



SOUTH AFRICA FOUNDATION

OCCASIONAL PAPER

No 2 / 2003

DECEMBER 2003

**Co-operatives in South Africa:
Their Role in Job Creation and
Poverty Reduction**

THE SOUTH AFRICA FOUNDATION

The *South Africa Foundation* is an association of South Africa's largest corporations and major multinational companies with a significant presence in South Africa. They are represented on the Foundation's Council at the level of Chief Executive or Chairman. The Foundation is the independent, non-partisan voice of South African business leadership. It is financed entirely by private subscription from its corporate members.

The Foundation believes that business leadership has a collective duty to contribute to the process of policy-making on national and international affairs. It further believes that a strong, independent private sector, operating within a market-orientated economy, is an essential feature of any successful, free and democratic society.

OBJECTIVES OF THE FOUNDATION

The Foundation seeks to formulate and express a co-ordinated view on macro-economic and other national issues and to promote the interests and further growth of South Africa's private sector both domestically and internationally. The Foundation strives to promote enterprise and an environment conducive to the conduct of business. It is also believed that the development of human capital and the raising of income levels are essential in building a successful nation.

The *South Africa Foundation* fosters relationships between South Africa and the rest of the world, in the belief that these relationships will improve opportunities for South Africa as well as for the entire southern African region.

COMPILED FOR THE SOUTH AFRICA FOUNDATION
BY KATE PHILIP
DECEMBER 2003

The views expressed in this document are those of the author and do not purport to represent the views of the South Africa Foundation. It is published as a contribution to the public debate on an issue of topical interest.

Co-operatives in South Africa: Their Role in Job Creation and Poverty Reduction

By Kate Philip

Contents

1. Executive Summary
2. The history of Co-ops
3. Forms of Co-op
4. The Co-op Principles
5. The International Experience
 - a. The Italian Legacoop
 - b. Mondragon, Spain
 - c. Co-ops and ESOP's in China
 - d. Economic mobilization in Kerala, India
6. Co-ops in South Africa: An Overview
 - a. Worker Co-ops
 - b. Agricultural Co-ops
 - c. Financial Services Co-ops
 - d. Housing Co-ops
 - e. Consumer Co-ops
7. Constraints faced by worker co-ops in South Africa:
A critical assessment
8. Conclusions:
 - a. Worker Co-ops and Job Creation
 - b. User Co-ops, Economic co-operation and poverty reduction

Kate Philip ran the Co-op programme of the National Union of Mineworkers (NUM) from 1988-1994, establishing 30 producer co-ops in South Africa, Lesotho and Swaziland. In the mid-1990's, NUM took a decision to move away from a narrow focus on co-op development, and to provide support to all forms of enterprise and income generating activity in the communities in which it offered services. NUM set up Mineworkers Development Agency as its development wing, and Philip was CEO of MDA until October 2002. She is now an independent development consultant.

Wellington Nghlengethwa, the Production Manager of the Sidvokodvo Agricultural Co-op of the Swaziland Ex-Miners Co-operative Society, reporting back to members.

Pictures: Kate Philip



1. Executive Summary:

The Presidential Growth and Development Summit, held in July 2003, endorsed special measures to support co-operatives as part of strategies for job creation in the South African economy. Responsibility for co-operatives in government has been transferred from the Department of Agriculture to the Department of Trade and Industry, where a Co-operative Enterprise Development Division has now been established. A Co-operatives Bill, due to be passed into law in 2004, is currently under final discussion.

Against the backdrop of renewed interest in co-ops in South Africa, this paper provides a background to the issues: to the co-op principles, to the different forms of co-op that have emerged around the world, to key debates and challenges in the co-op movement, and to the track record of various forms of co-op internationally and in South Africa.

A conceptual distinction is highlighted between worker co-ops, in which workers in an enterprise own and control the co-op, and user-owned co-ops, in which the members are users of the services of the co-op, without any necessary employment relationship within the enterprise - such as co-op banks, consumer co-ops, or marketing co-ops.

The paper provides case studies of the Mondragon Co-operative in Spain, the Italian Legacoop, forms of worker-ownership emerging in response to privatization in China, and the case of popular mobilization for co-op development in Kerala State, in India: before turning to the South African experience.

In South Africa, with the exception of the large agricultural marketing, input supply and processing co-ops, the co-op movement remains underdeveloped. The current status of worker co-ops, financial services co-ops, housing co-ops and others is described, before turning to explore lessons from the 1980's and early 1990's, when there was a similar push for co-op development as is now reflected in the GDS process.

In the South African debate, the focus has been on worker co-ops, which have been seen as a vehicle for job creation, and as providing a democratic alternative to conventional forms of work. User co-ops have attracted less interest. The paper argues for a fresh look at the role and development potential of different kinds of co-op in the South African context, and in particular, for a shift in focus to user co-ops.

Worker co-ops are a complex and specialised form of enterprise, requiring high levels of internal skill or external technical support to succeed, placing real constraints on their potential as a vehicle for mass job creation. By contrast, the paper argues that the forms of economic co-operation characteristic of user co-ops are better able to mobilize wide participation, and can reduce costs, enhance incomes, and improve the viability of business activities, across the spectrum of formal and informal enterprise activities. As a result, user co-ops hold out significant potential to contribute to the reduction of poverty, to empowerment, to job creation and to enhanced forms of social mobilization to achieve these ends.

2. *The History of Co-ops:*

People all over the world have found different ways to co-operate in the production and distribution of goods and services, across different types of economic systems. But particular forms of such co-operation were formalized in nineteenth century Europe, against the backdrop of the Industrial Revolution and significant social change. These co-ops were seen as social and economic alternatives to the impacts of emergent industrial capitalism.

According to the International Co-operative Alliance (ICA), co-operatives grew within five distinct traditions: “the consumer co-operatives, whose beginnings have long been popularly associated with the Rochdale pioneers; the worker co-operatives, which had their greatest early strength in France; the credit co-operatives, which largely began in Germany; the agricultural co-operatives, which had their early roots in Denmark and Germany; and service co-operatives, such as housing and health co-operatives, which emerged in many parts of industrial Europe as the century drew to an end.”¹

Yet while co-ops have often been seen as an ‘embryo of socialism’ within a capitalist economy, communist countries such as the Soviet Union and China were unsympathetic to the co-op model, seeing it instead as the last vestiges of capitalism within socialism – because ownership of the enterprise by its members is a form of private ownership, which was seen to be at odds with the social or state ownership of other forms of enterprise in those societies.

Co-ops have no necessary political home, and have been appropriated across the full spectrum. In fascist Spain, Franco’s party declared that ‘Our regime will make the class struggle downright impossible, since all those co-operating in production will constitute one organic whole.’² Yet, despite this, co-ops have remained predominantly associated with support for wider democratic ideals, with broadened forms of worker and community ownership, and with popular participation and community solidarity.

Despite challenges of many kinds, and diverse trajectories of development, the co-op model has continued to inspire people, and co-op movements have endured and thrived in many countries of the world. According to the European Union Statistical Report on Co-operatives of 1994, there were then over 53.7 million co-op members in the EU: with 34.7 million concentrated in banking, credit and insurance co-ops (as member/account holders); and 9.5 million in consumer and retail co-ops.³ In Russia and China, forms of worker ownership, including a continuum co-ops to Employee Share Ownership Schemes (ESOPS), have emerged in response to the privatization of state owned enterprises. The Grameen Bank in Bangladesh is a form of financial services co-op; and in India, 6 million dairy farmers belong to 60,000 dairy co-ops, with more than \$1 billion in annual earnings for their members. In India also, labour-contracting co-ops are the mandatory delivery agents for public works programmes under a certain contract level. In South America, utility co-ops have emerged in many places to extend service delivery, with Argentina having about 500 utility co-operatives distributing 19% of the country’s electricity in 900 communities; another 130 co-operatives providing telephone services, and 320 which provide drinking water.⁴

¹ Background paper on the Statement on the Co-operative Identity; adopted at the ICA Congress, Manchester, 1995; available at www.ica.coop/ica

² Fairclough, Dr M. ‘Mondragon in Context’, Research Report No 1 Department of Sociology, University of Bristol, 1987.

³ While overlapping membership between banking, consumer and other co-ops is likely, a ‘member’ of a consumer co-op often represents participation by a household.

⁴ Case Study of Co-operative Success; www.ica.coop/ica; 19 October 2003.

Yet, despite an apparently fertile context for co-op development in South Africa, we do not yet have our own equivalent success stories: and although the agricultural co-ops have certainly demonstrated the commercial potential of the model, their failure to embrace democracy at a societal level in South Africa during the apartheid years still rather taints their broader acceptability as a South African success story.

So where is South Africa's co-op movement? And what is the potential role of co-ops in job creation and poverty reduction? This opinion piece will explore these questions.

3. Forms of Co-op:

There are many different types of co-op, all covered by the Co-op Principles of the International Co-operative Alliance, that have different priorities, have faced different challenges, and have different track-records and social impacts. Yet these different types of co-op fall into two main categories: worker-owned co-ops, and user-owned co-ops. Understanding the differences between these is key to the concluding arguments about the role and potential of co-ops in the South African context.

Worker Co-ops:

The key defining feature of worker co-ops is that worker-members in the co-op own and control it, on the basis of 'one member one vote'. In this way, worker co-ops potentially provide a radical alternative to the employment relationship found in conventional enterprises; and many of the difficulties they face relate precisely to this attempt to redraw the relationships between 'owners' and 'producers' - when co-op members combine both roles.

Worker Co-ops combine worker ownership with mechanisms for the democratic control of production within the enterprise, and are usually initiated as part of attempting to find more empowering alternatives to conventional employment and ownership relations in society. Debates about the role of co-ops interface with a wider literature on the productivity and empowerment benefits of worker participation in enterprise decision-making, as well as debates about the benefits of various forms of worker participation in capital ownership - including share equity schemes, ESOP's and co-ops - with co-ops representing full worker ownership and control of the enterprise.

Co-ops face complex challenges, and - assuming a basic level of business viability - their success or failure is typically determined by their ability to institutionalize internally-accepted ways of managing the characteristic tensions that are at the heart of co-ops as a form of business:

- The tension between democratic worker participation in decision-making, and business efficiency;
- The tensions between the roles and interests of workers in their capacity as owners (to whom managers are accountable); and of workers in their capacity as producers (who are accountable, in the context of production, to managers).
- The tensions between the short-term desire of members to improve their quality of life, and the longer-term interests of the co-op as an economic entity.

These issues are the sub-text of many of the debates in the co-op movement and associated discourses. Where ways of managing these tensions are institutionalized and accepted - across a range of permutations - worker co-ops can thrive. Where they are not, worker co-ops fail.

User Co-ops:

In contrast to worker co-ops, there are a range of types of co-op that can be characterized as 'user co-ops', or 'client-owned co-ops'. While there are differences between these forms of co-op, they share an essential feature that distinguishes them from worker co-ops. In these co-ops, the members are users of the co-op's economic services, rather than necessarily being workers in the enterprise.

This applies to a diverse range of types of co-op, including co-op banks, consumer co-ops, co-operative business associations, and agricultural processing co-ops, where the members are farmers who supply the co-op, not the workers in the enterprise.

In these co-ops, members use collective organization to create economies of scale, as a way to enhance their economic access or to gain economic advantage, whether in relation to purchasing, marketing, access to financial services, access to housing, or social services such as educare and health.

At its simplest, and defined in this way, a user co-op could be a loosely-constituted bulk-buying co-op set up in a neighbourhood, to reduce food and transport costs for household purchases from the nearest supermarket; or a group of parents who set up a joint crèche, and share the costs between them; or it could be a complex enterprise such as the Wine Co-ops in the Western Cape, which produce wine from the pooled production or production surpluses of local farmers, who are the members. Farmers all over the world have organized themselves in similar ways, and often with significant commercial success.

Typically, members of user co-ops are not directly dependent on the co-op for their livelihood; the co-op is a way of reducing costs or enhancing income, whether for the member as a consumer, or to enhance the viability of their business.

In user co-ops, the employees of the co-op generally have no special ownership relationship to the co-op, and the employment relationships in such co-ops are usually no different from employment relations in any conventional business. There is no necessary component of worker ownership in a user co-op: although some co-ops have created mechanisms to allow for some degree of worker participation in the ownership structure, such as in the case study of Mondragon in Spain, below. It is also often possible for workers in a co-op bank, or a consumer co-op, for example, to be members of the co-op also: but their position as employees does not confer any special terms or rights to them relative to other members.

In user co-ops, profits are shared on the basis of formulae agreed by members, but usually linked to the extent of use of co-op services by members.

It is also the case that the members of such co-ops are not always individuals, but can also be 'legal persons', or companies. The ILO's Co-operative and Small Enterprise Support branches are currently jointly promoting the concept of 'Co-operative Business Associations' (CBA's), to better convey an understanding of this form of co-operative opportunity: 'CBA's have enabled enterprises to demonstrate that mergers are not the only way of making economies of scale or of surviving in a much more sharply competitive environment. The co-operative solution is increasingly coming into its own in a number of different - and even rather unexpected - business sectors.'⁵

⁵ 'Couture, Marie-France: 'Co-operative Business Associations and their potential for Development Countries'; For the ILO Cooperative Branch and IFP/SEED, ILO, 2003.

For user co-ops, the key tensions outlined above either do not apply, or apply at lower levels of intensity, as members are not dependant on the co-op as their main source of income, but use it as a supplementary strategy to enhance other livelihood or employment strategies.

4. The Co-op Principles:

The International Co-operative Alliance, based in Geneva, is broadly recognized as the legitimate international home of national co-op federations, and is also where co-ops have, over time, debated and changed the accepted Co-op Principles, as well as engaging with key and highly contested debates about the variations on the classic co-op form that can be accepted within the recognized movement. The current state of play on these issues is captured below.

**The International Co-operative Alliance:
Statement on Co-op Identity adopted at the 1995 Congress
and General Assembly**

Definition of a Co-operative

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

This Statement on the Co-operative Identity was adopted at the 1995 Congress and General Assembly of the International Co-operative Alliance, held in Manchester to celebrate the Alliance's Centenary. Recommended to the Congress by the ICA Board, the Statement was the product of a lengthy process of consultation involving thousands of co-operators around the world.⁶

This definition of co-ops and these principles are broad enough to cover a wide range of forms of co-op organization; they encompass many potential variations, and make no distinction between worker and user co-ops. They also attempt to find the balance between competing pressures on co-ops as forms of organization: straddling the kind of idealism that anticipates that all decisions will be made by direct democracy, to some of the very indirect and mediated models of workers control that others have adopted.

Within the ICA, the key debates have often reflected tensions between the concerns of emergent co-ops in developing contexts, and the concerns of more established and older co-op movements; between more principled or idealist approaches to issues, and those which have tended towards greater compromise - or pragmatism: and between the priorities of worker co-ops and different types of user co-ops. The following have been key debates over time:

- The forms and extent of democratic participation by workers in the control and day-to-day management of worker co-ops;
- Whether worker co-ops may employ workers, where such workers do not have the option to become a full member. Many established worker co-ops in Europe also employ workers in a conventional employment relationship; such employed workers sometimes constitute the majority of the co-op workforce.
- Whether user co-ops such as consumer co-ops should also allow for forms of worker control. This has been strenuously resisted by many consumer co-ops.
- The principle of the indivisibility of co-op capital. Historically, the co-op principle was that the capital of a co-op was indivisible. When a member left, even after a lifetime of employment, they could only take out the value of their initial share

⁶ Taken from the ICA website at www.ica.coop/ica.

contribution, with nominal interest. This has been a factor contributing to the tendency for members of commercially-successful co-ops to vote to convert the enterprise to a conventional form of business, in order to access their portion of the capital growth in the business. Amongst other issues, this was part of the motivation for many of SA's agricultural co-ops to vote to convert to limited liability companies in the late 1990's.

Another look at the co-op principles shows that in fact, they manage to embrace quite a high degree of flexibility of interpretation on all these issues, while the debates rage on, and co-op members make their own choices on form and content in their very diverse contexts.

5. The International Experience:

Before turning to the South African story, a few international case studies of co-ops have been selected to give some context to the debates taking place here. These include the *Italian Lega Nazionale delle Cooperative* (Legacoop) - which is the largest co-op federation in Italy, where co-ops are sufficiently influential in the economy to be defined as 'the third sector'; the Mondragon Co-operative Corporation, in Spain - probably the most famous success story of all; the role of co-ops and ESOP's in China's transition economy; and the case of Kerala, in India.

The Italian Legacoop

The two main co-op federations in Italy represent the main faultline in Italian politics, with the larger federation, the Legacoop, aligned with the Italian left, and the *Confederazione Cooperative Italiane* (Confcooperative) aligned with the Christian Democrats. Co-ops in Italy have been supported across the political spectrum, but the focus here will be on the Legacoop, as the largest grouping.

The strength of Italy's co-op movement has derived from many factors: from its roots in the craft and artisan sectors; from the strong support provided to co-ops by local governments - the locus of significant power in Italian politics; their long history of alliance with Italy's trade union movement; the participation of trade union members in user co-ops such as consumer co-ops and co-op banks; alliances also with the small enterprise sector, and the involvement of small and medium enterprise in forms of co-operative business associations known as '*consortia*'; the tradition of co-ops amongst professional sectors, who have worked as part of and in partnership with the co-op movement, providing a technical skills base; and the well-established institutional framework within which co-ops operate, including supportive policy, but also including well-institutionalized traditions of operation that manage the key tensions outlined above.

In the 1970's and 1980's, the Italian co-op movement - like others in Europe - saw an expansion in consumer activism, as well as a 'new generation' of co-ops in high tech and professional sectors, such as lawyers, architects, IT companies and publishing companies. Then, in the 1980's and 1990's, the largest source of new co-op jobs was from worker buyouts, with an estimated 1,000 companies being converted to co-ops in this period, in the context of the threat of closure and job loss.⁷

⁷ Laville; Jean Louis; *Collectives and Worker Co-operatives in Europe*; June 1994; ICA website: www.ICA.coop/ICA.

By 2002, the Legacoop had a membership in excess of 6 million people, or just over 10% of the Italian population, and a turnover equivalent to a third of South Africa's GDP. More than two thirds of the total membership is in consumer co-ops. The total number of jobs in the co-op sector is 342,000, with the largest job-creating sector in services and tourism.⁸

The Italian Cooperative League (Legacoop): 2001-2002⁹

MEMBER ASSOCIATION	SECTOR	TURNOVER (in billions of euros)	NUMBER OF EMPLOYEES	NUMBER OF COOP MEMBERS
ANCA	Agriculture & food processing	5.3	21,400	247,377
LEGAPESCA	Fishing	0.6	4,794	19,052
ANCPL	Production & Work	6.7	38,033	28,700
ANCST	Services & Tourism	6.0	166,200	154,817
ANCC COOP	Consumer	9.2	44,301	4,670,000
ANCD CONAD	Retail	6.6	32,800	3,140
ANCAb	Housing	0.8 (4)	1,401	394,817
AndCC	Culture & Coop clubs	0.4	6,728	16,845
FIMIV	Benefit societies	0.03	65	357,241
	Other activities	2.5	28,405	116,150
		38	342,127	6,008,139

The consumer co-ops operate under the name 'COOP', and also provide secure market access for over 1,000 products produced by worker co-ops. With 4.6 million members, the consumer co-ops have significant market share in the retail sector, and wield real power in the market, with social and economic impacts on policy, production and practise at many levels.

For example, in the 1980's, the Lega Consumer Co-ops set a benchmark for pesticide use on fresh produce that was lower than the EU guideline for the time - changing practises in Italian agriculture. The Co-ops posed limits on products generating CFC's, leading to innovation in refrigeration and air conditioning systems produced by Italian manufacturers. They play a key role in providing secure marketing outlets for co-op-produced goods: underpinning the sustainability of these jobs and facilitating the successful turnarounds of converted companies. The COOP supermarkets have initiated immigrant integration programmes at home, are a significant lobby for fair trade, and mobilize international solidarity amongst consumers. Members are given the option to use their annual dividend payments as credits in-store, or to donate the value of these to the Legacoop's international development programme.¹⁰

⁸ Thanks to Chris Gilmore for assistance with translation, website, and for the statistics.

⁹ LEGACOOOP: website: www.legacoop.it

¹⁰ Interviews with representatives of the Lega Emilia Veneto, as part of a study tour to Italian Co-ops by the author, hosted by Italian NGO Cospe, 1993.



Consumer Co-op supermarket in San Casciano, Italy.

The Mondragon Co-operative Corporation:

Sixty years ago, in 1943, the Mondragon Co-operative was formed in a small Basque town in Spain, by five young men who had studied together at the democratically-run local Polytechnic School. The Polytechnic was set up by a local priest, to try to stimulate the local economy, in the aftermath of the Spanish Civil War, in a poor, marginal, Basque district, and against the backdrop of Franco's fascism. Today, Mondragon is probably the world's most famous co-op success story. It's certainly a case of starting small, and growing big despite significant odds.

As at the end of 2002, the Mondragon Co-operative Corporation (MCC) had 66,558 workers, and with total assets of E14 billion. These include a co-op bank, the Caja Laboral; a multinational network of production sites in 23 countries, producing high tech machinery and competing effectively in global markets; consumer and distribution co-ops with 320,000 members; an associated technical research centre, and a private university.¹¹

A key element of Mondragon's success is the unique capital and ownership structure it put in place, that attempts to find a balance between workers desire to maximize their

¹¹ MCC Annual Report 2002; Mondragon website: www.mondragon.mcc

income, and the co-ops need for capital reserves. Thus while membership rights – and voting rights – are attached to being a worker in the co-op, capital rights are attached to an internal capital account for each member.

Each new member pays a fixed membership entry fee; currently \$11,000 – or about R80,000. Each year, thirty percent of the total surplus in the co-op is divided between community projects and a reserve fund, and the remaining 70% is paid into workers' internal capital accounts, in proportion to their rates of pay. Members cannot draw this money until they retire or leave, and then only in instalments, but interest on their internal capital account is paid out annually. This means the co-op has a large capital resource pool to draw on, but this is in the form of 'loans' from the internal capital accounts of workers; and members benefit from capital growth in their co-op.

This structure has provided a mechanism to overcome the tension that is created in the classic co-op model, where the capital of the co-op is 'indivisible' and co-op members have no claim on it or rights to it. The model has been replicated in the type of mechanism put in place by many ESOP's. Yet it is at odds with classic co-op principles, and is in fact disallowed by co-op law in many places, including many states of the USA.

The other feature of the Mondragon model is how it has institutionalised notions of democracy in production. Members elect a management board annually; which appoints senior managers, for a four year term of office. Apart from this, worker participation is essentially advisory, through participation in a Social Council, which monitors and advises management, and takes up social issues affecting workers. For Mondragon's critics, this represents an inadequate level of worker participation and control over management decisions; others argue it has served the co-op well for sixty years.¹²

In 1990, a key balance in MCC shifted: until then, MCC was focused primarily on industrial activities, and most jobs were in producer co-ops with up to 500 workers. But in 1990, employment in the Distribution Division, or consumer co-ops, overtook the industrial workforce. By the end of 2002, 48.1% of the jobs were in the Distribution Group, or consumer co-ops; with 46.8% in the Industrial Co-ops.¹³

In the co-op movement and the ICA, there has been long debate about the fact that in consumer co-ops, ownership vests in the users, and workers are employed on the basis of conventional employment contracts, with no particular participation in ownership or control. In Mondragon's consumer co-op group, Eroski Co-op, an innovation in this respect has been initiated, in that ownership is held equally by worker members, and by consumer members. At the end of 2002, Eroski Co-op had 320,000 consumer members; and 8,300 worker members, and these two constituencies are joint shareholders. All workers have the option to become member-workers.¹⁴

Co-ops, ESOP's and privatisation in China:

A wide range of forms of co-op and of employee share ownership have been initiated in China as part of the transition from State Owned Enterprises (SOE's) to forms of private ownership. These have taken different forms: in the first phase, from 1992-1995, employees invested their own funds in small-scale State Owned Enterprises that were being privatized, and restructured them as co-operatives. In the second stage, from 1995 to 1998, a more diverse range of forms of worker buy-outs took place. Full

¹² Fairclough, Dr M. 'Mondragon in Context', Research Report No 1 Department of Sociology, University of Bristol, 1987.

¹³ Economic Data as at 31.12.2002; www.mondragon.mcc

¹⁴ www.grupoeroski.es

worker buyouts continued, but sometimes these companies were then converted into forms of share-ownership rather than co-ops. In some medium and larger companies, employees bought part of the net assets, through the mechanism of an ESOP, while the state retained the balance of ownership; but employees have been encouraged to hold the majority of shares. More recently, management buyouts are becoming more common, with differentiation of the amounts of shares held by managers and workers.

The China Institute for Reform and Development (CIRD) has promoted the concept of 'labour property rights', according to which it argues labour should not only be paid wages, but should also enjoy property benefits, through share ownership: and benefit from the accumulated contribution of labour to the value of the capital in former state-owned enterprises.

Although this experimentation with diverse forms of worker ownership has been described as 'a reform mechanism full of vigour and vitality', that is being widely applied by State Owned Enterprises and local governments, the jury is still out on the outcomes, sustainability and impacts of these different approaches.¹⁵

Co-op mobilisation in Kerala, India:

Kerala is a state in India, with over 31 million people, making it one of the highest-density populations in the world (and home to the probably more famous author, Arrundhati Roy). It is mainly rural, with limited industrial development; but a history of high levels of social mobilization. In 1957, the Communist Party won the elections in Kerala, and has governed it for most of the period since then, initiating a series of programmes that try to maximize local participation in social and economic development.

These have included the 'Total Literacy Campaign', which led to Kerala having a 90% literacy rate by 1991, compared to India's average of 51%; a land reform programme; the 'People's Resource Mapping' programme, to involve communities in identifying economic development opportunities, and, since 1996, a radical programme of decentralization, that devolves 35-40% of the state budget to local village committees.¹⁶

Kerala also has probably the largest worker co-op in the world, the Kerala Dinesh Beedi Co-operative, producing traditional 'beedi' cigarettes, with 32,000 worker-members in 1995, and 326 work-centres. Kerala Dinesh Beedi started 30 years ago in response to a lockout of workers during a strike. Kerala also has a range of co-operative business associations, such as dairy co-ops.

Kerala can claim an excellent track-record in the achievement of key social indicators, but the challenge has increasingly shifted to addressing the problem of slow economic growth. Kerala has been able to sustain its extensive social infrastructure and welfare at least in part because of high levels of migrant remittance income to the state economy, but needs to develop its own economic base to address local poverty.

In recent years, Kerala has attracted renewed development interest for its attempts to apply the experiences of social mobilization in the economic sphere. In 2000, local 'neighbourhood groups' (NHG's) started to put in place a localized version of the

¹⁵ Paper delivered by Gongyun Situ, from the China Institute for Reform and Development (CIRD), to the 2001 International Strategy Meeting of the Capital Ownership Group, Kent State University. www.capitalownership.org.

¹⁶ Williams, Michelle; 'The Politics of Socialism from Below: The Case of Kerala, India'; *The African Communist*, First Quarter 2002.

Grameen Bank approach, and to save for the purpose of building up local capital at village level. A survey of 798 NHG's in 2001 found that 17,000 women had saved \$6.94 each, or \$117,980, for use as capital in productive activities.¹⁷

In 'the Mararikulam Experiment', such NHG's in eight villages in the district of Mararikulam are participating in local soap producing co-operatives, with the assistance of the Integrated Rural Technology Centre in Kerala, and by 2002, were all producing soap. In 2003, an ambitious agenda of promoting local production activity has been initiated, that envisages rural industrial parks and common facilities centres in each village, run as co-ops, and involved in a wide range of production activities.

This process is still underway, and its outcomes remain open, but it is highlighted here because it is a case study that has caught the imagination of South African role players in the co-op sector; so as the Kerala story unfolds, it is likely it will continue to influence the South African debate.



The Sarmcol Workers T-shirt Printing Co-op, set up by NUMSA in Howick in the 1980's

6. Co-ops in South Africa: An Overview

The Presidential Growth and Development Summit, held in July 2003, endorsed special measures to support co-operatives as part of strategies for job creation in the South African economy. Responsibility for co-operatives in government has been transferred from the Department of Agriculture, where these responsibilities were based in the past, to the Department of Trade and Industry, where a Co-operative Enterprise Development Division has now been established. A Co-operatives Bill, due to be passed into law in 2004, is currently under discussion and will provide a new framework within which diverse forms of co-op are accommodated, whereas the old legislation had a more restrictive focus on agricultural co-ops alone.

¹⁷ Franke, R: 'The Mararikulam Experiment: Women owned co-ops in Kerala, India'; www.geo.co-op

Worker Co-ops:

In the 1980's and 1990's, there were a range of initiatives to support worker co-operatives in South Africa. These were inspired in part by the emergence of co-op movements in newly-liberated Mozambique and Zimbabwe. There was a Co-op Forum operating in the Western Cape; there were church-based programmes; the Grahamstown 'Bus-Station' initiative; NGO's like COPE, SHADE, the Wilgerspruit Fellowship Centre, ACAT, EDA and the Development Resource Centre were active in co-op support; and three trade unions also supported co-ops as part of strategies to deal with dismissals in their industries. These trade-union linked co-ops included the 3 Sarmcol Workers Co-ops in Howick, linked to NUMSA; the Zenzeleni Co-op owned by SACTWU; and NUM's network of 30 producer co-ops in South Africa, Lesotho and Swaziland. Each of these union-linked co-op initiatives had different ownership and control structures, and different forms of linkage with their 'home' union.

Few worker co-ops from this phase of co-op development have survived; for reasons that will be discussed in the next section. But the co-op ideal has done so, and more recently, co-ops have made a comeback on the agenda as part of strategies for job creation, in the Growth and Development Summit; and with an apparent resurgence in co-op formation.

In 2002, the National Co-op Association of South Africa, NCASA, published a base-line study on co-ops in South Africa, which provides the following overview of co-ops¹⁸:

Registration Status of Co-ops by Region

Region	Total Co-ops	Primary	Secondary	Pre-Primary	Pre-Secondary
KZN	254	105	3	121	4
Gauteng	54	32	3	11	1
Eastern Cape	198	47	5	92	4
Western Cape	62	37	1	19	1
Mpumalanga	86	30	3	37	0
Total	654	251	15	280	10

NCASA Baseline Study: March 2002

Those identified as co-ops are registered as such with the Registrar of Co-ops. 'Pre-co-ops' are co-ops that are not formally registered. The survey included five provinces, and pre-co-ops were identified on the basis of referrals and word of mouth.

Ninety percent of these co-ops were identified as worker co-ops rather than user co-ops. Total membership of these co-ops totaled 56,501, with the bulk of membership being in financial services co-ops, and agricultural co-ops.

The conversion of existing businesses to co-ops as part of worker buyouts to save jobs has not been much of a feature in South Africa, although Nehawu did negotiate for worker co-ops of retrenched workers to receive the out-sourced contracts for cleaning and other services following retrenchments at tertiary institutions; and the conversion of Magwa Tea to a co-op is South Africa's only example thus far of conversion to a co-op in the context of privatization.

¹⁸ The full baseline study with more disaggregated statistics is available on the NCASA website: www.co-operatives.org.za

User Co-ops:

Financial Co-ops:

The third-tier of banking in South Africa is made up of member-based financial institutions; across a spectrum that includes stokvels, burial societies, savings and credit unions, Village Banks, and Mutual Banks. While not all of these would define themselves as co-ops, many in fact meet the essential criterion – of member ownership and control.

Much has been made of the role and potential of stokvels as forms of ‘rotating savings and credit’ associations. The National Stokvel Association of South Africa (NASASA) estimates that there are a total of 800,000 stokvels, burial societies and rotating savings and credit associations in South Africa, with about 8.25 million members, and an estimated R400 million a month in savings. While NASASA’s membership of 15,000 stokvels is significant, the formalisation of a wider membership network of stokvels has proved elusive, making accurate data hard to come by.¹⁹

Savings and Credit Co-operatives (SACCO’s) are the more formal and registered co-operative version of stokvels; but with a far more modest membership base of 8,884 in SACCOL (the SACCO League), as at October 2003, and an asset base of R21.7 million. The single largest of the 32 SACCO’s is at Alrode Ltd, a metal-sector company in Alberton organized by NUMSA, with 800 members and an asset base of R5,2 million.²⁰

SACCOL has for the last few years focused on building workplace-based SACCO’s; and the announcement by the SACP and Cosatu of a campaign to set up and support SACCO’s may lead to accelerated growth in this sector. Certainly, the formation of member-owned savings and credit mechanisms, coupled with financial education, could act as an important counter-weight to the over-borrowing that has trapped many workers into excessive debt.

Finally, the most recent development in the area of financial services co-operatives has been in relation to the establishment of Village Banks in South Africa.

The first three Village Banks were set up in North West Province between 1994 and 1996, ‘in response to the inability of private sector financial institutions to provide cost-effective financial services in rural areas.’²¹ The aims of the Banks were ‘to decrease transaction costs of savings mobilization, increase the circulation of resources in the communities; reduce information costs; provide loans and thus re-invest funds in the areas in which they were mobilized.’²²

They registered as Financial Services Co-ops, and established an apex structure called the Financial Services Association, which received funding from the Department of Social Development to expand the network. A further 29 communities were assisted to establish Village Banks.

In a parallel development, as part of exploring alternatives for its Financial Aid Fund, the South African Sugar Association facilitated the establishment of an entity called FINASOL, which developed a franchise methodology to support the establishment and replication of the Village Bank model. Thirty Village Banks were established in this way, and

¹⁹ ECIAfrica; ‘Third Tier Banking Report: A Review of the capacity, lessons learned and way forward for member-based financial institutions in South Africa’, 25 July 2003; commissioned by the FinMark Trust: www.finmark.org.za

²⁰ Data from www.saccol.org.za.

²¹ Ibid, ECIAfrica

²² ibid, ECIAfrica

FINASOL also registered with the Registrar of Co-ops, with similar functions to FSA.

However, both FSA and FINASOL ceased operations in 2002, and while the circumstances differed, lack of further funding was the essential cause. The National Development Agency stepped in to try to find alternatives, and the Village Banks have continued to operate: but with limited technical support, and with reports of mounting problems.²³

The Agricultural Co-ops:

South Africa's Agricultural co-ops began in the 1910's and 1920's, and focused on input supplies and joint marketing of production; and also established processing co-ops such as in the wine and spirits sector. They became a powerful lobby for agriculture, holding a virtual monopoly in key agricultural sectors, backed by ready access to finance through the Land Bank, and with effective control of the Marketing Boards that regulated prices until this system was dismantled post-1994.

In the late 1990's, many of the Co-ops initiated processes to convert to limited liability companies. The Minister of Agriculture, Derek Hanekom, took legal action to attempt to stop KWV from doing so, on the basis that co-ops had benefited from a range of forms of state support for decades, that had allowed them to build an effective monopoly, that had been justified on the basis of their social character, and that the privatization of these assets in the hands of current members was a form of asset grabbing. The matter was settled out of court in 1998, and the conversion went ahead, as did a range of others, such as OTK in the Free State.

Today, the Agricultural Co-ops are organized under the Agri-Business Chamber (ABC) of Agri SA. Some of those that opted to remain as co-ops have facilitated entry to membership by black farmers, while others are accused of placing barriers to such entry. At present, the Co-operative Development Initiative (CDD), which is a partnership between ABC and the German Co-op Federation (DGRV), is attempting to forge linkages between the Co-ops and black farmers previously excluded from access.

The level of commercial success of these co-ops dwarfs any other form of co-op in South Africa; and they continue to have significant commercial power, as well as extensive capacity to provide technical support to their members.

Housing Co-ops and Social Housing Initiatives:

Housing Co-ops and housing associations provide a range of models of collective ownership of housing stock, and form part of a wider set of 'social housing' initiatives, that also include self-build schemes, based on collective or co-operative approaches to home-building. These are based on reciprocity in the provision of labour to build a house, which is then usually owned by an individual home-owner.

The main implementation of housing co-ops and associations has been NGO driven, in the inner-city of Johannesburg and on the Cape Flats in Cape Town, and has been facilitated by the institutional subsidy for ownership of housing stock by non-profit entities, that forms part of the housing subsidy scheme. According to Georgina Jaffee, COPE director, 'The institutional subsidy is intended to facilitate the cheaper delivery of housing, because profit does not have to be built in to the delivery mechanism.'²⁴

²³ A detailed analysis of the Third Tier Banking Sector, and the Village Banks in particular, can be found in the article cited above, at www.finmark.org.za.

²⁴ Interview with Georgina Jaffee, who assisted in providing the overview of this sector.

Using this institutional subsidy, housing co-ops and associations have taken the following forms:

- Conversion of existing buildings to tenant ownership;
- The construction of housing on 'infill sites' in inner city areas;
- Conversion of offices in inner city areas to residential flats;
- Transformation of hostels.

At present, an estimated 5,000 people live in housing co-ops.

Housing Co-ops and Associations in Johannesburg: assisted by COPE²⁵

Name	Units	Monthly Cost
Tswelopele Housing Co-operative, Johannesburg CBD	54	R500-R850
Hadar Court Collective Housing Company, Hilbrow	22	R450-R755
Everest Court Housing Association, Hilbrow	35	R350-R440
Philani-Ma-Afrika Housing Association, CBD	67	R285-R385
Troyeville Housing Co-operative, Troyeville	120	R770-R880
Bertrams 1 Development Company, Bertrams	53	R750-R850
Newtown Housing Co-operative	351	R710-R850

Social housing is also promoted by the Social Housing Foundation (SHF). SHF is a Section 21 company, set up in terms of the Housing Amendment Act, and which works closely with the Department of Housing to promote social housing as an alternative form of tenure. It is currently engaged in a programme to replicate lessons from existing housing associations in three pilot sites.

The People's Housing Process is a national housing programme within the Department of Housing, and promotes self-build options, such as those pioneered by the Homeless People's Federation.

NACASA is also involved in this area, trying to bring together all organizations involved in co-op promotion in this area, with support from the US-based Co-operative Housing Foundation.

Consumer Co-ops:

In South Africa, Consumer Co-ops have little track record: although the gap in retail services in townships seems to create a gap that consumer co-ops would be well placed to fill.

²⁵ COPE: Co-operative Planning and Education: information from www.cope.org.za.

7. Constraints faced by Worker Co-ops in South Africa: A Critical Assessment

In South Africa, the focus, in building a co-op movement, has been on worker co-ops, which is from where the job creation impact is expected to come. It is on the experience with these co-ops that this section will therefore focus.

According to NCASA's baseline study:

'Faced with massive economic restructuring and unemployment or underemployment, millions of South Africans are discovering the potential of the **workers co-operative**, a collective entrepreneur model (rather than that of an individual entrepreneur) that provides decent and sustainable employment and a democratic workplace.'²⁶

This is certainly the goal of co-op development. But it is far from the current reality of worker co-ops in South Africa. In the same study, 40% of co-op respondents reported that they generate no income for members at all. Only 36% of the total co-ops surveyed were willing or able to give monthly income figures for their co-ops, but from this sample, NCASA reports that 'the typical co-operative' generated R2,000 a month, or R24,000 a year: from which NCASA estimates that the typical co-op member earned R1,600 a year: or R133 a month.²⁷

About 45% of NCASA's sample are co-ops that are registered under the Co-operatives Act. The survey covered about 75% of such registered co-ops.²⁸ The sample therefore includes the formal and developed end of a vast spectrum of collective group enterprises, who form part of an extended continuum from registered co-ops through to the most informal of community-based income generating groups.

Yet these figures place even the most developed of co-ops amongst the most marginal and survivalist of all businesses.

In reality, it has proved extremely difficult for worker co-ops to succeed and become sustainable in the South African context. Although there are some notable stalwarts, like the Phalaborwa T-Shirt Printing Co-op, set up by retrenched NUM workers in 1987 and still going, there is also a litany of failed projects, and despite remarkable commitment and sacrifice from co-op members, those that survive can still rarely claim to offer 'decent and sustainable employment,' much as they aspire to do so.

While at one level, this needs to be seen in the context of the wider failure rate of small business start-ups, it also needs to be recognized that co-ops face additional sets of challenges specific to the co-op form, that can make it even harder for them to survive than other types of business entity. These challenges are discussed below.

The challenge of business viability

It's obvious; and everyone agrees: for a co-op to survive, the business must be viable. But achieving business viability is a complex challenge in any business - and is that much more complex in the context of a group enterprise or co-op.

²⁶ 'Hope in Action: Co-operatives in South Africa'; A report on the NCASA 2001 Baseline Study, produced by NCASA, in association with the Canadian Co-operative Association, March 2002, www.co-operative.org.za; their emphasis.

²⁷ 71% of co-ops responded to the question on member income generated, of which 40% reported no income.

²⁸ The sample excludes the large-scale agricultural co-ops.

Most co-ops and group enterprises are started with unemployed people, often with low skills levels, and no prior business experience, in economically marginal areas. And - like all businesses - it is under these circumstances that they have the least chance of success. But for co-ops and group projects, the problems are often compounded.

The most common problem in co-ops is that they start with an oversupply of labour, relative to their productive base, and relative to the absorption capacity of the markets they are targeting. This arises partly as a result of the social goals that many co-ops hope to achieve, in response to the pressures of unemployment, and the large numbers of people that want to be part of anything that offers hope. But it arises also from the conditionalities imposed by donors and external agencies.

It is at present a norm for many development programmes, including poverty alleviation programmes, Corporate Social Investment programmes, and Local Economic Development initiatives to make 'group formation' a condition of funding or other support for income generating or enterprise activities: with ten or even twenty members being the minimum requirement. Yet scant attention is often paid to the impact of this on the viability of the business, in its context.



Hulisani Co-op, Tsianda Village, Venda, 1988. A co-op assisted by SHADE

Most starter businesses target their local market, because they have local knowledge, and because this limits the logistical costs and complexities of marketing. But for many co-ops, such local markets are poor. In rural areas, they are highly dispersed; and they buy a limited range of products: which are mostly mass-produced in the core economy, with low unit mark-ups. While the target market may be poor, it is highly brand and price sensitive, and it is hard for local producers to compete with such products. And while urban markets may seem to hold out the promise of greater volumes, competition levels for price and quality are that much higher in urban centres.

A Typical Group Sewing Project

There are twenty people in the project;

They want to earn R500 a month;

This means the project must pay R10,000 a month in wages;

Let's say wages are 25% of the cost of the dresses they make - making this a comparatively labour-intensive enterprise - with materials and other costs making up the rest.

This means they must sell R40,000 of dresses per month - every month - just to break even and pay themselves R500 each. At R100 per dress, this is 400 dresses a month.

In many of the economically marginal areas that are the typical market in which co-ops operate, this is a hard target to meet.²⁹

Sewing projects are certainly seen as rather marginal and probably don't fit the industrialist profile of co-ops to which many may aspire. But regardless of what the group is producing, similar ratios will apply, and if it is targeting a local market, there often remains an essential constraint on the volumes that can be absorbed, and hence the scale of production that can be sustained. While access to capital may certainly be a problem for many co-ops, it is in fact access to markets that is often the more critical constraint, with the co-op unable to sell all that it produces.

So, the key challenge seems to be to break into wider markets, with greater volume opportunities than the local market; or into higher-value, external markets. This can certainly be achieved: but it introduces a different set of problems.

The first problem is that such markets are generally unfamiliar terrain for co-op members. The more up-market the product, the more unfamiliar members may be with the 'value proposition'. Marketing strategy can no longer rely on local knowledge or support, but has to compete for market share within a competitive supply chain. External and higher-value markets demand higher levels of product quality, packaging and design; introduce greater costs and complexity at the level of procurement and distribution logistics; a need for more business formality, and more complex financial management.

For many co-ops, their internal skills constraint limits the viability of this alternative. If technical assistance is available to them, then this can be overcome: but in many contexts, such support is neither available nor sustainable: and the co-op remains locked into the constraints of local markets. It's a vicious cycle: but its impacts are real, and affect the business viability of co-ops.

Management is tough, democratic management is tougher

Management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially, along with the need for transparency.

There are groups of workers who are able to master these complexities, and succeed as a collective group enterprise. But many unemployed people facing the challenge of self-employment have little or no prior work experience, let alone business management experience, and financial literacy and even basic numeracy skills are often low.

²⁹ From Philip, K: 'Work on the Margins': Conference Paper: 'Work in Post Apartheid South Africa', the Sociology of Work Programme, University of the Witwatersrand, June 2003.

While in many co-ops, there may be members who have a greater level of management and financial skill, the participatory decision-making structures mean that all members need some understanding of financial management issues. Unless there are very high levels of trust (and these are honored), tension can develop around the use and allocation of money. The turnover a group enterprise needs to generate to be viable - as illustrated above - represents a significant amount of money, particularly relative to what members actually get to take home. In many co-ops, members have only a rather hazy understanding of the distinction between total revenue, net monthly income, profit, or the net funds available for distribution as wages (or 'allowances', as this highly variable amount is often called), and the situation is rife for conflict. Many a co-op has found itself having to choose between paying wages, or setting the money aside to pay for inputs for the next production cycle. And in the context of recurrent cashflow crises, many co-op members sacrifice their own incomes to keep the enterprise alive: but there are only so many times this can happen without it eroding cohesion and fuelling dissatisfaction and conflict.

To optimize productivity, in order to compete with other producers on price, collective production also generally requires some degree of division of labour, and some differentiation of skills - and hence of wages. But many co-ops start with an assumption that equal pay for equal work means equal pay. NCASA's baseline survey notes that '79% of surveyed co-operatives divided all revenue equally.'³⁰ Yet over time, this idealism often starts to fray at the edges.

Those co-op members who have more skills, who work more efficiently or whose work is of a higher quality may start to feel that it is unfair that they are paid the same as people who don't. If those who are seen to contribute less are paid the same, it causes tension. In addition, the co-op depends strongly on members with skills, yet the value of such skills is rarely reflected in differentiated pay rates, let alone market-related rates. While an activist commitment can fuel participation by such members for a while, the co-op is at risk of losing their skills if these issues are not addressed. These factors combine to make a division of labour and differential pay rates a likely condition for a successful long-term business strategy in co-ops, but this is rarely an uncontested outcome in the co-op context, as the statistics show.

In addition, in South Africa, there is an expectation of a high level of direct democracy and worker control in co-ops, and often a lack of clarity or consensus on the scope of managerial decision-making authority, even where a business plan may have been collectively agreed. As a result, this has been an area of high levels of contestation and tension within co-ops, where managers have been elected, and have a mandate to manage - but with the scope of their decision-making authority under constant challenge.

There are co-ops that have been able to manage these processes, and find their own institutional consensus, that is empowering, democratic and efficient. But this tends to require a high level of facilitation, and many co-ops have failed to achieve it. At very least, the complexities of the management decisions required, the contestation over forms of decision-making, and over the extent of managerial authority that may be exercised by elected officials has tended to impact negatively on productivity, and hence place further downward pressure on the viability of the co-op.

³⁰ It's assumed that this actually refers to the funds available for distribution as wage income to members.

Dependance on Technical Support

Bridging the gap between the current reality of most co-ops, and the kind of productive and sustainable enterprise in which these issues have been resolved, and in which efficient and democratic ways of working have been institutionalized, takes high levels of facilitation. Raising the platform of financial and business skills in the co-op as a whole, as a necessary condition for participatory decision-making, takes significant skills input. If the management skills do not exist within the co-op, then ensuring the design and operationalisation of effective systems for procurement, production, record-keeping, invoicing, sales, distribution and all the other functions of management requires extensive technical assistance. These are not once-off inputs: they require sustained support over time, and they can rarely be paid for by the co-op itself.

It can be done; but it is expensive; and it is a 'long-haul' strategy. In the 1980's and 1990's, there was a network of support NGO's for co-ops. But few such NGO's could justify the sustained dependance of a relatively small and consistent group of co-ops on their services, particularly given the context of mass unemployment. Yet after many such NGO's either closed or re-focused their energies, the majority of co-ops they had assisted - many of which had received substantial technical input over many years - were not able to stand alone. Although this also calls into question the quality of the technical support provided, this is also a function of cost and availability, in a market in which even the private sector is hampered by the scarcity of the business skills required. Any co-op support strategy has to take these realities into account and make a sober cost/benefit analysis of the realistic scope of its reach and impact, and target accordingly.

8. Conclusions:

Worker Co-ops and mass job creation

Worker co-ops can work. When they do, they provide an inspirational example of an alternative form of work organization. But they are complex forms of enterprise; and as such, they do not provide an easy entry point into self-employment for unemployed people, particularly if they fall beyond the reach of a strong support environment. They require high levels of managerial skill internally, or sustained technical support externally to succeed. As a result, they have real limitations as an effective vehicle for mass job creation.

In the absence of a strong support environment, less ambitious forms of starter enterprise, such as sole operators, family businesses, or loose associations pose fewer problems, are more accessible, and have a better chance of assisting people to generate an income: which is their most urgent need. The key issue has to be to identify what works best to enhance the quality of people's lives in a given context, rather than promoting any particular enterprise model for its own sake.

But while worker co-ops have limitations as a vehicle for mass job creation, there are a different set of good reasons to support their growth and development in society. Worker co-ops have an important role to play in developing alternative forms of work organization, and in building forms of workers control and worker ownership; and they should be supported in playing that role.

At present, co-op development strategies tend to be targeted mainly at unskilled, unemployed people, on the margins of the economy. From a base of often chronic poverty, they are expected not only to employ themselves, but also to lead the way in building

alternative models of work organization, worker self-management and worker ownership.

Perhaps this challenge should instead be taken up by workers in the most established, viable sectors of the economy; in established businesses where workers are well-organized, the skills and market share are in place, high quality technical and institutional support is on call, and the focus is on transforming ownership and ways of working. This won't be easy either – but it is a more likely context for worker co-ops to succeed in South Africa, and from that success, be able to create a support environment that could over time broaden the base of worker co-ops - and potentially create new jobs.

With such an approach, support for co-ops would fit into strategies to broaden black economic empowerment; it would interface with debates on ESOP's as a form of capital ownership, and could create new ownership options in the established private sector. In the context of the Financial Sector Charter, access to capital should not pose an insurmountable hurdle for such initiatives; and the unions have in fact built up the kind of in-house skills necessary to leverage funds and structure such worker buyouts, within their investment companies.

User Co-ops, Economic Co-operation and Poverty Reduction

While there are real constraints in using worker co-ops as a vehicle for mass job creation, there are real opportunities to use forms of user co-op to enhance livelihoods and reduce poverty across a wide spectrum of activities in poor communities.

In looking at the trajectory of co-op development internationally, it is user co-ops of various forms that have managed to mobilize the widest participation; and also provide an important support framework within which the viability of worker co-ops can be enhanced. But user co-ops have not caught the imagination in South Africa in quite the same way as worker co-ops. Worker co-ops have been seen as the vehicle for job creation, and as providing a democratic alternative to conventional forms of work, with user co-ops the 'poor relation' in both respects.

In addition, with this focus on worker co-ops, and on worker co-ops as alternatives to conventional businesses, the discourse in South Africa has at times appeared hostile to other forms of enterprise, including – and sometimes even particularly – individual entrepreneurs and small enterprises. Yet it is such entrepreneurs – who are often survivalists in their own battle against poverty – who have often been the initiators of user co-ops in other parts of the world, and have been the backbone of strong co-op movements. The lack of an inclusive discourse closes rather than opens the door to the emergence of diverse and localized forms of user co-op, and is an undevelopmental battle-line to draw.

Recent research in the Chris Hani District in the Eastern Cape highlights this. In surveys of over 10,000 households, it was found that one in every five households was operating some form of business or income generating activity. Of 1,819 such businesses surveyed, 95% were run by sole proprietors; 2% were partnerships, and 3% were group projects.³¹ Marginal as many of these activities were, 48% of the entrepreneurs had been in business for more than five years. The potential for forms of economic co-operation between such entrepreneurs is enormous; and developmentally, the priority is clearly to find ways to optimize and support such existing local initiative, in ways that encourage diversity, yet avoid prescribing its form.

³¹ 'Market Research to establish the feasibility of launching a micro-enterprise lending scheme in the Chris Hani District of the Eastern Cape Province'; prepared for the Eastern Cape Development Corporation by Vulindlela Development Finance Consultants, June 2003.

For the unemployed, the challenge of survival is so great, that all forms of entrepreneurial activity need to be embraced, across a continuum that may start with livelihood strategies such as resource harvesting from communal resources, subsistence farming, survivalist micro-entrepreneurs, family businesses, more formal and growth-oriented small enterprises or agricultural initiatives, and, of course, worker co-ops. In practise, a wide range of strategies of economic co-operation between all kinds of entrepreneurs and community members are already common in South Africa, even where these activities are not formalized as 'user co-ops'.

There are a host of ways in which economic co-operation between entrepreneurs and survivalists of all kinds can enhance their incomes, improve the viability of their businesses, and in this way contribute to job creation and the reduction of poverty. While the classic model of collective production in a worker co-op may pose particular constraints, there are many ways in which entrepreneurs can co-operate in groups of different kinds: sharing workspace, buying their inputs collectively, sharing transport, skills and experience, even where their enterprise activities may differ, or they earn from them individually. These forms of economic co-operation may fall short of the classic worker co-op model, but they have a key role to play in enhancing the economic returns that can be earned by self-employed people.

It is not just people involved in enterprise activity who can benefit from the economies of scale provided by such economic co-operation. Consumer co-ops, credit unions, and social housing initiatives can be inclusive across the needs of different members of a community, providing economic benefits to the working poor, the unemployed, and entrepreneurs: and often within the embrace of common organizational forms, in which their interests are aligned rather than pitted against each other.

Many such forms of economic co-operation draw on the kinds of organising skills that saw the mushrooming of trade unions and community-based organizations in the apartheid years, and that are surely dormant in many communities rather than lost.

In the end, the priority is to embrace diverse and inclusive approaches, and to find innovative, flexible and locally-specific ways to use economic co-operation as a means to improve the quality of people's lives. Whether these are formalized as co-ops of any kind matters less than that they contribute to the reduction of poverty, to empowerment, to job creation and to enhanced forms of social mobilization to achieve these ends.

South Africa Foundation

Address: **Tel: +27 11 356-4650**
PO Box 7006, **Fax: +27 11 726-4705**
Johannesburg. 2000 **E-MAIL: safound@safoundation.org.za**
Gauteng, South Africa **WEBSITE: www.safoundation.org.za**

