Promoting Township Business Competitiveness: Co-existence of Immigrant, Big and Small Township Enterprises

COOPERATIVES IN SOUTH AFRICA - LESSONS FROM GLOBAL COOPERATIVES: Confronting Challenges and Finding the Competitive Urge

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INTRODUCTION & BACKGROUND

– Review of the history of cooperatives globally as a backdrop to understanding cooperative development in South Africa

– Cooperative movement is a mixed bag, even within the same country – diverse in size, scope, operation, function, etc.

– Why do some cooperatives survive and others collapse?
  • Autonomy still important, incl. adherence to co-op principles
  • Partnerships critical – incl. maintaining a delicate balance with government
  • Education and training important for members
  • Coops are businesses with distinct socio-economic and political needs – important for government and private sector to understand
INTRODUCTION & BACKGROUND

Cooperatives in Europe, United States and Africa

– Industrialisation, colonisation and apartheid – adverse impact on workers, communities, etc.

– Coops as response to plight of poor workers (urban and rural areas) – opportunity for job creation, poverty alleviation, new skills

– Coops address social, political and economic needs of workers
  • Workers take control of their lives and means of livelihood for their families
  • Economic power and control in the hands of workers
  • Provide opportunity to cooperate in pooling resources and productive capacity
INTRODUCTION & BACKGROUND: Global Review

Europe:
- 18th and 19th century early coop stores response to economic and political climate (industrialisation)
- Many collapsed due to poor organisation & conflict.
- Successes – Shore Porter’s Society; Coop Women’s Guild; Rochdale Society’s “Rochdale Principles”

USA:
- Early factory-style coops of late 1700s

- Today’s successes – cross sectoral coops in agriculture, wholesale purchasing, communication, energy and consumer food buying

- American credit unions of 1900s – member-owned credit & savings organisations: surplus earnings reinvested into org. to benefit members; In 2011 - 97000 CUs and 3.9 million members
The African Cooperative Experience

– Evidence of early “co-ops” – pre-colonial and colonial period

– Post-colonial Period & Going Forward
  • Cooperatives as part of poverty alleviation and job creation government strategy with varying degrees of success
  
  • Close relationship between co-ops and government – no always beneficial to co-ops; encroaching on autonomy and democratic control of members and their organisations

  • Successes – Demonstration of potential to drive poverty reduction, employment generation and social integration (Kenyan experience)

  • Challenge: Promote co-ops as a sustainable solution to economic growth and development in the continent

  • Co-ops by the numbers: 7% of Africans directly or indirectly affiliated with coops (ILO)
The African Cooperative Experience

- Paper reviews cooperative movements in **Kenya, Nigeria and Tanzania** - colonial; post-colonial and liberalisation periods

- Co-op model widely adopted and viewed as means to alleviate poverty (provide employment, goods and services for poor workers); provide self-sufficiency and dignity to workers and their families

- Co-op development at various levels of ‘sophistication’ and development – even within the same country
The African Cooperative Experience: 
The Kenyan Experience

• Africa’s success story: 11,200 coops & over 8 million people in/directly affiliated to co-ops; Potential to deliver goods and services in areas that have been largely ignored by the public and the private sectors.

• Co-op organisation: service and producer cooperatives; agricultural and non-agricultural; cross-sectoral

• non-agricultural co-ops involved in financial sectors e.g. insurance and banking (Cooperative Bank and Saccos provide savings and credit services others operate in housing, crafts transport, etc.

• Coops address “local needs,” employ “local talent” and are led by “local leaders” (Nelson Kuria)

• Coop movement able to promote sustainable economic growth by “improving cooperative extension service delivery, corporate governance, access to markets and marketing efficiency”

• Kenya’s “Vision 2030” (NDP) – Recognise role of co-ops and addresses need for modernisation and innovation (of co-ops)
The African Cooperative Experience: The Nigerian Experience

• **Early 1900s** Co-ops – Recognised for potential to improve the economic and social plight of farmers and rural communities; many failures - poor organisation & under-resourced

• **1960s ACCOSCA** – early partnerships across continent to provide credit and market access to farmers; **1970s ACCOSCA joined WCOCU** to pool resources and reduce production costs

• In 2010- Estimated 82,460 co-op groups for 1.4 million members

• **3-tiers**: community-based Primary co-ops; state level Secondary co-ops and co-op service agencies (offer training, low-interest finance, etc.); “Apex” organisations at national level
  
  - At least 10 types of cooperatives e.g. agricultural, marketing, producer, credit and thrift, transport and professional co-ops

• **Challenges**: regulatory inconsistencies (despite State Dept of Coops); low level of government investment wrt funding and managerial capacity; Infrastructural constraints e.g insufficient agro processing facilities (restrict market access)

• **2012 EFInA Study** – great potential for Nigerian co-ops to contribute to the economy;

*** ACCOSCA: *African Confederation of Co-operative Savings and Credit Association* ; EFInA: *Enhancing Financial Innovation & Access*
The African Cooperative Experience: The Tanzanian Experience

- Co-op movement part of rural development since 1920s (roots in agro-marketing)

- 1940s and 1950s - Coops as vehicle to market farmers’ agricultural produce

- Andrew Bibby’s analysis for the ILO:
  “Tanzania's cooperatives have a long and proud history which goes back to the early 1930s. In the first decade of independence, the movement was particularly strong, with a complex structure of primary coops, secondary coop organizations and a national cooperative bank. Since then, however, the story has been less happy. For a period, coops became a tool for top-down governmental policies and were effectively integrated into state structures.”

- History of failed reforms – Single purpose marketing coops (1960s); ‘Ujamaa Villages” (1970s); liberalisation through Co-op Societies Act, 1991; free market reforms (early 2000s) to revive agro-marketing co-ops

- Success story – SACCOs more successful in industrial and service sectors – e.g. in manufacturing, but not in agricultural sector.
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: BACKGROUND

• **Early 1900s** - Colonial agricultural societies for white farmers only
  - SA had the **earliest governmental frameworks** for the organization and regulation of cooperatives.
  - **Regulation**: Cooperatives Societies Act of Tvl (favourable financing); Companies Act (Natal, CP and OFS); Marketing Act (favoured bigger co-ops)

• 1940s – black consumer co-ops; excluded from retail trade

• 1970s/1980s – poor regulation of black agricultural coops leading to collapse of many

• **Informal ‘stokvels’**:  
  - mutual savings, credit schemes and burial societies
  - Estimated at over 800 00; membership of about 10 million (Source: Finweek)

• Other efforts – NUMSA’s SAWCO; Catholic Church’s SACCOL
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: POLICY AND REGULATION

• **Post apartheid period** – Exposed need to support and promote black enterprises that operate in different sectors of the economy.

• **Earliest interventions** - Mandate for promotion, coordination and development of cooperatives moved from the Department of Agriculture to the dti

• **Legislative interventions** to address poverty and inequality:
  - Broad Based Economic Empowerment Act (No. 53 of 2003);
  - the Cooperative Development Policy for South Africa (2003); and agricultural micro-credit fund (MAFISA)
  - the Cooperatives Act (No. 14 of 2005)
  - Implementation of these laws realised through Apex Fund (micro-finance) and agricultural micro-credit fund (MAFISA)

• The **South African National Apex Cooperative** - founded in 2009 as a national body to promote the interests of co-ops
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE
BY THE NUMBERS

• The co-op model and movement have grown in popularity in urban (townships) and rural areas

• Dti Statistics:
  – Between 2006 and 2008, - Number of cooperatives grew from 4000 to 20 000.
  – By 2012 - More than 50 000 registered cooperatives,
  – However, between 1994 and 2009 - 1362 deregistered cooperatives

• Statistics from the Registrar of Cooperatives:
  - 2009 - 22 619 registered co-operatives ; but only 22 030 active co-operatives in the register

• Statistics indicate enthusiastic uptake but challenge with sustainability and long term survival of co-ops

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THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: TOWNSHIP ENTERPRISES

• 2012 Moneyweb report – R7 billion of untapped township potential

• Absa SME Index (2012) - business ownership is on the rise; but 2/3 employ only one person

• Business model - predominantly spaza shop township micro-entrepreneurs; minimal pooling of resources

• **Foreign-owned micro-enterprises** – more successful
  – Purchase products in **bulk** or as cooperatives
  – Sell at a **lower price**; Selling generic products, cheaper versions of popular brands and on special
  – Understand purchasing patterns of **customers**
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: CHALLENGES & IMPEDIMENTS TO GROWTH

✓ Inadequate Data Analysis and Monitoring – High number of registrations vs high mortality rates. In 2009, 22 030 registered co-ops but only 2 644 suspected to be active!

2009 dti baseline study - inadequacy of data gathering and the challenge of locating some of the co-operatives

✓ Inadequate education about the co-operative model – Despite legislation and regulation - insufficient information and understanding about cooperatives and their inherent value; Training not targeted at co-ops;

Brazil’s Cooperative Training Academy – as best practice on addressing specific training needs of coops

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THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: CHALLENGES AND IMPEDIMENTS TO GROWTH

✓ **Uncoordinated institutional support:**
  – Since 2001, dti charged with supporting all sectoral cooperatives. Disparate efforts at local, provincial and national government levels to supporting cooperatives (poor coordination).

  - Co-operative Development Agency – expected to bring co-op coordination and integration “under one roof” in addressing financial and non-financial needs of co-ops.

✓ **Inadequate resources and investment** – competitiveness means active support for sustainability of co-ops. Financial and non-financial assistance to be targeted beyond start-up phase.

dti states: support for co-ops is “negligible, unfocused, uncoordinated...lacks systematic and sustained targeting...scattered” and therefore, inaccessible
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE:
CHALLENGES AND IMPEDIMENTS TO GROWTH

✓ Poor governance and mismanagement
  – Co-ops have unique governance and management structure - ownership and control in the hands of members.
  - poor governance and mismanagement stems from members’ lack of appropriate skills, education and business experience
  - need for regular sector-specific training in business skills, financial management, computer skills and marketing

✓ Conflict in member relationships – collapse due poor understanding of the cooperative principles, values and skills to resolve conflict speedily and effectively.
THE SOUTH AFRICAN COOPERATIVE EXPERIENCE: LESSONS LEARNED

• **Conducive Business Climate for Cooperatives** – Government as partner providing healthy regulatory climate and access to financial and non-financial resources.

• **Education and Training** – Targeted training in critical areas e.g. Marketing, management, finance, etc.

• **Financial Support and Investment** – Aimed at long-term sustainability of co-ops; create financial vehicles that understand business of co-ops - e.g. Credit union model.

• **Strong and Effective Enterprise Networks and Partnerships** – They enable collaboration, coordination and integration of operations and thus, means for achieving efficiency and market penetration.
CONCLUSION

• Recognise the **uniqueness** of Co-ops – They are not SMMEs! Therefore, they need different interventions

• Need better **understanding** of co-ops and their **value** in contributing to the socio-economic development of townships, as well as South African economy. How do we successfully **integrate** coops into national development plans?

• **Enthusiasm** in forming co-ops - Means potential to grow the sector and improve plight of poor workers, esp. those in townships

• **Leadership** of co-ops must represent their communities through participation of women, youth and elderly