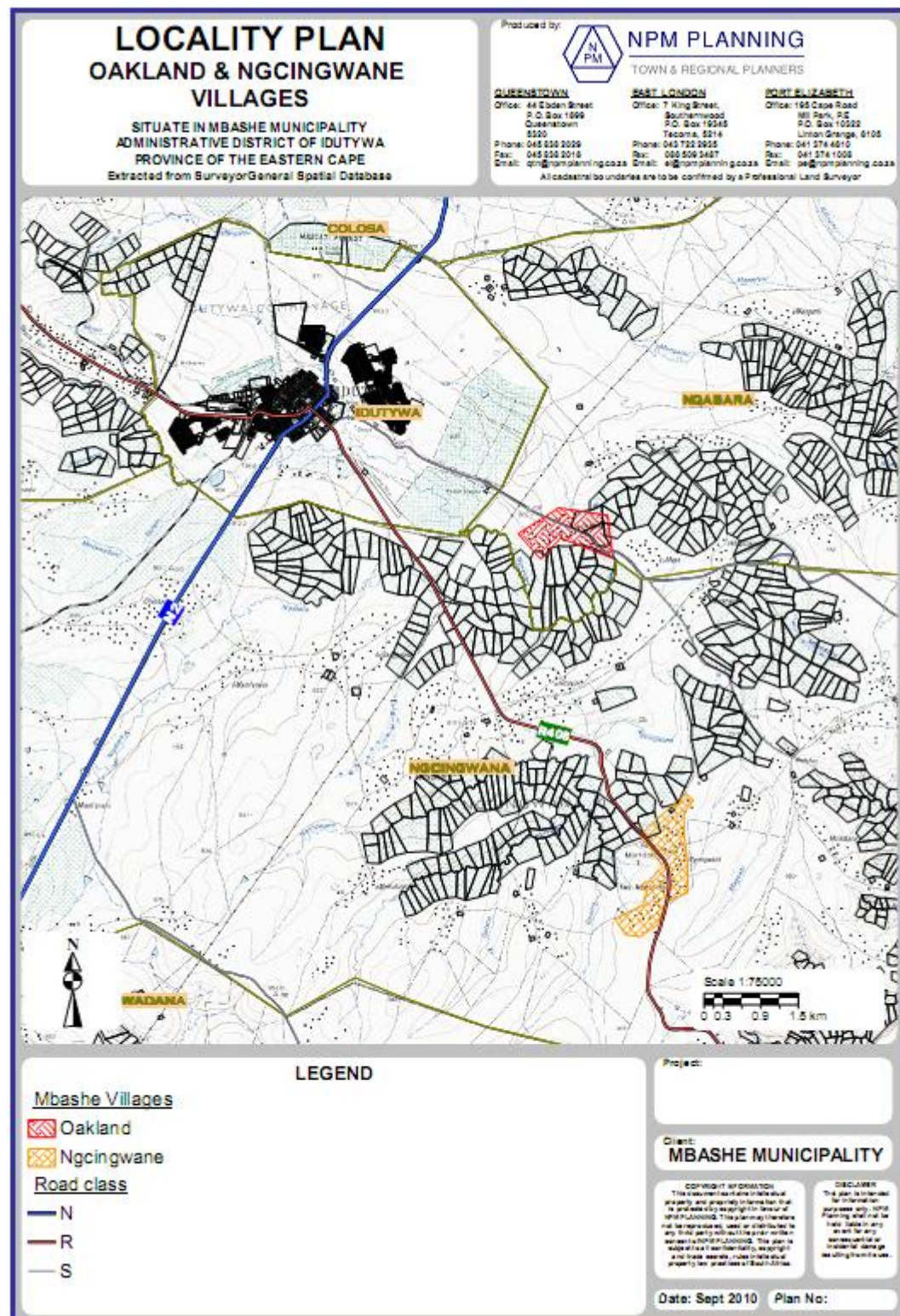
4.1	Please list the product or products your co-operative specialises in?	
4.2	Does your co-operative have a business plan?	Yes or No
4.3	Where do you sell your produce/products?	
4.4	Who assists you in finding the market for your produce?	
4.5	Do you keep financial records of: (a) Expenditure: The costs of inputs e.g. sewing material, seeds etc?	
	(b) Income: Money earned through the sale of your produce/products?	
4.6	What do you do with the money you've earned through the sale of your products/produce?	
	(a) Do you have it saved in the name of the co-operative?	Yes or No
	(b) Do you use it communally, or individually to buy more material?	Yes or No
	(c) Do you share all the money amongst yourselves?	Yes or No Communally or individually?
	(d) A combination of the above (please explain)?	
4.7	If each co-op member received a portion of the earned money (options b, c or d), explain how this division is done e.g. divided equally or a portion given to the members and a portion saved for the co-operative, etc?	

## 5. GOVERNMENT ASSISTANCE/SUPPPORT

5.1	Did your co-operative ever get support from any government, government agency or any other public or private service provider?	
5.2	Type of support	Name of the Institution/s (write nil if no support has been received in a particular field)
	(a) Establishing the co-operative	
	(b) Drawing up a constitution	
	(c) Business planning support or training	
	(d) Technical support or training	
	(e) Marketing	
	(f) Any form of financial support	
	(g) Other (specify type of support)	
5.3	Have you ever been exposed to the Municipal Integrated Development Plan (IDP) and the Municipal IDP processes?	Yes or No
5.4	If Yes, explain your participation in the IDP process.	
5.5	Is there any link between yourselves as a co-operative and the municipality?	Yes or No
5.6	If yes, explain the link between the co-operative and the municipality	

Thank you for your time and co-operation.

## ANNEXURE C: OAKLAND AND NGCINGWANA VILLAGES



## ANNEXURE D: MBEWULENI VILLAGE

