

FUNCTIONALITY AND ECONOMICS OF COOPERATIVES IN THE DEVELOPMENT OF POOR COMMUNITIES WITHIN THE CHRIS HANI DISTRICT MUNICIPALITY, SOUTH AFRICA

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ABSTRACT

This paper seeks to test the notion of functionality of cooperatives in the socio-economic development with respect to poor communities, using the case of Chris Hani District Municipality in South Africa. Globally, cooperatives are generally believed to be functionally effective as instruments for the promotion of socio-economic development in poor communities. South Africa expends substantial amounts of resources in promoting the use of cooperatives to enhance socio-economic development; and, they have consistently been part of the country's development frameworks to reduce poverty, unemployment and inequality. For this paper, a purposive sample of 254 respondents were surveyed in Chris Hani District Municipality (CHDM) in the Eastern Cape Province. From this sample, 14 key informants were interviewed and 12 focus groups were established for the purposes of discussion. The survey was conducted in ways that ensured adequacy of triangulation and inclusiveness of differences. Using thematic content analysis, a variety of underlying patterns and meanings were uncovered. The findings in this paper corroborates the idea that cooperatives play an important role in enhancing the socio-economic development. The paper shows that communities in the CHDM use cooperatives in their pursuit of socio-economic development. However, the paper also points to the environment that is less enabling for cooperatives in that it diminishes their functionality in the promotion of socio-economic development. Having established that the functionality of cooperatives in socio-economic development is dependent upon the environmental contexts, this paper proposes strategies that could be used to create an appropriate enabling environment.

Keywords: Cooperatives; Economics; Job Opportunities; Income; Environmental Contexts; South Africa

INTRODUCTION

Co-operatives are used throughout the world as mechanisms for addressing the socio-economic development challenges (Philip, 2003; Beesley & Ballard, 2013; Mbugua & Waweru, 2020; Mchopa,

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Machimu, Kazungu & Mosongo, 2020; Tang, Sipilainen & Fu, 2020; Risal, 2021; Tumenta, Amungwa & Nformi, 2021). Both in developed and developing countries, cooperatives are found in different sectors of the economy creating job opportunities and generating income to improve the socio-economic conditions in poor communities (Wanyama, Develtere & Pollet, 2009; Huang, Wu, Xu & Liang, 2016; Chibanda & Mashingaidze, 2020; Moon & Lee, 2020; Srinivasan & Sundaram, 2020; Risal, 2021; Tumenta et al., 2021). Similarly, the South African government is using cooperatives as tools to improve the socio-economic conditions in poor communities. Hence, cooperatives are part of government development frameworks. Given the spirit of communitarianism and cooperation prevalent in South Africa's rural communities, government believes that cooperatives are the appropriate model to give the poor, women, youth and the marginalized some form of financial independence and the opportunity to contribute to local economy by generating job opportunities and income (Zeuli, 2002; Kanyane, 2009; Mbugua & Waweru, 2020; Mchopa et al., 2020; Tang et al., 2020). They believe that cooperatives are the tool to increase the number of active black enterprises in the mainstream economy and to bridge the gap between the poor and rich (Ndebele, 2005; Chibanda & Mashingaidze, 2020; Moon & Lee, 2020; Rwekaza, Kayunze & Kimaryo, 2020; Tang et al., 2020; Risal, 2021; Tumenta et al., 2021). This paper examines the applicability of the notion of cooperatives' functionality and contribution to socio-economic development of poor communities. Whereas this paper corroborates this generally accepted principle about the developmental functionality of cooperatives, it also signals the significance of the environmental contexts. There is no known prior study that has proposed and articulated a framework for the performance and effectiveness of cooperatives in socio-economic development; and, the significance of this study and its difference from existing studies lies in this point.

THE FUNCTIONALITY AND ECONOMICS OF COOPERATIVES

Cooperatives are an old practice, and early societies learned to cooperate and to work together to meet their individual and group socio-economic needs (Groves, 1985; Zeuli & Cropp, 2005; Anania, Angolo & Sife, 2020; Chibanda & Mashingaidze, 2020; Rwekaza et al., 2020). For centuries, people have worked together in pursuit of common goals, relying on one another to meet their needs. Such that, without cooperation, human life would have been difficult and socio-economic development would possibly never have occurred (Ghebremichael, 2013; Anania et al., 2020; Mbugua & Waweru, 2020; Mchopa et al., 2020; Rwekaza et al., 2020; Tang et al., 2020; Risal, 2021). Although they were in existence for some time, cooperatives were only recognised as a business model during the 19th century Industrial Revolution (Majee & Hoyt, 2011; Anania et al., 2020; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Tang et al., 2020). The establishment of the Rochdale Cooperative in England in 1844 remains the most notable in cooperative development (Zeuli & Cropp, 2005). The enterprise became the epitome of the cooperative business model as its principles were adopted worldwide as the tenets by which cooperatives were governed. For its contribution, cooperatives are now perceived as business enterprises voluntarily formed, owned and funded by their members, who share the risks and benefits in equal proportion (Roy, 1981; Van Dooren, 1982; Moon & Lee, 2020; Sharma, 2020; Srinivasan & Sundaram, 2020; Risal, 2021). In effect, cooperatives bring together different people to attain a common need through the operation of a democratically controlled enterprise (Majee & Hoyt, 2011; Rwekaza et al., 2020). Cooperatives can be divided into consumer, worker, producer and service cooperatives. A consumer co-operative is formed by individuals who want to supply their needs directly by the practice of mutual aid (Warbase, 1946; Mbugua & Waweru, 2020).

Worker cooperatives are industrial business enterprises owned and controlled by the workers to provide employment to its members through the production of goods for sale (Bottomley, 1987; Chibanda & Mashingaidze, 2020; Rwekaza et al., 2020; Tang et al., 2020). Producer cooperatives are primarily agricultural cooperatives that produce, process, and market agricultural products and services to its

members (Hansmann, 1999; Mchopa *et al.*, 2020; Rwekaza *et al.*, 2020). Service cooperatives are those enterprises that provide financial or social services to its members. Also, cooperatives can be classified as primary, secondary and tertiary cooperatives. A primary cooperative is formed and operated by a minimum of five natural persons to facilitate community development by providing employment or services to its members and the community; while a secondary cooperative is formed by grouping together of two or more primary cooperatives to provide sectoral services to its members; and, a tertiary cooperative, an apex cooperative, is comprised of secondary cooperatives and is aimed at lobbying government, the private sector, and other stakeholders in the interest of the members (Warbase, 1946; Chibanda & Mashingaidze, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020).

Cooperatives are supposed to be governed by the International Cooperative Alliance (ICA) principles of voluntary and open membership; democratic member control; member economic participation; autonomy and independence; provision of education, training, and information; cooperation among cooperatives; and, concern for the community (ICA, 2013). Also, cooperatives are based on values of self-help, self-responsibility, democracy, solidarity, honesty, openness, social responsibility, and care for others (ICA, 2013). Everyone in the community is eligible to join, provided they meet the requirements. No one should be denied membership or excluded from joining, unless members felt that such membership would not add value to the cooperative. Importantly, cooperatives should remain neutral in matters of politics, religion, race and nationality (Roy, 1981; Rwekaza *et al.*, 2020; Risal, 2021). They should be platforms on which all people of different affiliations can unite and work together without discrimination (Wilkinson & Quarter, 1996; Chibanda & Mashingaidze, 2020; Mbugua & Waweru, 2020; Rwekaza *et al.*, 2020; Risal, 2021).

Every member has one vote, irrespective of age, the capital invested, the clan or family to which the member belongs. The benefits generated by the cooperative are equitably distributed to the members in proportion of their participation not on the basis of the investment or share ownership (Zeuli & Radel, 2005; Ortmann & King, 2007; Rwekaza *et al.*, 2020; Sharma, 2020; Tang *et al.*, 2020; Risal, 2021). Ideally, cooperatives are not profit-making enterprises but the tools to promote the economic wellbeing of their members and to maintain their good standard of living (Puusa, Mönkkönen & Varis, 2013; Anania *et al.*, 2020; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020). They empower the community to improve the quality of life, whilst enhancing the economic opportunities (Ortmann & King, 2007; Anania *et al.*, 2020; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020; Moon & Lee, 2020; Risal, 2021; Tumenta *et al.*, 2021). Cooperatives are aimed at satisfying the needs and interests of the members than making profit (Warbase, 1946; Rwekaza *et al.*, 2020; Tang *et al.*, 2020). Effectively, cooperatives are a unique combination of a social unit and a business enterprise (Zeuli & Deller, 2007; Chibanda & Mashingaidze, 2020; Tang *et al.*, 2020). They blend financial and social capital with human capital to mobilise the local resources into a critical mass to promote the preservation of the profit generated in the community (Zeuli, Freshwater, Markley & Barkley, 2004; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020; Moon & Lee, 2020; Risal, 2021; Tumenta *et al.*, 2021).

The economics and functionality of cooperatives can be tested in their capacity to generate job opportunities and income, among other things. Also, the economics and functionality of cooperatives would not be exhaustive if it excludes the societal experiences of the social material well-being, which is generally determined through the concept of socio-economic development. Socio-economic development is a multi-dimensional restructuring of the community to promote economic growth and the creation of a better life for all in response to the gross inequalities and absolute poverty created by the world economy (Ferrinho, 1980; Kotze, 1997; Ijeoma & Nwaodu, 2013; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Moon & Lee, 2020; Rwekaza *et al.*, 2020; Sharma, 2020; Srinivasan & Sundaram, 2020; Tang *et al.*, 2020). It is a process by which a society progresses from a condition of life that is unsatisfactory towards

that is materially and spiritually better so that people realise their potential, build self-confidence, and lead lives of dignity and fulfilment with increased living standards, improved health, and wellbeing for all (Todaro & Smith, 2011; Anania *et al.*, 2020; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020).

Fundamentally, socio-economic development entails reduced levels of poverty, better education, higher standards of health and nutrition, better life expectancy, a cleaner environment, greater individual freedom, and a richer cultural life for the rest of the community (Szirmai, 2015; Chibanda & Mashingaidze, 2020; Rwekaza *et al.*, 2020; Tang *et al.*, 2020). Therefore, socio-economic development is a comprehensive process that responds to the social, cultural, political, and economic needs of the citizens by reducing unemployment, poverty, inequality and other social ills, to bring about sustained elevation of the entire community towards a better quality of life. In this paper, the role of cooperatives in society is analysed in relation to the positive change they create in the community, which results in a life that the citizens perceive as good.

RESEARCH METHOD

This paper uses an interpretivist approach to examine the functionality of cooperatives in enhancing the socio-economic development of poor communities. Interpretivism maintains that a social phenomenon is understood and explained by unravelling the meanings people ascribe to their own experiences and interactions (Du Plooy-Cilliers *et al.*, 2014; Ritchie, Lewis, Nicholls & Ormston, 2014). Purposively selected and diverse sample of 254 subjects, which comprised of respondents from 14 state institutions, 89 cooperatives, and 151 community members, was selected and surveyed from the CHDM. Purposive sampling was used because it allowed the selection of knowledgeable subjects that provided the most accurate information on the subject under investigation (Bickman & Rog, 2009; Schurink, 2009; Bernard, 2013; Leedy & Ormrod, 2013).

This paper reports data that was analysed through thematic content analysis to identify the main themes (Braun & Clarke, 2006). Firstly, the data was transcribed into three data sets by collating the audio recordings with the field notes. Thereafter, the data was coded by breaking it down into various segments containing common features (Bless, Higson-Smith & Sithole, 2013). Data was analysed to identify emerging concepts, existing patterns and associations as well as the ideas that explain their existence (Bernard, 2013). Effectively, data analysis was largely focussed on the underlying connections (Babbie, 2007; Creswell, 2014), as well as interpreting and making sense of the content to reveal meanings and patterns of relationships (Maree, 2007). The distinctiveness and diversity of data provided new information (Bless *et al.*, 2013). All the three data sets were compared and merged to identify similarities and variations to corroborate or disconfirm the general principle held in the relevant literature. The convergence and integration of data from different sources increased the richness of the research findings (Holborn, 2004; Babbie, 2013; Creswell, 2014). The alignment of the findings with the literature validated the existing knowledge and assisted in generating new knowledge, which increased the transferability of the findings (Maree, 2007; Neuman, 2014).

RESEARCH FINDINGS

In presenting the findings, the paper uses verbatim quotations in order to express and contextualise the research findings (Kumar, 2014: 317). Overall, the research findings suggest that cooperatives do contribute to socio-economic development. Throughout the CHDM, communities have used cooperatives in job creation, income generation, food security, poverty reduction, crime prevention, and community empowerment. Despite this finding, the paper also establishes that cooperatives are

debilitated by a few environmental factors, which lessened their influence in socio-economic development. Almost all the cooperatives in the district are affected by one or more of the factors, which are discussed hereunder.

Poor Implementation of Legislation

The paper establishes that the legislation meant to support cooperative development was poorly implemented. There was reluctance and limited commitment from state institutions to implement cooperative legislation. None of the cooperative of legislation was properly implemented and the failure has led to poor development of cooperatives, which relegated them to destitution, particularly for those that relied on government support for sustenance. Cooperatives are still faced with the same hardships these laws were meant to eradicate.

Involuntary Participation

The majority of cooperatives in the district were started by government, as one key respondent notes:

“Largely, people formed cooperatives because government said so. Officials and politicians told communities to form cooperatives as funding will be provided. People have simply joined or formed cooperatives because of the advice from government officials and politicians, who promised them government funding. Therefore, there is a lack of voluntarism in the way cooperatives are formed but coercion. Since people have not voluntarily formed the cooperative, there is no sense of commitment and ownership but a dependency syndrome” (Interview 3).

The initiation of cooperatives by the state proved to be the most prominent cause for their poor performance. Cooperatives are more productive and profitable when there is less state influence and interference (Forgacs, 2008). State interference often results in the formation of cooperatives by people who had no passion or commitment for a business enterprise. The involvement of state in the initiation of cooperatives took away their autonomy and obliterated their sense of ownership, innovation and commitment. State-initiated cooperatives rarely induce real solidarity among their members and are often predisposed to unproductivity (Ruben & Heras, 2012). Whilst the involvement of state was meant to assist poor cooperatives get off the ground, it was instead exploited by the communities for selfish interests. Inadvertently, state support generated the dependency syndrome in the sector as every established cooperative expects to be provided with perennial state support. Members are unjustifiably hesitant to invest in their own cooperatives even when some of them were financially able to do so. Cooperatives are not operated as business enterprises but as vehicles to access state funding.

Lack of Knowledge

When government initiated the cooperatives, communities were never educated on the type of business they were introduced to. Government simply advised them to form cooperatives and thereafter, provided them with funding. No training on cooperative business model was offered. Also, when the concept was introduced, government officials were less proficient about the model and could not provide effective guidance. One of the key informants notes thus:

“People formed cooperatives without understanding the concept. Government officials were not clear about the cooperatives they introduced to the communities. People were not properly educated on what entailed a cooperative. Therefore, cooperatives were not

properly formed. People with no knowledge or interest in cooperatives have formed them just for the purposes of accessing government funding” (Interview 1).

Lack of knowledge resulted in ignorant membership that did not understand the very business they operated. Members are oblivious that cooperatives are their own business enterprises and are to be supported by their own capital.

Conflicts

Cooperatives are generally characterised by conflicts because every member has an equal claim on ownership. This often leads to intense contestations for the control of cooperative resources. The practice is rife in government-initiated cooperatives where members are less passionate about the cooperative endeavour but interested in state funds. Key informants generally concurred that:

“Conflicts amongst the members are frequent. Immediately funds are made available to the cooperative, usually infighting starts. The fights are generally around the control of the financial resources. Similarly, when the cooperative experiences success, contestations for the control of the business begin. Often, the person who initiated the enterprise would want to usurp it and control it to for her/his own benefit” (Interview 1).

Since conflicts are destructive, a number of cooperatives have been incapacitated, and even those that initially looked viable were eventually overwhelmed.

Poor Dissemination of Information

Certain cooperatives fail because they do not know about government support programmes; and, respondents agreed with the sentiment that:

“Lack of information on the government support system is one of the factors affecting the performance of cooperatives. Communities do not know how to access state support” (Interview 4).

Poor distribution of government information deprives cooperatives the services that could have improved their performance. This ineptitude has equally affected both urban and rural areas and has resulted in stunted cooperatives that hardly play an effective role in socio-economic development.

Lack of Education

The lack of education on cooperative members also contributes to poor performance. The majority of the cooperative members are old and illiterate, and this has led to the dearth of critical skills needed to drive and sustain these enterprises. Their lack of skills has led to poor business planning which culminated in certain cooperatives established without a proper business plan. Overall, the lack of education has deprived the cooperatives the necessary skills to operate as profitable and sustainable business enterprises, thus limiting their role in socio-economic development.

Ineffective Capacity Building Programmes

Ineffective training programmes are one of the factors that compromised the functionality of the cooperatives. The lack of capacity prevents cooperatives from maximising their production potential, hampers their profitability, and inhibits their contribution to socio-economic development (Mbanza & Thamaga-Chitja, 2014; Anania *et al.*, 2020; Mbugua & Waweru, 2020; Mchopa *et al.*, 2020; Rwekaza *et*

al., 2020; Tang et al., 2020). Hence capacity building is the most critical component of cooperatives' success (Zeuli & Radel, 2005; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Tang et al., 2020). Respondents agreed that:

“Generally, cooperatives need training in business management and government is not investing in human capital. There is no effort to grow the skill base in cooperatives. When training is provided, cooperatives would be given a two- to three-day workshop and thereafter, no follow-up monitoring and evaluation is provided to ensure that training is properly implemented. The once-off training with no follow-up monitoring is not helping the cooperatives. Government institutions that offer training must do a follow-up monitoring to see to it that the training provided is implemented” (Interview 1).

Training offered to cooperative members is apparently ineffective in improving their performance as it is inconsiderate of their old age and low levels of education. Also, some training programmes usually require the members to have some form of basic education to comprehend the content.

Youth Apathy

Youth are less interested in cooperatives and only a few of them participate in their activities; and there was general acceptance that:

“Cooperatives are mostly owned by old-aged people, particularly women. Very few cooperatives have youth as members. The introduction of youth to cooperatives is critical” (Interview 6).

Youth apathy contributes to the lack of capacity and innovation in the sector. Their participation could reduce the shortage of skilled personnel in the sector and bring in the required skills. They could invigorate dynamism and innovation in the sector. Hence cooperatives must be made attractive, receptive, and accommodative to young people (ICA, 2013). Apart from invigorating the new knowledge required to revolutionise cooperatives, their involvement could contribute in reducing the escalating unemployment.

State Grant System

The state grant system has not entirely achieved its intended objectives, but instead has created problems. Inadvertently, it inculcated a dependency syndrome and made cooperatives totally reliant on government. Cooperatives are now unwilling to do anything on their own without assistance from government. The tendency is so rife to the extent that members seem not to consider cooperatives as their own but state enterprises. The grant system has virtually taken away the sense of ownership and commitment from the membership because, as respondents conceded:

“Generally, members do not want or [are] unprepared to do anything for the cooperatives. There is a serious hand-out mentality or dependency syndrome in cooperatives. They expect to get everything from government. They are not prepared to spend even a cent on the cooperative. They behave as if cooperatives belonged to government as they request everything from government. They are not even prepared to repair broken machinery/equipment or buy seedlings for their cooperatives. In every planting season, they would request government to provide them with seedlings or repair their broken machinery” (Interview 6).

Besides generating the dependency syndrome, the state grant is abused. Some governments departments give funding directly to cooperatives without first establishing effective monitoring systems (Gxabuza and Nzewi, 2021), and this omission created a leeway for the misappropriation of the funds. After misappropriating the funds, the cooperative usually dissolves and re-emerges under a different name, perhaps with one or two new members to disguise itself. In the disguised form, it would again successfully apply for funding from another government department without being noticed that it was a repeat recipient. The repeat funding of the same enterprises deprives other deserving cooperatives the necessary resources, stagnating them in the state of underperformance.

Lack of Monitoring and Evaluation

The lack of effective monitoring and evaluation of government programmes contributes to the underdevelopment and the incapacitation of cooperatives (Gxabuza and Nzewi, 2021). Funds disbursed to cooperatives are not properly monitored and training programmes offered are not subsequently evaluated to ensure effective implementation; and, it was apparent in the discussions that:

“Proper monitoring of cooperatives through regular visits is needed. Often, government officials are doing monitoring mainly for compliance purposes not for the capacitation of the members. Sometimes officials would do monitoring through telephone without visiting the cooperatives. Perhaps, this was because cooperatives were owned by illiterate and rural people. Apparently, government officials were undermining the cooperatives. Government is too distant from cooperatives” (Interview 1).

Seemingly, cooperatives are left on their own without any form of guidance from government. Monitoring is mainly provided to comply with budgetary obligations. This hinders the systematic nurturing of the cooperatives and contributes to the misuse of government resources. Proper monitoring would ensure meticulous guidance and supervision of cooperatives to attain their functionality. Without monitoring and evaluation, cooperatives are condemned to the state of underperformance and denied the opportunity to progress into sustainable business enterprises.

Government Procurement Processes

Similarly, the lack of supportive procurement processes in state institutions contributes to the failure of cooperatives. No preferential treatment of cooperatives when government tenders are awarded. Despite their limited capacity, cooperatives are forced to compete with established business enterprises. Also, the delay in the release of funds by financing institutions on the approval of cooperatives' applications for funding worsens their predicament. It usually takes months for the institutions to release funds, prolonging the cooperatives' destitution; and, respondents agreed that:

“Government procurement policies that favour cooperatives must be implemented. Government procurement systems often do not assist cooperatives. Government orders are sometimes too short-noticed for cooperatives given their incapacity and poor financial muscle. Usually, government give them an order to provide certain goods within a very short notice period. This leads to cooperatives being unable to deliver given their lack of capacity and finance. In most instances, this results in the order redirected to established enterprises. If no financial support is provided, cooperatives must be given enough time to deliver”(Interview 1).

Moreover, financing institutions have a tendency to control cooperatives' procurement processes. This creates problems for the cooperatives because at times the equipment procured by the funders are of poor quality or incorrect specification. At times, incompetent service providers are procured. This

manipulation adversely affects the performance of cooperatives because it is often difficult to replace incorrect equipment or repair poor workmanship from inept service providers. The practice often leaves cooperatives stuck with a useless equipment or infrastructure, whilst these were initially procured to improve their functionality. At the end, cooperatives are left worst-off with a debt to service and a useless equipment.

Lack of Collaboration

There is no collaboration between state institutions providing support to cooperatives. Although servicing the same clientele, state institutions independently work in isolation without cooperation, resulting in a fragmented and ineffective service provision. Respondents note thus:

“There is no collaboration between government institutions supporting cooperatives. They work in silos and there is an element of territoriality amongst them” (Interview 1).

“Cooperation between the state institutions must be promoted. Working in isolation is not helpful. Collaboration will allow the state institutions to collectively push the cooperatives forward and will eliminate the repeat provision of the services by different institutions to the same cooperatives” (Interview 4).

The dispersion of support into various service points creates an inconvenience in accessibility because cooperatives have to move from one institution into another. Services that are supposed to be easily accessible are difficult to access, depriving the cooperatives the assistance that could improve their functionality.

Lack of Cooperation

Lack of collaboration between the cooperatives is also debilitating. There is no integration amongst the cooperatives and no cooperative movement has been established in CHDM. Both at district and local level, cooperatives are not organised into unions or associations but operate as individual entities. Their non-affiliation denies them the opportunity to learn from each other and to share experiences, knowledge, resources and skills. It also deprives them the opportunity to benefit from the economies of scale in buying supplies, machinery and equipment, and in the transportation of produce to the markets.

Lack of Partnerships

The lack of partnerships between cooperatives, the private sector and the non-governmental organisations weakens the cooperatives in the district. Such that, the respondents agreed that:

“Partnerships with experienced stakeholders, public and private, are important for the productivity of cooperatives and must be established” (Interview 5).

The lack of cooperation and integration amongst cooperatives led to their failure to establish partnerships with other organisations. The inability deprives them the opportunity to learn and benefit from experienced private businesses that offer similar products. They miss out on opportunities for information sharing, skills transfer, training, coaching and mentoring, which could contribute in developing a vibrant cooperative sector. Partnerships with other organisations could assist in building capacity in the sector.

Lack of Markets

Lack of markets generally distresses cooperatives. Cooperatives are meant to provide their members with marketing opportunities by forming linkages with local, regional, national, and even international markets (Ferguson & Kepe, 2011; Sharma, 2020; Srinivasan & Sundaram, 2020; Risal, 2021). However, securing regular markets for their members has not only been difficult but erratic for cooperatives in CHDM. The majority of cooperatives are using ineffective marketing strategies and are confined to local markets as seen by the respondents:

“Cooperatives are characterised by lack of marketing acumen, which has made their marketing strategies ineffective. They need to explore other marketing strategies such as using social media such as Facebook, Twitter, etc. Moreover, they also lack business negotiating skills to secure a market for their products” (Interview 11).

“Lack of markets is one of the main challenges for cooperatives. Usually cooperatives start with production without having identified the market for the products” (Interview 10).

Starting production without an identified market is a business incompetence, which often results in wasteful expenditure as the produce perishes before it is sold. There is a need for innovative marketing strategies to explore and penetrate markets beyond the region.

Political Interference

The interference of politicians in the administration of cooperatives also contributes to their poor performance. Municipal councillors often interfere in the management of cooperatives for political expediency and conflate cooperatives with service delivery initiatives. There is a shared insistence that:

“Politicians tend to hijack the cooperatives for political expediency. They tend to interfere in the running of cooperatives since they are funded by government. Politicians must desist from involving themselves in the running of cooperatives.” (Interview 1).

The abuse of cooperatives by politicians negatively affect their performance and creates tensions between the cooperative members and the community, whereas, cooperatives have to remain apolitical given their diverse membership (Wilkinson & Quarter, 1996; Chibanda & Mashingaidze, 2020; Mbugua & Waweru, 2020; Rwekaza et al., 2020; Risal, 2021). Besides, the political manipulation of cooperatives compromises their credibility tainting their reputation as poverty-alleviating strategies, gaining them notoriety of being the tools to access state largesse (Tukuta, 2011; Tang *et al.*, 2020). In this way, political interference defeats the very objectives of growing a self-sustainable and integrated cooperative sector that promotes economic growth, poverty alleviation, and employment creation in poor communities (RSA, 2004). The involvement of politicians often divide cooperatives along political affiliations. This does not only exterminate their energies, but misdirects them to unprofitable ends (Tukuta, 2011; Tang *et al.*, 2020). Subsequently, cooperatives lose their identity and purpose, and become irrelevant to socio-economic development.

PROPOSED FRAMEWORK

Based on these findings, an effective support system is needed to enhance the role of cooperatives in socio-economic development. Although government provides a number of support services to cooperatives, their impact is largely ineffective because of disintegration and poor coordination between

the state institutions. It is for this reason that a comprehensive and integrated support framework is proposed as a mechanism by which state support is provided to cooperatives to enhance their functionality.

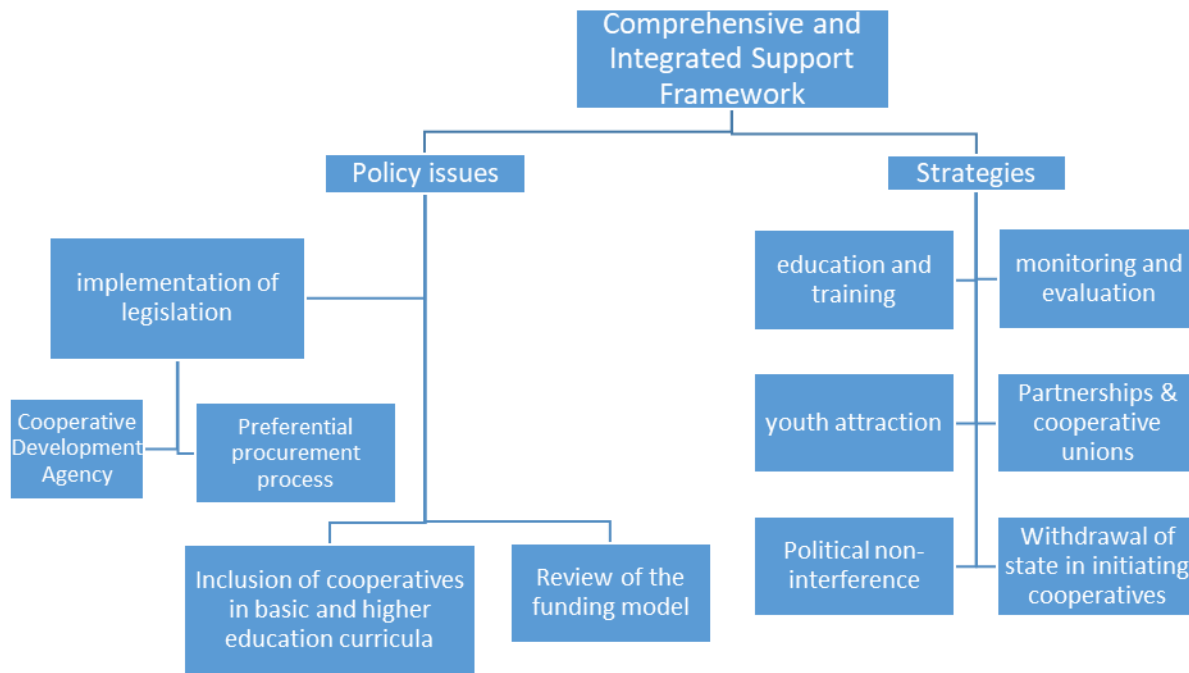


FIGURE 1. COMPREHENSIVE AND INTEGRATED SUPPORT FRAMEWORK

The framework advocates a two-pronged approach in the provision of cooperative support. While policy changes are explored, practical actions must be implemented by government.

Policy Issues

Three policy changes are proposed to enhance the functionality of cooperatives, namely: the implementation of cooperative legislation; review of the cooperative funding model; and inclusion of cooperatives in basic and higher education curricula.

Implementation of Cooperative Legislation

State support should be spearheaded by the implementation of cooperative legislation, particularly the Cooperative Amendment Act (No. 6 of 2013) and Preferential Procurement Policy Framework Act (PPPF Act) (No. 5 of 2000). As these acts provide almost everything that cooperatives need to develop into productive business enterprises, their proper implementation could eliminate most of the challenges besieging the sector. Most importantly, the implementation of the Cooperative Amendment Act will push for the establishment of Cooperative Development Agency (CDA), while the PPPF Act will promote the marketing of cooperative products.

Establishment of CDA in the District

There is an urgent need for the establishment of CDA to coordinate and integrate various state support programmes offered to cooperatives. The research findings indicate that there is no coordination

and integration in state support. There is no collaboration between government institutions. They work in isolation from one another. Cooperative support is dispersed to a number of government institutions, resulting in an ineffective, uneconomical and unsustainable service. There is a duplication of services and wastage of resources, which created the inept cooperatives found in the district. The concentration of fragmented government services and the pooling of resources under one roof will not only be economical, but will accelerate service delivery, improve the dissemination of information, eliminate the duplication of services, and prevent the wastage of resources.

The CDA will ensure that the services rendered to cooperatives are responsive and convenient to their needs. Better-serviced cooperatives culminate in better performance. Experiences from China, Ethiopia, and Kenya proved that the integration and coordination of cooperative support services at local government level is instrumental in cooperative success. Presumably, the establishment of CDA will extricate cooperatives from the state of ineffectiveness and eliminate some of the challenges incapacitating the sector. Therefore, the CDA can be the solution to many tribulations facing the cooperatives. The Chris Hani Cooperative Development Centre (CHCDC), which already exists in CHDM and provides some of the services the CDA is meant to provide could be strengthened and used as a foundation for the establishment of the CDA.

Implement Preferential Procurement Processes

The implementation of preferential procurement processes in favour of cooperatives by state institutions will alleviate market-access challenges and provide them with the platform to grow. Cooperatives can do well if they can be provided with the opportunity to prove their worth. Therefore, market access for the cooperatives could contribute to their growth.

Review the Funding Model

State financial support is indispensable to cooperatives given that they are largely formed by poor people, who effectively need financial assistance to get off the ground. However, the research findings have pointed out that the state grant system has been problematic. It failed to achieve its intended objectives, but instead, it inadvertently bred dependency syndrome within the sector. It formed state-dependent cooperatives that totally rely on government and unwilling to do anything on their own. Effectively, the state grant system has been abused as a cash cow. Certain cooperatives have serially accessed the state grants whilst others have not benefited at all. The abuse has been aided by government institutions who directly gave funding to cooperatives without first establishing effective monitoring systems. To lessen these challenges, it is recommended that the funding model is reviewed and low cost or zero-rated loan system is introduced instead of grants. In the meantime, while the system is not yet overhauled, vigilant screening of grant applicants must be done to ensure that only viable enterprises with proper business plans are granted financial assistance. Physical site visits and other means of verification must be conducted by funding institutions to establish the viability of the enterprises.

Incorporate Cooperatives in Basic and Higher Education Curricula

The research findings indicate that the lack of knowledge on the purpose, basic principles, and values of cooperatives is rife. The majority of cooperative members in the district do not understand the cooperative form of business, and this has resulted in the failure of their cooperatives. To eliminate this challenge and promote the understanding of the cooperative business model by the majority of the population, it is recommended that the model is taught as a subject at schools and tertiary institutions. Therefore, cooperatives must be incorporated into the country's education curricula for basic and higher education. Their inclusion in the curriculum will not only assist in the understanding of the cooperative

concept by the majority of the population, but will eliminate the misconceptions about the model and stimulate interest among the youth.

Strategic Policy Recommendations

Whilst the policy issues are explored, the following interventions should be implemented to improve productivity in cooperatives.

Discontinue the Initiation of Cooperatives by the State

Most importantly, the involvement of the government in the initiation of cooperatives must be discouraged. The government should refrain from initiating cooperatives for the communities as this creates dependency syndrome. Communities must be given the space to initiate their own enterprises in their own ways. The government should rather focus on educating and training communities on how to initiate and operate their own businesses and give them the necessary support. The government must ensure that communities know and are assisted to access the various government support programmes. The state institutions such as Chris Hani Cooperative Development Centre (CHCDC), Small Enterprises Finance Agency (SEFA), Small Enterprises Development Agency (SEDA), Eastern Cape Development Corporation (ECDC), Eastern Cape Rural Development Agency (ECRDA), Department of Economic Development and Environment Affairs (DEDEA) and others must go out to communities and educate them about the services they provide. As long as their services are unknown to the communities they serve, their existence is of no value to the socio-economic development of poor communities.

Improve Capacity-building Programmes

Given that the majority of members do not understand the model and lack the necessary business management skills to profitably operate their enterprises, there is an urgent need for effective education and training. Members must be primarily educated and trained on cooperative principles and business management, particularly, bookkeeping, record management, and marketing as the profitability of cooperatives largely hinges on these skills. Capacity building must be central in the support programmes the state provides so that cooperatives are developed into functional business enterprises. The government institutions, such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA, must prioritise the capacitation of the cooperatives.

Equally important, these organisations must move away from the habit of working in isolation from one another as it has resulted in ineffective capacity-building. Collaboration between them is critical and would yield greater impact as it will promote the pooling, integration and the frugal utilisation of resources. Therefore, it is important that collaboration between state entities and integration of services are urgently addressed through the establishment of a CDA. The current approach to capacity-building has allowed some cooperatives to be repetitively provided with training by different state entities a number of times, while others are neglected. The integration of training programmes under one roof will eliminate these duplications and ensure that cooperatives receive the same treatment. The theory-laden training programmes that are traditionally provided to cooperatives have not made much difference to the skills shortage. Even though members have been attending these programmes for some time, the lack of skills is still prevalent. The off-site and away-from-home one or two-week training programmes should be used sparingly, given the members' age and education levels. Preferably, on-site and practical-based training should be provided to afford members adequate time to grasp the content and to ensure the transfer of skills. Largely, coaching and mentoring should constitute part of the capacity-building programmes.

Improve the Monitoring and Evaluation of Support Programmes

The government must improve the monitoring and evaluation of the support programmes provided to cooperatives. The biggest challenge with the monitoring and evaluation of cooperative support is the tendency of state institutions to work alone. Collaboration between them could improve monitoring and evaluation as the resources would be pooled together for better utilisation. The establishment of a functional and well-funded CDA at district level could enhance effective monitoring and evaluation of support programmes.

Attract Youths to Cooperatives

It is important that youths are actively attracted to cooperatives to rejuvenate and modernise these enterprises. The government must explore strategies to entice their participation. The incorporation of cooperatives in the curriculum for basic education could assist in stimulating their interest. Moreover, tertiary institutions, particularly the TVET colleges, should also consider introducing courses or programmes on the cooperative business model. Besides attracting the youth, the introduction of cooperatives in the school curriculum will also enhance community awareness about the model and promote wider understanding of the concept by communities.

Promote Cooperation between Cooperatives

The cooperatives must be encouraged and given the necessary support to form cooperative unions and associations both at local and district level. Government institutions that support cooperative development in the district such as SEDA, SEFA, ECRDA, ECDC, CHCDC, and DEDEA must assist in driving this initiative. The formation of linkages among cooperatives will promote economies of scale, enhance the sharing of knowledge and resources within the sector. Most importantly, cooperation among cooperatives will also assist in skills transfer and enhance their functionality.

Establish Partnerships with Stakeholders

The state must also facilitate the formation of partnerships between cooperatives, the private sector, and the non-governmental organisations. Given the lack of capacity and skills within the sector, partnerships with other organisations could be beneficial as they could assist in market linkages and skills transfer. The government must facilitate the exploration and the initiation of partnerships with other stakeholders.

Discourage the Interference of Politicians in Cooperatives

The involvement of politicians in the operations of cooperatives must be discouraged. However, as long as the state is involved in the initiation of cooperatives, it will be difficult to discourage their involvement and politicians will continue to obfuscate cooperatives with service delivery imperatives. Therefore, to discourage their interference, the state must first desist their involvement in the initiation of cooperatives. Once that has happened, it will not be easy for politicians to intrude in the affairs of autonomous and community-initiated cooperatives.

CONCLUSION

This paper has found that cooperatives contribute positively towards poor communities' socio-economic development. The findings indicate that communities generally use cooperatives for job

creation, income generation, food security, poverty reduction, crime prevention, and community empowerment, and all these activities improve the socio-economic conditions of many households in CHDM. Also, the paper establishes that a number of environmental factors diminish the influence of cooperatives in socio-economic development. The majority of cooperatives are stalled by factors such as lack of knowledge, relentless conflicts and lack of education to mention the few.

The findings on the realities of cooperatives in CHDM could be applicable to other areas in South Africa. Insights gained from this research could shed light on the challenges faced by cooperatives in other areas. Equally, the findings could contribute to more effective cooperatives in the rest of the country, which could enhance the socio-economic development in poor communities. More importantly, the framework proposed by this paper could contribute in advancing the existing body of knowledge on cooperative development. Based on the proposed framework, the paper makes a wide range of recommendations which are discussed in the section preceding this conclusion.

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