CO-OPERATIVES IN THE FREE STATE PROVINCE:

An explosion of new firms

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30 June 2014

NB: This is a first deliverable in terms of the ILO-UFS contract. The findings are preliminary and will be further informed by the activities required in the subsequent phase of the contract.

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1. Background:

In March 2014 the Department of Economic Development, Tourism and Environmental Affairs (Detea) requested a study on all the co-operatives in the Free State Province. The International Labour Organisation (ILO) then requested the SME Observatory of South Africa housed at the Centre for Development Support (CDS) of the University of the Free State (UFS) to develop a proposal responding to the Detea request. Over several meetings the scope of the study was developed and a proposal was submitted that was endorsed by Detea and that forms part of the agreement between the UFS and the ILO for the execution of the study.

The time available for the study was extremely tight. Since the CDS decided that resources could not be committed to the execution of the assignment in the absence of a signed contract and the latter was only received latter part of June from the ILO, the SME Observatory embarked at risk on work relating to the first set of deliverables (see 2 below) without input from the CDS in the execution of the assignment.

Prof Etienne Nel, visiting professor from the University of Otago, New Zealand, had to leave South Africa end May due to new entry arrangements by the South African Department of Home Affairs. The work for this first deliverable was dealt with, with the exception of the literature overview by Prof Nel, by Johannes Wessels of the SME Observatory.

This report is a first deliverable and all the aspects dealt with in this report will be further researched and deliberated upon in workshops between the SME Observatory and Detea. The end product may differ therefore from this first intermediate report.

The structure of the report is as follows:

- The enterprise category of co-operatives as defined in the legislation will be dealt with, followed by a short overview of the literature on co-operative studies.
- The scope of the study in as far it frames this first report will then be dealt with together with an overview of the data sets obtained for the analyses.
- An overview of the occurrence of co-operatives per economic sector.

- An overview of the occurrence of co-operatives at Provincial, Metro and District municipal level, and Local Municipal levels to indicate the geographic spread.
- A comparison of the Co-operative profiles of some Local Municipalities and towns with the Enterprise Architecture of those municipalities and towns
- A focus on the specific economic activities of co-operatives within some sectors, and
- Listing issues for reflection to be work-shopped with Detea.

2. Definition of co-operatives:

The co-operative form of enterprise has a long history in the South African context. Co-operatives were historically in the main enterprise formations for:

- Farmers pooling their requirements (inputs) and yields (outputs) by procuring inputs from their co-operative and selling their outputs to the co-operative to either process and sell or the market the products in an unprocessed format;
- Consumer co-operatives.

Since the change in agricultural policies from the late 1980s to do away with statutory marketing boards and price control, substantial changes have taken place in agriculture both at producer level (farming) and the level of agricultural services and products. Farmers that produce commodities (e.g. maize) compete now in the market place with macro-scale grain producers in the USA and Brazil. Bumper crops elsewhere have major implications for the local market price.

The changes also had major implications for the old generation of agricultural co-operatives. Several of these co-operatives had low returns on equity and large scale underutilisation of assets, since the previous agricultural marketing regime had cushioned them against competition in the market place. Almost all the old agricultural co-operatives have restructured as private companies with several of them listed on the Johannesburg Stock Exchange.

The changes at producer level (farmers) and agricultural services and products (co-operatives relevant for this assignment) had triggered a process of consolidation. According to Prof Johan Willemse[1], a well-known agricultural economist of the UFS, the number of farmers had contracted (several previous farming units now farmed by a single farmer). The absence of a full agricultural census however prevents one from shedding statistical light on the percentage of this phenomenon. The co-operatives transformed as agro-companies also experienced consolidation with large investment companies (like the PSG) investing in several listed and unlisted companies and bringing about further restructuring to streamline those companies.

It is against this background that the new Co-operative legislative framework should be considered. The Co-operatives Act (No 14 of 2005) defines a co-operative as "*an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles*." The formulation of the "co-operative principles" in the Act is important. The key aspects of these are:

- Open membership: "*a co-operative is open to persons who can use the services of that co-operative and who are able to accept the responsibilities of membership*" [Section 3 (1) (a) of Act 14 of 2005].
    - Democratic control: In the case of a primary co-operative that has to have at least 5 natural persons as members, each member will have only one vote. In the case of a secondary co-operative (formed by two or more primary co-operatives) no member can have more than 15% of the total vote.[2] [Section 3(1) (b) and Section 3(3) of Act 14 of 2005].
    - Financial interest by members: "To the extent feasible…" members will provide the capital of the co-operative. [Section3 (1) (c) of Act 14 of 2005].
    - Limited returns: The return on equity is limited to the percentage determined by the constitution of the co-operative. [Section 3(1) (d) of Act 14 of 2005].

[1] Discussion with Prof Willemse by author hereof

[2] Since the members of a secondary co-operative are the primary co-operatives, the 15% maximum vote by a member (a primary co-operative) in fact requires that a secondary co-operative should comprise of at least 7 primary co-operatives. This anomaly was only corrected by The Co-operatives Amendment Act (Act 6 of 2013).

- Capitalising the enterprise: At least 5% of the annual surplus remains non-divisible to members and should be set aside as a reserve fund. [Section 3(1) (e) of Act 14 of 2005].

Section 10 of the Co-operatives Amendment Act (No 6 of 2013) also makes it unlawful for a person or an entity to utilise the term co-op or co-operative for any association or entity that is not registered in terms of Act 14 of 2005 as amended.

In view of these definitions, the focus for this assignment is on Co-operatives formally registered.

3. An overview of international and South African literature about Co-operatives in Southern Africa.

Co-operatives feature prominently in the development agenda both in South Africa and in that of many other countries in the world. In South Africa, the government enacted a new Co-operatives Act identifying a major role for co-operatives in promoting economic and social development in the country and "*in particular by creating employment, generating income and facilitating, broad-based black economic empowerment and the eradication of poverty*" (in Ortmann and King, 2007a, 18). Despite this sense of optimism, many of the academic reports on the achievements of Southern African co-operatives have indicated that, at best, their performance can be described as yielding 'mixed results', with there being little statistical evidence of their ability to create significant income. On the positive side, benefits to members such as empowerment, access to finances, health support and informal learning are repeatedly alluded to in the literature. The overview presented here represents an attempt to collate findings about the 'mixed results' achieved from a series of studies in Southern Africa, to analyse the common outcomes, and to assess the benefits, problems and sustainability of the co-operative system in South Africa.

3.1 Co-operatives: Key Features and Types

While co-operatives are a recognised and a well-established phenomenon, it is of value to examine what is regarded in the literature as their defining features and characteristics. Ortmann and King (2007a, b) detail the International Cooperative Alliance or ICA definition of cooperatives which requires the presence and operation of seven key factors, variations of the first three were also identified by the US Department of Agriculture in 1987. These factors include having "voluntary and open membership; democratic member control; and member economic participation; the four additional factors being: provision of education training and information; autonomy and independence; co-operation among co-operatives and concern for the community." The US Department of Agriculture has noted that the latter four items can be the responsibility of other parties.

It is also important to note that there are different, well-recognised types of co-operatives. According to Ortmann and King (2007a) these include: 1) consumer, 2) producer and 3) worker and services co-operatives. The report on the '*Hope in Action Co-operatives in South Africa*' in March 2002 based on a study by the National Co-operatives Association of South Africa and supported by the Canadian Co-operative Association www.co-operatives.co.org. (Philips, 2003) focussed on the distinction between worker co-operatives and user cooperatives (finance, housing, agriculture). This survey indicated that 90% of South Africa's co-operatives were worker co-operatives driven by the individual member participants, by contrast 'the conversion of existing businesses to co-ops as part of worker buy outs to save jobs has not been much of a feature of South Africa" (p15), though the report writers did identify a few examples, including the Magwa tea company, where this had happened. This paper noted a low level of interest in user co-operatives in South Africa due to the strong desire to focus on job creation for the large numbers of unemployed people, rather than to focus on enhancing the economic viability of business users.

The above study indicated that reported member income in co-operatives is very low, with 40% of responding members reporting receiving no income from their co-operative, while 36% of members averaged an income of only R133 per month (in 2003). Despite this, Philips (2003) noted that the certain user co-operatives, e.g. the large commercial agricultural co-operatives 'have commercial success that dwarfs any other form of co-operative'. She also noted the existence of credit co-operatives which were often characterised by over-borrowing that had trapped many workers into excessive debit, but which also often lacked funding themselves. Other common forms of user co-operatives in South Africa include housing and social housing co-operatives, with there being minimal evidence of consumer cooperatives.

Barton (2000, in Otmann and King, 2007a) noted that although the most successful co-operatives, in terms of job creation, existed in North America and Europe, it needs to be noted that in Africa, the number of jobs created from co-operatives may be under-reported as Wanyama (2008) indicates from a 1997 ILO study (Schwettmann,1997, in Wanyama, 2008). This study established that the majority of jobs created from co-operatives were in the form of *self-employment*, but that this failed to take into account casual and seasonal labour, and spill-over jobs in areas such as packaging or business services etc. which also need to be taken into account, even though the actual number involved is difficult to assess. This study surveyed 158,640 direct wage jobs stemming from cooperatives in the 15 African countries (in Wanyama, 2008).

3.2 Benefits of Co-operatives

A range of benefits are associated with the operation of successful co-operatives. These include:

- While income is a key outcome, equally important is worker control and empowerment which features as key outcomes of co-operative establishment according to several studies (Abor and Quartey, 2010; Borda-Rodriguez and Vicari, 2014; Wanyanma, 2008)
- Being a member of a co-operative can help assure better access to finance (Abor and Quartey, 2010) which might not be available to individuals (Borda-Rodriguez and Vicari, 2014).
- In addition individual risk is transformed into collective risk.
- Members can gain informal learning from being part of a collective as well as often having access to formal training. Of particular benefit is the development of evaluation skills among member to assess the viability of their enterprises and the potential for investment (Wanyama, 2008).
- There has been evidence of collective marketing and a self-help spirit and a self-reflective attitude has been achieved in many co-operatives.
- Social benefits included access to education and health services, including help if members become ill. Wanyama (2008) specifically noted that cooperative members were able to name beneficiaries of funeral funds where HIV affected family were previously excluded;
- Increased food security in agricultural co-operatives is seen as critical, especially through the establishment of grain banks to ensure that a percentage of the co-operative's seed was returned to members as seed for the

next year and some was made available for members food needs. This alternative access to farm inputs prevented trader loans.

3.3 Problems associated with Co-operatives

Problems associated with co-operatives have been indicated by various writers, with Borda-Rodriguez and Vicari (2014) indicating there had been '***mixed results***' relating to their performance.

3.3.1 Finance:

While having access to finance is a key advantage for successful co-operatives, overall, the financial resources of co-operatives are generally very weak and they often fail to generate significant funds from their members (Borda-Rodriguez and Vicari, 2014). Related to this, members are often not property owners which denies them access to collateral to generate investment funds (Ortmann and King, 2007b) leading to under-capitalisation.

Other concerns included:

- Financial free riders (Ortmann and King, 2007b)
- Member disloyalty (Borda-Rodriguez and Vicari, 2014)
- The need for ready cash by members
- The inability to make repayments (Ortmann and King, 2007b)
- A failure to understand the financial purpose and operation of co-operatives (Hartley and Johnson, 2014).

To succeed from a financial perspective, Gurmessa and Ndinda (2014) argue the need for:

- Entrepreneurs to be well prepared
- Having good projects
- Having performing banks and bank professionals able to support and handle co-operatives
- Having access to entrepreneurial advice. In the absence of the latter, as is often the case, problems arise.

3.3.2 Labour:

Although employment creation is desirable and is often a motivation for funders who assist in establishing co-operatives, Philip (2003) noted that concerns can be raised with 'over-employment' which exceeds the potential financial returns which the co-operative can generate. In addition, paying equal payments / wages to members who contributed differentially to the operation of the co-operative has raised questions over equity and productivity.

3.3.3 Governance:

The literature indicates that co-operatives can be hindered by a range of negative issues including leadership challenges in the organization (Philip, 2003) and in-fighting within co-operatives, which often stems from having weak and/or authoritative management systems (Ortmann and King, 2007b).

Hartley and Johnston (2014) in their paper on youth co-operatives established that corruption and elite capture have negative effects on cooperatives, as do the effects of externally imposed structural adjustment requirements, social exclusion on the basis of gender, education and access to collateral which collectively 'hold-back' the development of youth cooperatives. Associated challenges with co-operatives in general include the frequent exclusion of women from co-operatives, lack of education and skills amongst members and a lack of private and public support (Mandipaka, 2014).

Low levels of member literacy, and poor accounting skills commonly leads to a dependency on support agencies for technical help, and an inability to operate independently.

3.3.4 Resource access

In addition to limited access to finance, co-operatives often lack access to property – land and buildings, and they often operate in areas with weak communication and infrastructure and limited transport access (Philip, 2003).

3.3.5 Marketing

Philip (2003, p 20) noted there is a challenge with respect to the focus of co-operatives selling to local markets, which are often very 'brand and price sensitive', allowing only limited space for new competitors, particularly those inexperienced in responding to market volatility. Zonin (2014) notes that the large retailers set quality standards and manage product flows which makes selling products to local supermarkets a challenge for co-operatives. In this context government may have a role to both protect consumers and to help assure market access to small producers.

3.3.6 Institutional confusion in the Public sector

Borda-Rodriguez and Vicari (2014) noted in South Africa that there appeared to be overlapping and confusing support for co-operatives among government agencies, and there is a need to harmonise all government policies and actions around co-operatives, preferably around a single point of contact. They also identified the need for guidance, and felt that unions can help identify problems, generate ideas and help develop plans.

Gurmessa and Ndinda (2014) indicated a need to retrain government extension officers and incorporate advisors from successful co-operatives, marketing specialists and supermarkets. D' Haese and Huylenbroeck (2005, in Zonin, 2014) stated that government agencies should help integrate small farmers into supermarket supply chains.

3.4 Sustainability and the need to consider alternative models:

Many of the preceding concerns are directly associated with concerns over the sustainability of co-operatives which is discussed by numerous authors (Philip, 2003, p.23).It has been argued that 'it has proved extremely difficult for worker co-operatives to succeed and become sustainable co-operatives' with the exception of the Phalaborwa T shirt co-op which has been operating since 1987 (Philip, 2003). A frequent challenge is that co-operatives, once established by external agencies, become grant dependent and are unable to survive in the absence of external support (Borda-Rodrgiuez and Vicari, 2014). Neven et al (in Wanyama,2008) based on a study in Kenya established that 'cooperatives are easy to form but difficult to maintain' (p360). Royer (1999 in Ortmann and King, 2007a) indicated that co-operatives exist as long as there is a need, often due to market place failure, but when this is addressed the need for the continued operation of these co-operatives can diminish.

Hartley and Johnston (2014) suggested that there is a need to understand the co-operative 'life cycle' and for the co-operatives to alter their production focus as the initial market needs are addressed. Several options have been proposed: such as becoming 'New Generation Co-operatives' (NGC) which link producer capital contributions to the product delivery rights therefore addressing the property rights problems while maintaining the one member one vote regardless of shares owned. They noted that in the USA niche food processing industries had used this model. Ortmann and King (2007a) however noted that problems still occurred as new member access was limited and there was the desire for more votes to match delivery rights. Another option is for co-operatives to become more productive in terms of income generation.

A local challenge in South Africa is that it has been reported that in the business world the sole operator and family business generally generates higher revenue turn-over than co-operatives do. Philip (2003) notes that internationally user co-operatives have a higher level of participation but 'user co-operatives had not caught the imagination of South Africa' where worker co-operatives were equated with job creation strategies and were often at odds with interventions such as SMME support which are seen as more market focussed. Schrader (1989, in Ortman and King, 2007a) argues that the options for poor performing co-operatives are liquidation or merger with other co-operatives, while at the other end of the scale, high performing co-operatives can scale up their operations. Philip (2003) recommended linking up SME's to gain collective advantages such as shared resources in work space, transportation, skills, experience and accessing inputs. Similar Borda-Rodriguez and Vicari (2014) noted the potential of other existing business group organisations, such as farm clubs, to form co-operatives to meet market needs.

3.5 Key issues for consideration emanating from the literature survey

There are clearly commendable objectives for supporting and establishing co-operatives, e.g. job creation, informal learning and empowerment for members.

Despite this:

- Earnings can be low or negligible
- Access to supermarkets or non-local markets is a challenge
- Co-operative structures can lead to internal conflict
- Grant dependency can undermine sustainability and delink reward from productivity and quality.
- Consideration of suitable support advisors and models that encourages SME to link into higher marketing opportunities would be advantageous.
- User co-operatives should also be considered
- Alternative enterprise forms may be more suitable than co-operatives in some instances.

4. Scope of this Report:

The first requirement for the overall assignment is a CD with a list of all known co-operatives in the Free State, whether formal or informal, classifying the co-operatives according to economic sector, as well as district and local municipality. Where possible, telephone contact particulars should also be provided. This classification will be accompanied by an interpretative report, supported by graphs and highlighting the occurrence of co-operatives according to priority sectors in the FS Growth and Development Strategy. This report (that will for the final deliverable reworked in interaction with Detea as well as expanded by the further deliverables in the overall assignment, namely the analyses based on the 120 telephone / email interviews with co-operatives and in-depth *in situ* interviews with 30 selected co-operatives) is part of the first deliverable. The CD with the consolidated list of co-operatives that accompany this report will also be updated and further refined for the final deliverable.

Detea availed a set of CIPC data on co-operatives in the Free State Province up to the end of 2012. The SME Observatory procured the CIPC data on co-operatives for 2013. The 2013 data was captured in Excel and merged with the data sets up to end 2012.

5. Data sets obtained:

The major tasks for this first report were obtaining data sets on co-operatives in the Free State. Detea availed in Excel format information on registered co-operatives sorted in five files representing the previous five District Municipalities of the Free State Province. These files were based on CIPC data up to the end of 2012.

The SME Observatory obtained further data sets from:
- Free State CogTA
- The Free State Treasury (list of enterprises on their data base)
- A list from the Free State Provincial Department of Agriculture
- A list from Detea of more than 500 co-operatives as obtained from the Premier's Office, as well as the provincial departments of Health, Social Welfare, Education and Agriculture.

The lists received (except the one from Treasury) were all in Word format and did not portray the registration number of the co-operatives. The list of more than 500 co-operatives that Detea had availed and that comprises the co-operatives that the range of provincial departments interact with, was only received on June 20. That list will only be integrated and consolidated with the operational list utilised for this report by end July. A quick scan of that list indicates that some of the co-operatives on that list are already in the data base this report is based upon.

The fact that the provincial departments are operating with lists without the registration numbers of co-operatives does not enable them to ensure that the entities on their lists are indeed registered co-operatives as required by the relevant legislation and is an administrative loophole that requires attention.

Concerning the list received from Treasury: that list is of all providers, whether Free State based or not and with no distinction between individuals, partnerships, companies, close corporations, Not-for-profit organisations, or co-operatives. The SME Observatory in interaction with Detea's Mr Abram Jansen arrived at the conclusion that that list was not helpful for the purposes of this assignment

SANAC was also requested for a list of co-operatives in the Free State, but no response was received.

The SME Observatory however procured a set of co-operatives registered in 2013 in the Free State Province. A total of 2099 co-operatives were registered in 2013 in the Free State bringing the total number of registered co-operatives in the province to 4 249.

On the basis of these 4 249 registered co-operatives, key characteristics that emerged in the analyses will now be dealt with

6. Number and age of Co-operatives:

To obtain a proper perspective on the phenomenon of Co-operatives as a form of enterprise in the Free State Province, the CIPC data as captured in Table 1 reveal the registration year of co-operatives.

Table 1: Number of operational registered co-operatives in year of registration and number operational at end of year

Year	*Number of Co-operatives registered*	*Cumulative number of operational co-operatives*
1970	1	Unknown
1995	1	Unknown
1999	1	Unknown

2000	2	Unknown
2001	3	8
2002	0	8
2003	0	8
2004	0	8
2005	4	12
2006	11	23
2007	30	53
2008	133	186
2009	237	423
2010	551	974
2011	529	1503
2012	647	2150
2013	2099	4249

The data is of extreme importance: there has been little interest in the co-operative form as a vehicle for conducting entrepreneurial activities until 2006, the year after the passing of the Co-operatives Act of 2005. However, the absence of the new act did not prevent the formation of co-operatives since that was possible in terms of The Co-operatives Act (Act 91 of 1981) which was repealed in 2005.

Since the 2009 General Elections the first Administration under Pres. Jacob Zuma embarked upon a concerted promotion of the concept of co-operatives. In 2010 the then Minister of Co-operative Governance and Traditional Affairs, Mr Sicelo Shiceka, pushed for the establishment of Ward-based cooperatives each implementing a LED project to "*ensure that the whole community participates and benefits*".[3] It was also during that stage that in a briefing with a group of consultants on EU assignments[4] he commented that the Ministry of *Co-operative* Governance was the ministry for driving *co-operatives*. That comment was indicative of a long-standing institutional tussle between CoGTA (previously DPLG), the Department of Trade & Industry (dti) and the then newly formed Economic Development Department (EDD) about which department was the institutional driver and policy formulator of economic development at local level.

3 http://www.cogta.gov.za/index.php/about-cogta/52-address-by-minister-shiceka-at-the-lgbn-led-summit.html?showall=1

4 October 2010, Pretoria

The effective explosion resulting in thousands of young formal enterprises in the Free State since 2009 has to be evaluated by a number of criteria including:

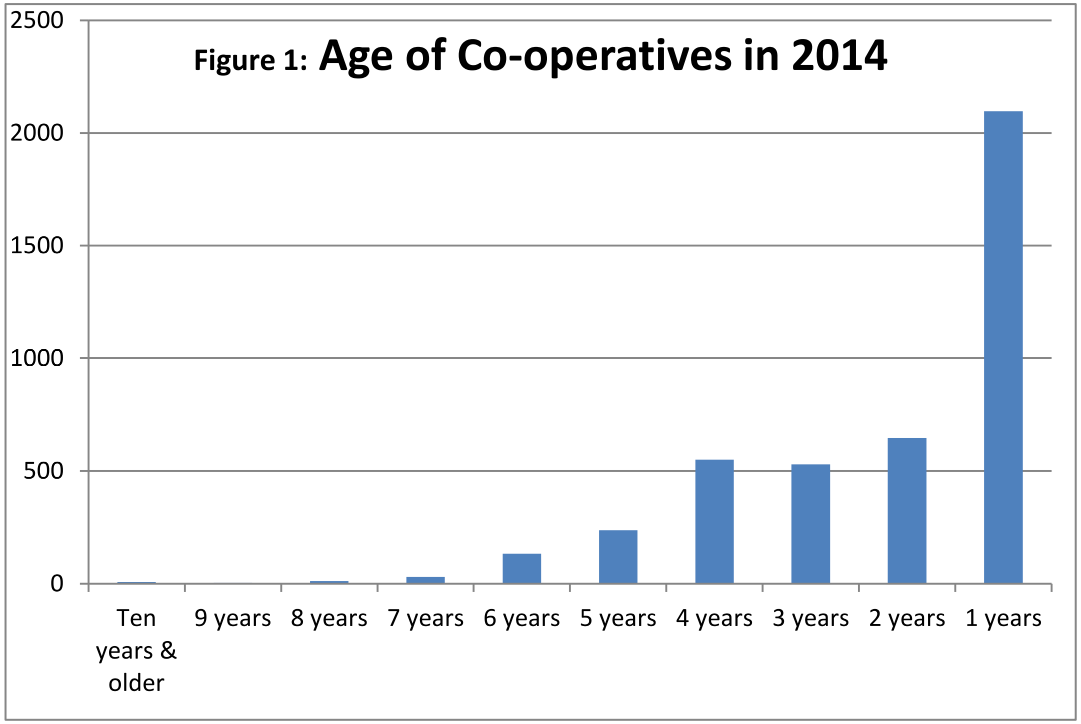
(a) Have these co-operatives been formed in accordance with the key principle for co-operatives, namely being a ***voluntary association***, or was this a case of a ***drive to persuade communities*** to form co-operatives?

(b) Has the new co-operatives resulted in the Free State context in an increase in economic activity that could be measured in terms of:

(i) a higher output in the Free State in the sectors where the new co-operatives are operational;

(ii) an increase in employment and a resultant decline in unemployment;

(iii) an improvement in the GVA of a local or district municipality in the sectors where a substantial number of co-operatives have been formed.



These questions emerged due to the realisation of this tremendous increase in the number of formal enterprises Addressing them is not part of this assignment, except for the extent that the 120 telephonic interviews / email – interviews and/or the 30 in situ visits and in-depth interviews as provided for the assignment will shed light on these important aspects.

The age of co-operatives in the Free State is young with the overwhelming majority (77%) being 3 years or younger (see Figure 1). There is only a handful of co-operatives that are 10 years or older.

7. The Co-operative data set and sector classification:

In this section the focus will in the first instance be on how the spread of co-operatives according to different economic sectors. The classification of the 4249 co-operatives was done in accordance with the 19 sectors of the Enterprise Architecture approach developed by Dr Daan Toerien. Table 2 lists the 19 sectors that he is utilising.

Table 2: The Business Sectors used in the classification of enterprises

Economic Drivers	1	Agricultural Products & Services Sector
	2	Processing Sector
	3	Factory Sector
	4	Construction Sector
	5	Mining Sector
	6	Tourism & Hospitality Sector
Service Sectors	7	Engineering & Technical Services Sector
	8	Financial Services Sector
	9	Legal Services Sector
	10	Telecommunication Services Sector
	11	News & Advertising Services Sector
	12	Trade Services Sector
	13	Vehicle Services Sector
	14	General Services Sector
	15	Professional Services Sector
	16	Personal Services Sector
	17	Health Services Sector
	18	Transport & Logistics
	19	Real Estate Services Sector

It is important to note that the difference between the sectors classified as drivers and the sectors classified as service sectors, is based on Toerien's differentiation between the kind of enterprises that are dependent on local entrepreneurial initiative exploiting the local environment and that are therefore effectively bringing in money to the town through their activities, whilst the service sector enterprises in the main depend on how the outputs of the economic drivers require the service sector enterprises to play a role, in addition to a range of other transfers from the outside into a locality, e.g. salaries of teachers and other government employees, social grants, pension payments and investment yields.

There are situations where service sector enterprises are also very effective in bringing in money from elsewhere into a locality. Shopping malls in cities and large towns with a plethora of specialist boutiques draw shoppers from elsewhere, whilst highly specialised professionals (e.g. the medical profession and private hospitals) that also serves as a driver by drawing in money from outside the locality.

Toerien's 19 sectors exclude agricultural production (farming) since it is impossible of obtaining that information from the telephone directories. His sector "Agricultural products and services" deals with enterprises like Oos-Vrystaat Kooperasie (OVK), private agricultural extension advisers, registered studs (animal is no longer a commodity, but a specialised product), etc.

In the classification of the 4249 co-operatives, a substantial number of them are engaged in farming activities and Agriculture (Farming) was added as a sector.

The extremely high incidence of co-operatives that are active in a wide-range of economic sectors, made it virtually impossible to classify them. Some examples are the following:

Table 3: Examples of some co-operatives with a wide-ranging list of activities

TOWN	'ENT_NO'	'ENT_NAME'	Description of activity
Vredefort	'C2013019118'	IKETSETSENG YOUTH DEVELOPMENT FOUNDATION CO-OPERATIVE LTD	Farming, trading, catering, t tendering

Odendaalsrus	'C2013017334'	GALAXY TRADING AND MULTI-PURPOSE PRIMARY CO-OPERATIVE LIMITED'	Construction, mining, security, hospitality, property development, catering
Virginia	'C2013018528'	AMOGELANG TSHIAMO MULTI-PURPOSE CO-OPERATIVE LIMITED"	Catering, construction, security services, orphanage
Welkom	'C2011006779'	'KIWA CONSTRUCTION AND GENERAL PROJECTS'	Construction, Catering, Pest Control, Cleaning Services, Agriculture, Transport, Feeding Scheme'
Welkom	'C2013006839'	OPEN DOOR MULTI-PURPOSE CO-OPERATIVE	Feeding scheme, TV installation, Retail shop, sewing & knitting, Guest House, glazing, carpentry
Bloemfontein	'C2013001976'	HAAK FREISTAT MULTI-PURPOSE SERVICE PROVIDER CO-OPERATIVE	Catering, Pest control, security services, construction, agriculture and event management
Bloemfontein	'C2013007451	GOLDEN TOWERS CO-OPERATIVE LTD SQUARE'	Construction, poultry, gymnastics, arts & culture
Bloemfontein	'C2011002422'	'FINGER TIPS'	Food Services, Bakery, Farming, Wholesaler, Sewing skills, Computer training, Mining and other services'
Bloemfontein	'C2013012816'	KEMADILE MULTI-PURPOSE CO-OPERATIVE	Tendering, manufacturing, distribution
Botshabelo	'C2013013324'	BOTSHABELO MULTI-FEATURING PRODUCTION PRIMARY CO-OPERATIVE	Peanut butter, diapers, cooking oil & jobs
Botshabelo	'C2013005700'	KE LETSHEPILE CO-OPERATIVE LIMITED'	Construction, fashion design, farming & carpentry
Botshabelo	'C2010001797'	'BOMME LE BACHA MANUFACTURING AND MULTI-PURPOSE'	Manufacturing, Piggery, Catering, Sewing, Broiler Production, Poultry'
Clarens	'C2013005047'	PHAPHAMANG MULTI-PURPOSE CO-OPERATIVE	catering, security, trading, re-cycling, transport, nutrition, carpentry, renovations, groceries, painting
Senekal	'C2013014518'	WOMEN IN POWER PRIMARY CO-OPERATIVE	Catering, tendering, construction, decoration, trading, goods, wood work

In view of this often undifferentiated nature of the co-operative, a category was created as “Multi-purpose” to group such co-operatives that can hardly be classified in terms of the sector in which they are engaged. The impression is that the activities are so often totally unrelated, like peanut butter, diapers and jobs. In other cases it appears as if the co-operatives are far more diversified than some of the multi-national giants that bestrode different continents.

There are also a limited number of co-operatives that have no indicated a sector in which they work, but had more a statement of intent or good will as the description of its activities, e.g. “*to create jobs and business opportunities for members of the co-operative*” or “*to improve the livelihood of the poor and eradicate poverty and ensure a sustainable standard of living*”. There is even a description about “*creating a store for the rich and poor alike where prices will be* *reasonable and accessible to all in the community*". Since such co-operatives in their registration documentation have more good intentions than entrepreneurial objectives and descriptions and could not be categorised, they were labelled as "angelic" co-operatives and were not further considered in the regional or sector analyses.

Table 4 gives a summary of the co-operatives in the 20 sectors plus those in the catch-all "Multi-purpose" category and those that cannot be assessed beyond their angelical good intent. Since there were no co-operatives that classify as legal services, the data effectively is for 20 sectors (18 of Toerien's 19 plus Agriculture = farming and the catch-all Multi-purpose category).

Table 4: Number of Co-operatives per sector in each of the District and Metropolitan areas of the Free State Province

Co-operatives per sector	FS	Mangaung Metro	Thabo Mofutsanyana	Fezile Dabi	Lejweleputswa	Xhariep
Total:	4249	1050	1269	693	1033	204
% of Co-operatives in FS	100	24,71	29,87	16,31	24,31	4,80
Agricultural products & services	33	9	8	5	7	4
Farming	958	184	271	336	103	64
Construction	159	45	48	22	40	4
Engineering & Technical Services	6	2	1	2	0	1
Financial Services	34	19	8	0	4	3
General Services	238	98	50	33	47	10
Health Services	18	6	7	1	3	1
Manufacturing	310	99	105	41	43	22
Mining	22	7	7	3	5	0
News & Advertising Sector	1	0	1	0	0	0
Personal services	135	28	63	19	18	7
Processing	74	11	22	8	25	8
Professional services	75	28	33	4	10	0
Real Estate Sector	10	5	5	0	0	0

Telecommunication Services	1	1	0	0	0	0
Tourism & Hospitality	389	90	124	37	117	21
Trade Services	264	74	100	23	57	10
Transport & Logistics	37	14	13	1	8	1
Vehicle Services Sector	18	5	8	1	3	1
Multi-purpose	1393	300	367	153	527	46
Angelic	46	18	16	1	10	1
Unknown	28	7	12	3	6	0

The following is important to note:

7.1 The undifferentiated multi-purpose form of co-operative comprises 1 of 3 co-operatives in the province. Given the wide range of activities from totally unrelated sectors that are under one enterprise umbrella, it creates the impression of low skills levels and lack of specialisation. It is a poor combination for survival in a globalising economic context.

7.2 In a province where agriculture remains an important contributor to both GVA and job opportunities, one can expect that farming activities will be mirroring commercial agriculture. That approach however sets these enterprises up to be followers of main stream agriculture, since the scale of output by the 958 farming co-operatives (plus a large percentage of the multi-purpose co-operatives also embarking on farming activities) will hardly enable them to be price determiners. They will be price followers and will suffer from being commodity producers. There is little evidence of niche farming activities that will enable producers to command high prices for exotic produce. (This will be dealt with in more detail in 9 below)

7.3 The low level of processing of agricultural goods is also an indication of failure to grasp that adding value and changing commodities into differentiated, even branded, products is a route to break out of being price followers.

7.4 The high level of tourism & hospitality co-operatives is important to note. Tourism is considered as an important economic driver (effectively an export activity since it brings money from outside into the locality).

The Free State Province experience that in Clarens where the local economy is driven mainly by weekend and holiday expenditure when the town is packed with visitors from Gauteng, Bloemfontein and elsewhere. Any assumption that the high number of co-operatives in this sector will result in a major economic injection in the provincial economy needs to be evaluated with care. The bulk of co-operatives in this sector are involved in catering activities and there is no evidence of tourists from outside the province queuing to obtain food from these suppliers. It appears as if the largest number of these co-operatives is aimed at the local population as a potential market. This will also be reflected on in more depth in 9 below.

7.5 Toerien's sector of Factories is renamed here as manufacturing since a factory implies in the normal context some scale, whilst the sewing groups and knitting groups and the brick-makers would be difficult to define as factories. It is important to distinguish manufacturing from processing since manufacturing utilises raw or intermediate products from outside the locality. The largest component of manufacturing co-operatives are engaged in clothing manufacturing (sewing and knitting groups) but there is an interesting number of co-operatives claiming to be manufacturing detergents. It is an aspect that requires more in depth research.

8. Co-operative profile at Provincial, District Municipal, and Local Municipal levels:

In this section the focus will in the first instance be on how the *weight* (expressed as a %) of enterprises in each business sector is spread over the five administrative areas. Thereafter the spread in the *number* of co-operatives in the respective business sectors *across* the administrative areas will be described. Lastly an analysis will be done on the occurrence of co-operatives per sector *within* each of the five administrative areas.

Table 5: Weight of co-operatives in each business sector in the 5 administrative regions of the FS

	Mangaung Metro	*Thabo Mofutsanyana*	*Fezile Dabi*	*Lejweleputswa*	*Xhariep*
Total:	***24,71***	***29,87***	***16,31***	***24,31***	***4,80***
Agricultural products & services	27,27	24,24	15,15	21,21	12,12
Farming	19,21	28,29	35,07	10,75	6,68
Construction	28,30	30,19	13,84	25,16	2,52

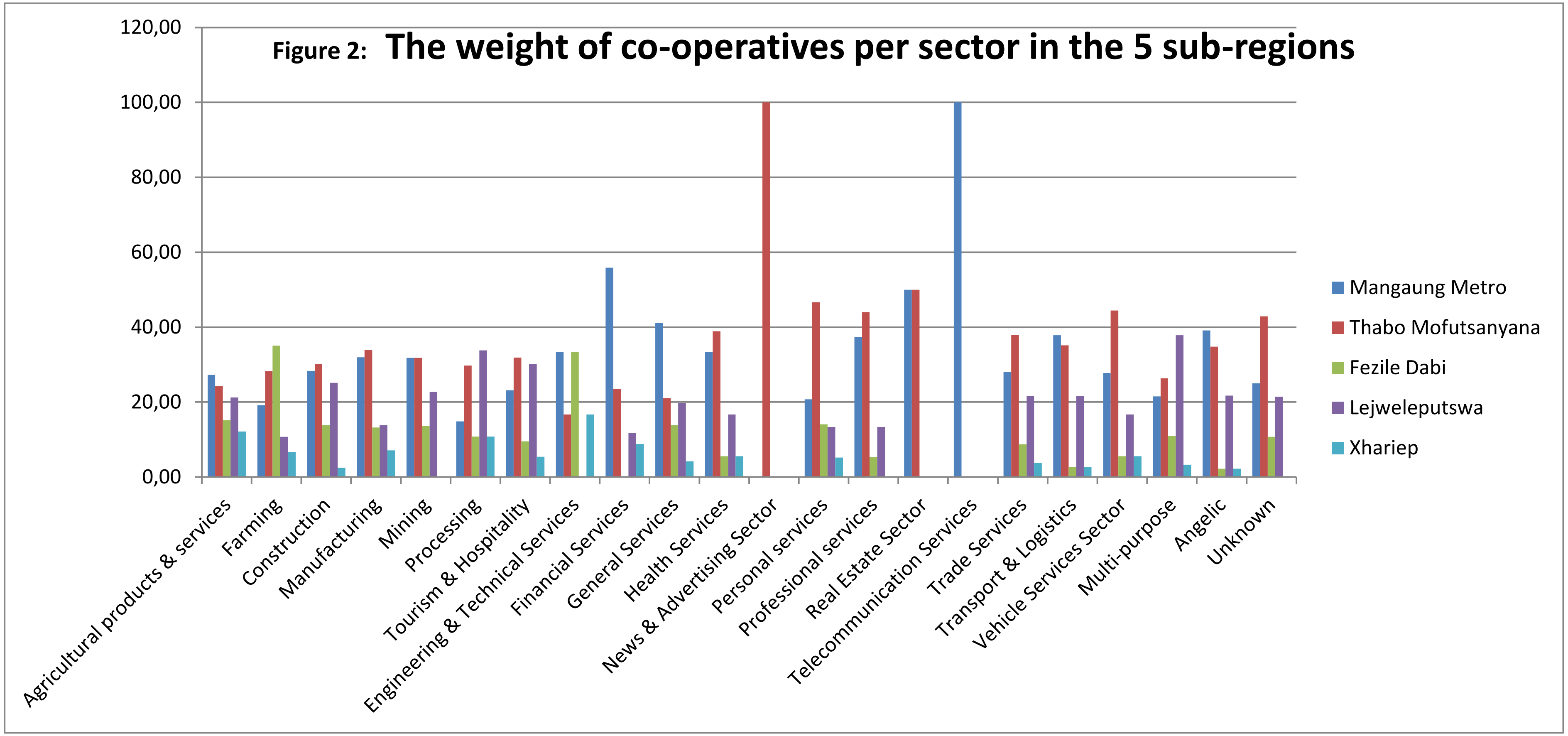
Manufacturing	31,94	33,87	13,23	13,87	7,10
Mining	31,82	31,82	13,64	22,73	0,00
Processing	14,86	29,73	10,81	33,78	10,81
Tourism & Hospitality	23,14	31,88	9,51	30,08	5,40
Engineering & Technical Services	33,33	16,67	33,33	0,00	16,67
Financial Services	55,88	23,53	0,00	11,76	8,82
General Services	41,18	21,01	13,87	19,75	4,20
Health Services	33,33	38,89	5,56	16,67	5,56
News & Advertising Sector	0,00	100,00	0,00	0,00	0,00
Personal services	20,74	46,67	14,07	13,33	5,19
Professional services	37,33	44,00	5,33	13,33	0,00
Real Estate Sector	50,00	50,00	0,00	0,00	0,00
Telecommunication Services	100,00	0,00	0,00	0,00	0,00
Trade Services	28,03	37,88	8,71	21,59	3,79
Transport & Logistics	37,84	35,14	2,70	21,62	2,70
Vehicle Services Sector	27,78	44,44	5,56	16,67	5,56
Multi-purpose	21,54	26,35	10,98	37,83	3,30

In Table 5 the cells in yellow indicate the administrative area with the highest percentage of co-operatives in that business sector.

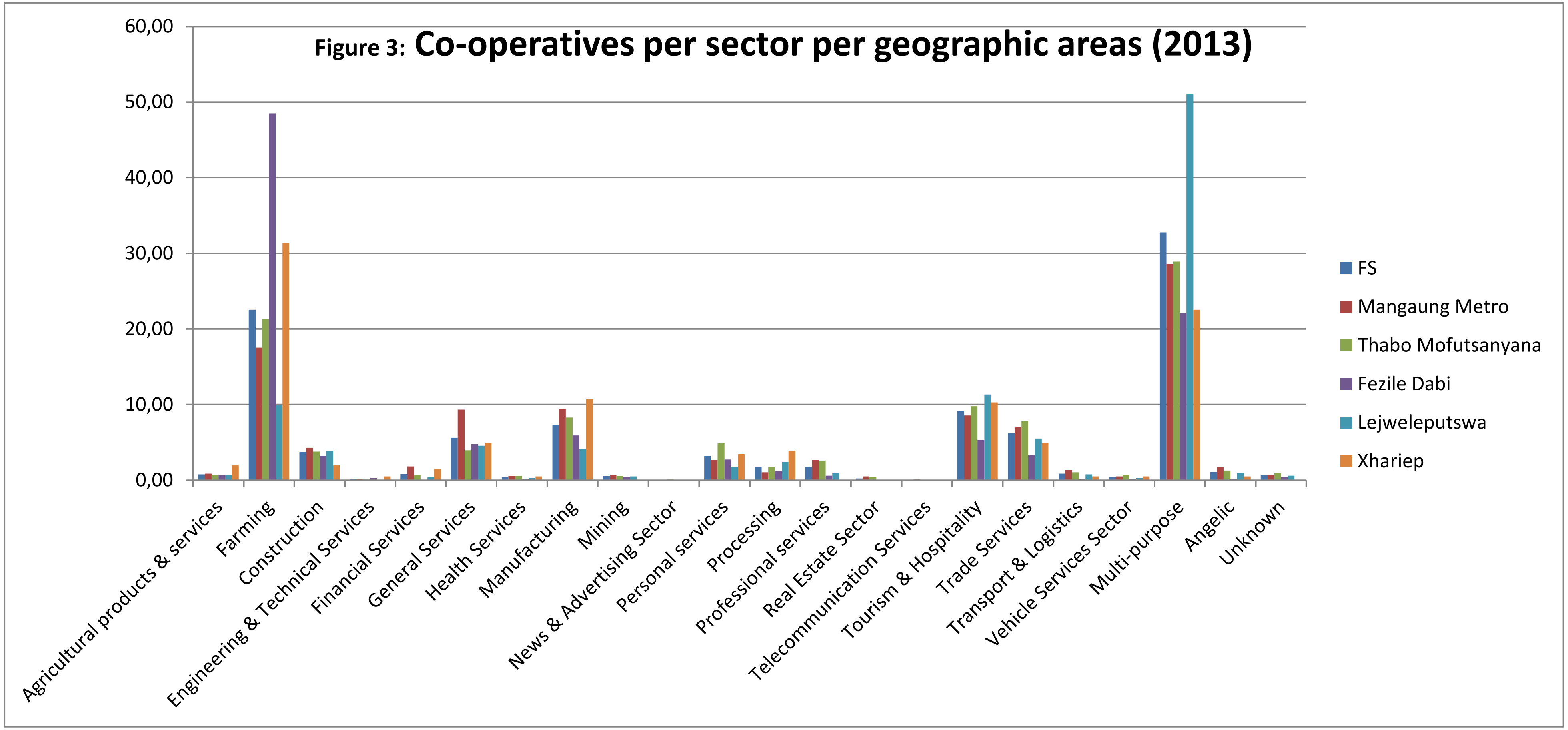
- Thabo Mofutsanyana is in 9 business sectors the administrative area with the largest percentage of co-operatives belonging to that sector, namely Construction, Manufacturing, Tourism & Hospitality, Health Services, the News & advertising Sector, Personal services, Professional services, Trade and the Vehicle Services Sector.
- Mangaung is in 5 business sectors the administrative area with the highest weight of co-operatives belonging to those sectors, namely Agricultural Products & Services, Financial services, General services, Telecommunications and Transport & logistics.

- Lejweleputswa is the administrative area with the highest weight of co-operatives in the sectors of Processing as well the undifferentiated Multi-purpose category.
- Fezile Dabi has the highest occurrence of co-operatives in the business sectors of Farming.
- Xhariep area has in no business sector the highest incidence of co-operatives.
- In the Real Estate and Mining sectors Mangaung & Thabo Mofutsanyana share the lead whilst in Engineering & Technical services Mangaung & Fezile Dabi have an equal weight.

This spread highlights also substantial differences that are apparent in Figure 2 below. The unequal distribution is evident in the Manhattan-skyline in most of the sectors.



Looking at the geographic spread of co-operatives by expressing the business sector weight of co-operatives in each of the five administrative regions (as in Figure 3 below), it is evident that the undifferentiated Multi-purpose co-operatives are dominating in three of the five regions (Mangaung, Thabo Mofutsanyana & Lejweleputswa) with Farming co-operatives being the leading sector in the areas of Fezile Dabi as well as Xhariep.



The dominance of these two business categories is significant. It is only in Lejweleputswa where another business sector (Tourism & Hospitality) makes it into the top two sectors. To view the data of Figure 3 in more detail, Figures 4 – 9 will portray the situation in the Free State as a whole and thereafter in each of the five administrative sub-regions.

Figure 4: Free State Co-operatives 2013: % per sector

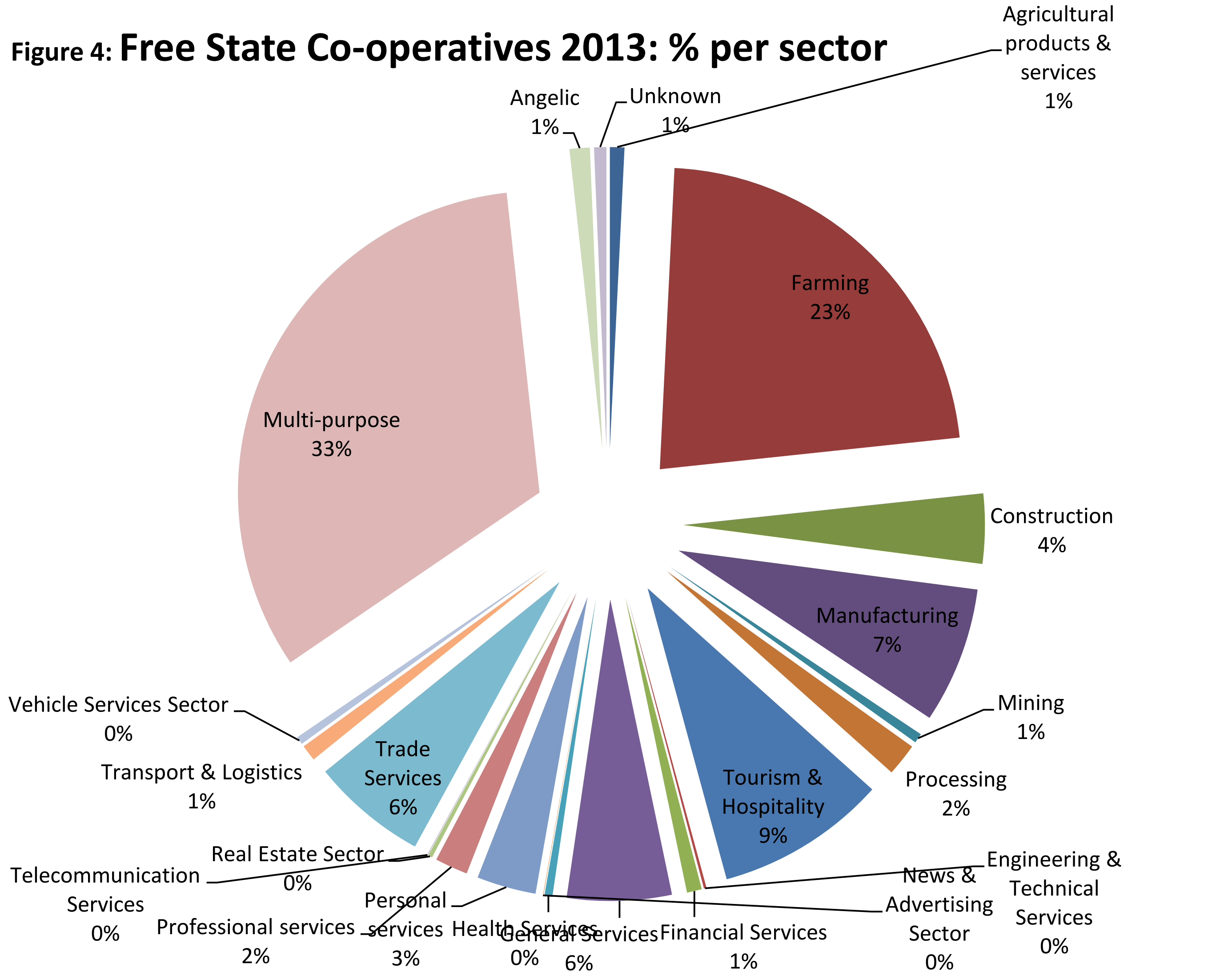


Figure 4 indicates that five business sectors, namely Agriculture, Tourism & Hospitality, Manufacturing, Transport & Logistics as well as General services account for 51% of all co-operatives in the province. If the 33% belonging to the unfocused Multi-purpose category is added, only 16% of co-operatives belong to 14 other business sectors.

It is important to emphasize again that there is no co-operative in province in the Legal Services Sector.

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The spread of Mangaung based co-operatives across the sectors is indicated in Figure 5. Apart from the amorphous Multi-purpose category, the five most important sectors are:

- Farming (18%)
- Manufacturing (10%)
- General services (10%)
- Tourism & hospitality (9%)
- Trade sector (7%)

Table 6: % spread of co-operatives in the Metro area

Economic drivers	*Bftn*	*Bots*	*T Nchu*
Construction	76	5	20
Processing	60	10	30
Manufacturing	59	16	25
Tourism & Hospitality	51	25	24
Farming	48	19	33
Mining	40	20	40
Agricultural products & services	22	22	56

Figure 5: Co-operatives in Mangaung Metro area in 2013: % per sector

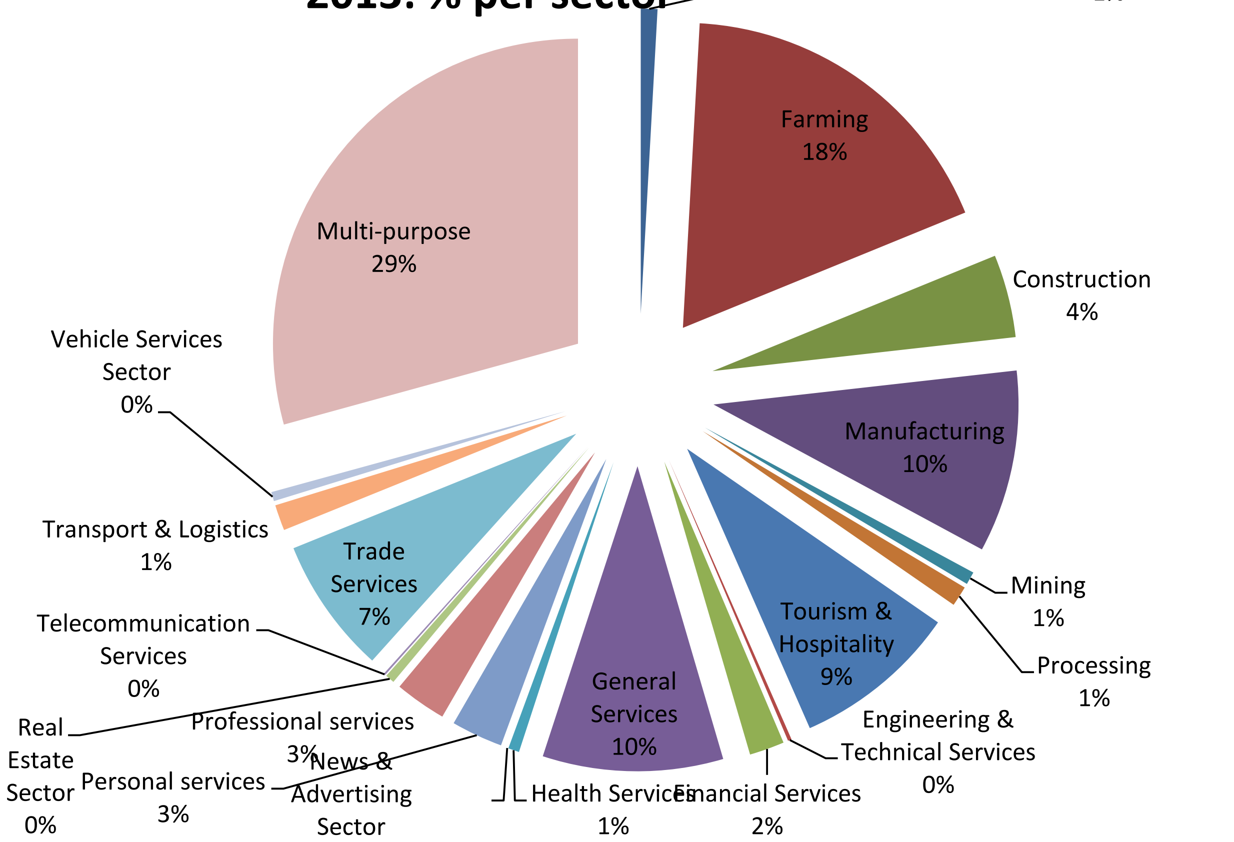


Table 6 depicts the spread of Co-operatives in the business sectors belonging to the Economic drivers' categories in the Metro area. The dominance of Bloemfontein is evident in all those sectors, with the exception of Agricultural services where Thaba Nchu is leading: the traditional agricultural hinterland of Thaba Nchu probably drives some service co-operatives there. The overall spread of co-operatives is: Bloemfontein (57.6%), Botshabelo (18.6%) and Thaba Nchu (23.8%).

In the Thabo Mofutsanyana DM area which is one of the richest commercial farming regions not only in the Free State but in South Africa, co-operatives aimed at processing of agricultural products is disappointingly low.

Figure 6: **Co-operatives in the Thabo Mofutsanyana Area in 2013: % per sector**

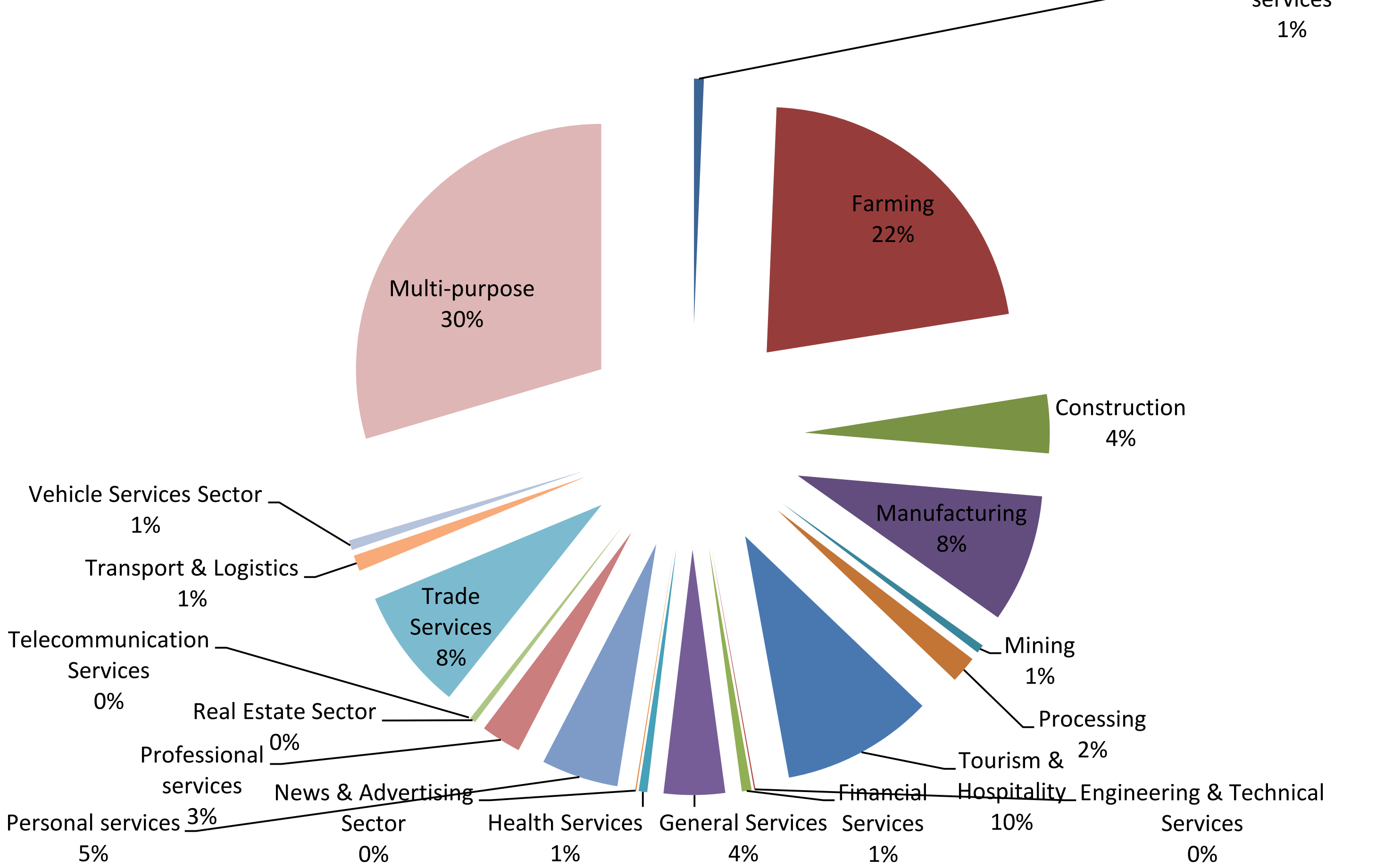


Figure 7: **Spread of co-operatives across LM areas in the TM District**

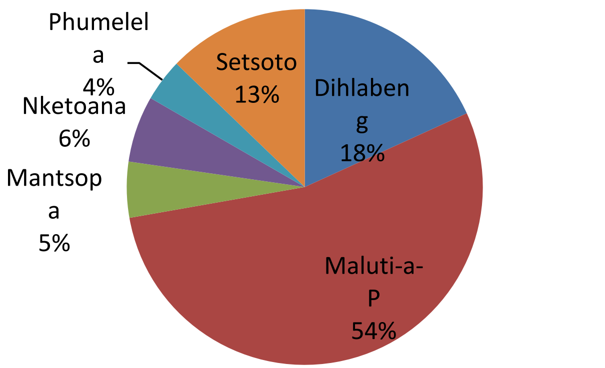
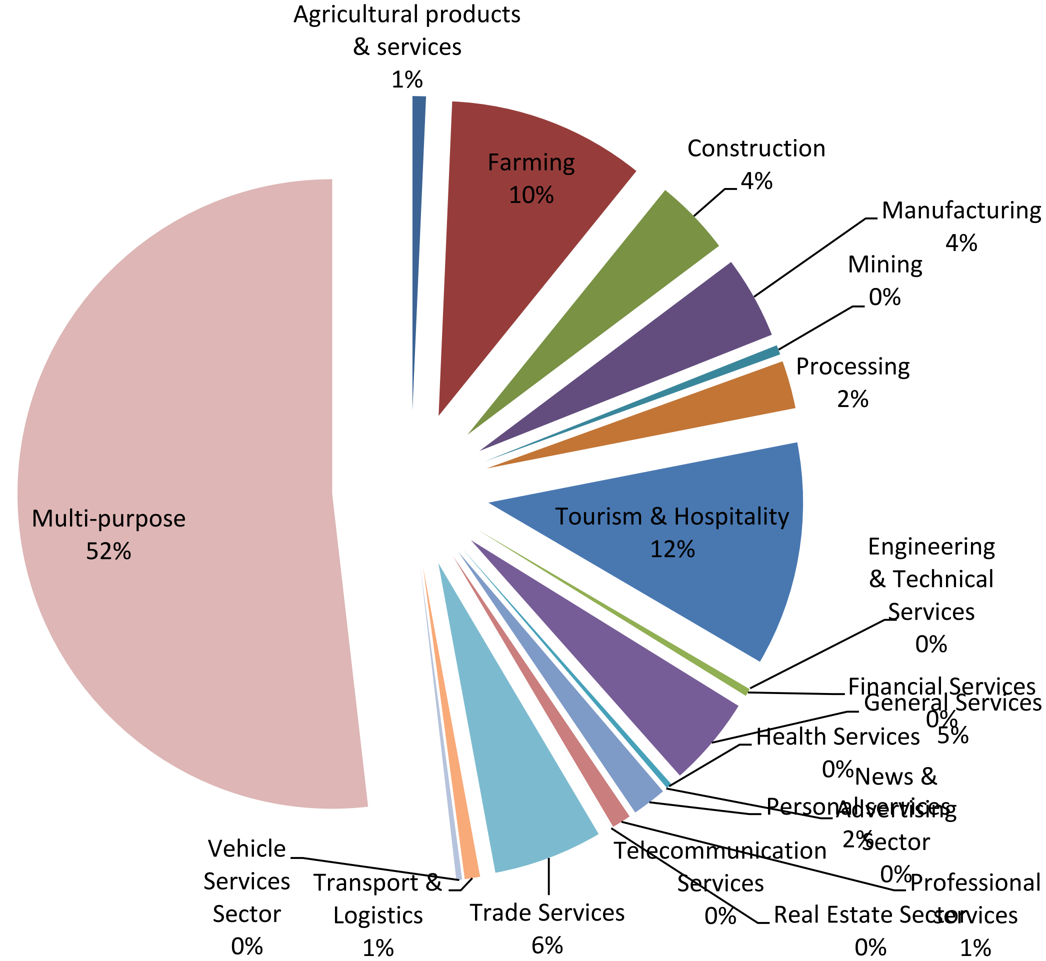


Figure 7 shows the spread of co-operatives across the six local municipal areas. Maluti-a-Phufong houses the majority of co-operatives, namely 54%. Within that local municipal area Phuthaditjaba (67%) and rural Qwaqwa (13%) have just over 80% of the co-operatives in the local municipal area.

The Lejweleputswa DM area is the municipal district with the largest percentage of Multi-purpose co-operatives. In an area where the mining industry has been in constant and rapid decline, the absence of co-operatives in the mining value chain is calling for attention. Only 33% of the co-operatives are in the sectors defined as economic drivers.

Considering that 12% of these are in hospitality & tourism and that in an area that is not known for tourism expenditure, one has to pay closer attention to the potential of the enterprises in the tourism & hospitality sector to indeed attract income from outside the area. In fact, 77 of the 117 co-operatives in this sector are categorised on the basis of catering services. It is again clear that these services are more aimed at the local communities than at people from outside the area. The high incidence of tourism &

Figure 8: Co-operatives in Lejweleputswa Area (2013): % per sector



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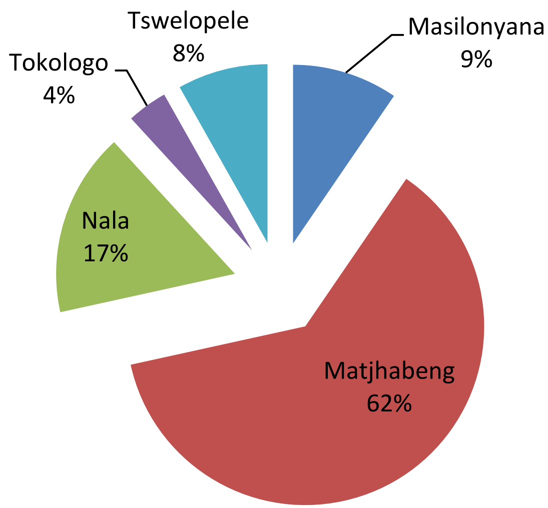
hospitality co-operatives is therefore less of an economic driver and more aimed at serving local communities for weddings, funerals and other local events

Figure 9 displays the spread of co-operatives over the 5 local municipal areas in Lejweleputswa District area. The dominance of Matjhabeng and Nala which together have almost 80% of all co-operatives in die district, is abundantly clear. One would therefore consider that the existing value chains in these two localities would be the basic strategy for enterprise development in the area.

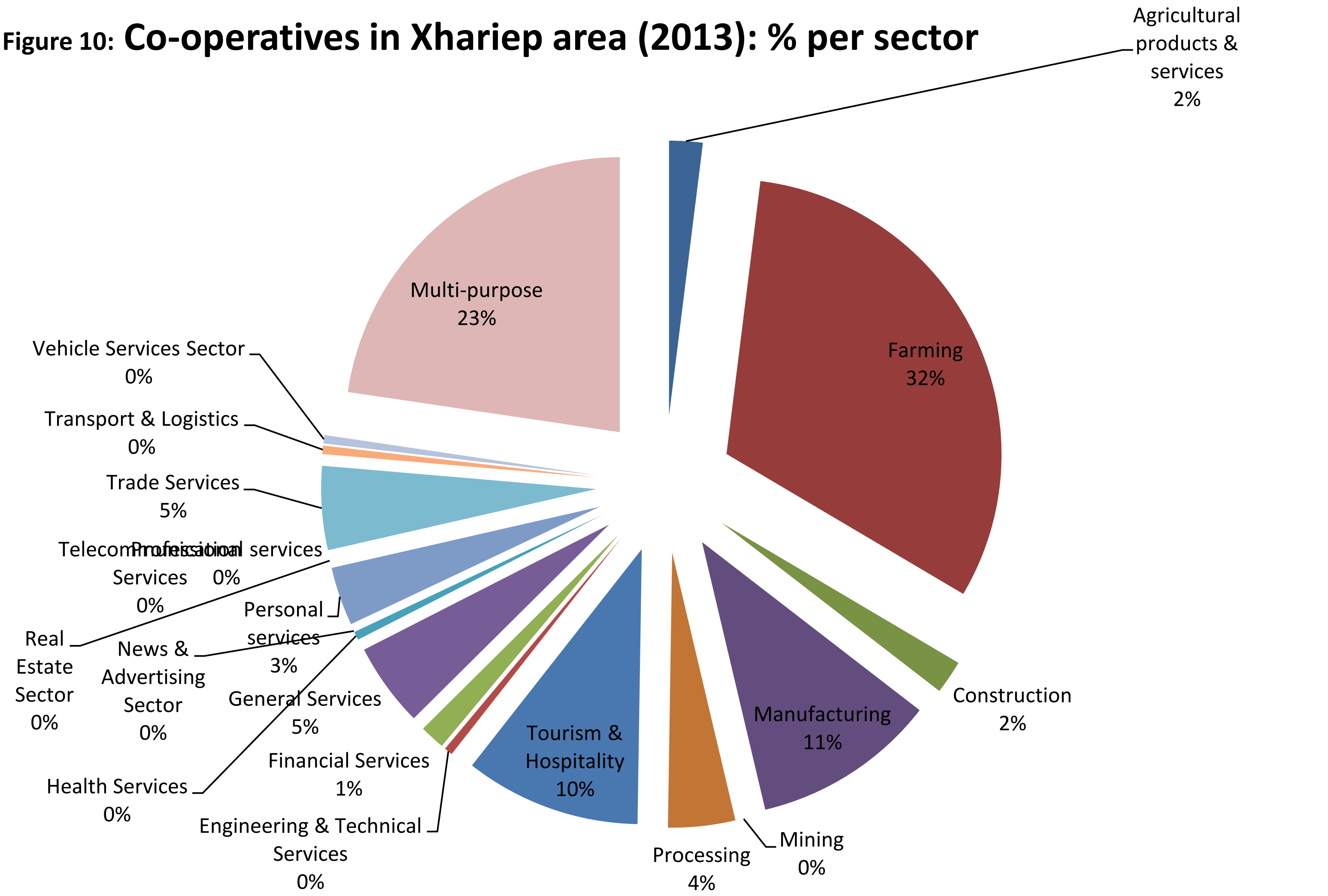
Figure 9: Spread of co-operatives over local municipal areas in Lejweleputswa



The Xhariep DM area is a vast and sparsely populated area driven historically in the main by sheep farming. Figure 10 indicates that in the area of the Xhariep DM agriculture (farming) is indeed the sector with most co-operatives, followed by the Multi-purpose block (23%), Manufacturing (11%), Tourism & Hospitality (10%) and Trade services (5%).

In the overall picture of the Free State province, however, the Xhariep DM has a mere 4.8% of all the co-operatives in the province. Since this sparsely populated area is in the Free State Province furthest away from the economic heartland of Gauteng and also lacks the consumer driven stimuli that Bloemfontein, Welkom and the more populace Phuthaditjaba experience, a more of the same approach will not make much of a dent on the economic well-being of the area. "Out of the box" thinking is required, but there is unfortunately not much of that evident in the co-operative line-up in this area.

Figure 10: Co-operatives in Xhariep area (2013): % per sector



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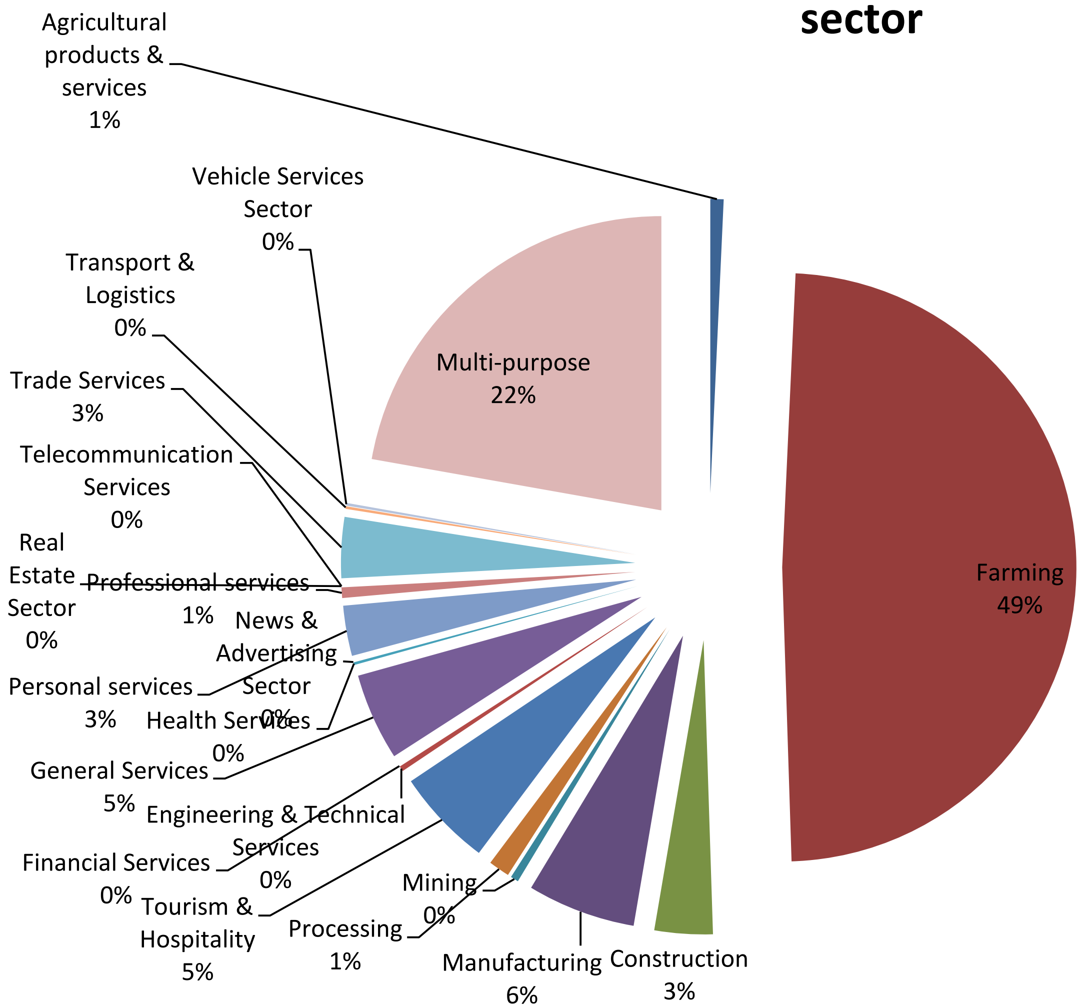
In the Fezile Dabi area, the heartland of industrial development in the Free State and birthplace of the multi-national Sasol Group of companies, a picture unfolds at co-operative level that demonstrates an almost total de-linkage between real economic activity and the formation of co-operative enterprises. Of down-streaming there is little evidence in the manufac-turing co-operatives.

The dominant characteristic of co-operatives in this area is farming (Figure 11): 49% of all co-operatives in this district is farming co-opera-tives. In numbers 336 of the 693 co-operatives in this district are farming co-operatives. The Fezile Dabi district has more than double the weight of agricultural co-

Figure 11: Co-operatives in Fezile Dabi area in 2013: % per sector



operatives than the Free State average. The closest is the Xhariep DM with a weight of 32% of all co-operatives in that area belonging to the farming sector.

This raises serious questions about the extent to which the abundance of enterprises are rooted in the value chains that drive the formal economy of the localities and the region, and therefore about their potential survival rate. It also raises again the question whether the members of these co-operatives themselves have detected economic opportunities and have organised themselves voluntarily into co-operatives, or whether the mass birth of co-operatives was conceptualised in the office of one or other national or provincial department or two.

9. Co-operatives in the key economic drivers as identified in FS Growth & Development Strategy

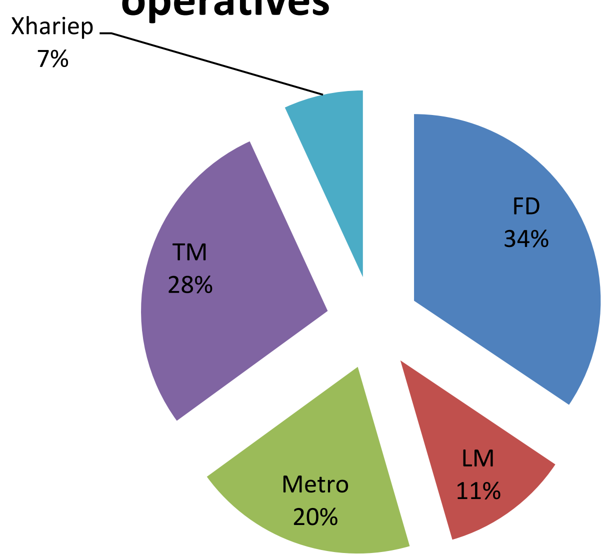
In this section the occurrence of co-operatives in the five key economic drivers as identified in the Free State Growth & Development Strategy, will be analysed.

9.1 Agriculture

In the Free State context agriculture remains an important sector as:

- An activity that produces more maize, mutton, beef and sunflower than what the inhabitants consume, thereby bringing money into the province. Apart from contributing to food-sufficiency (local production exceeds consumption), it also provides food security (generating income that can provide for buying in food).
- A sector that provides a substantial percentage of formal job opportunities.

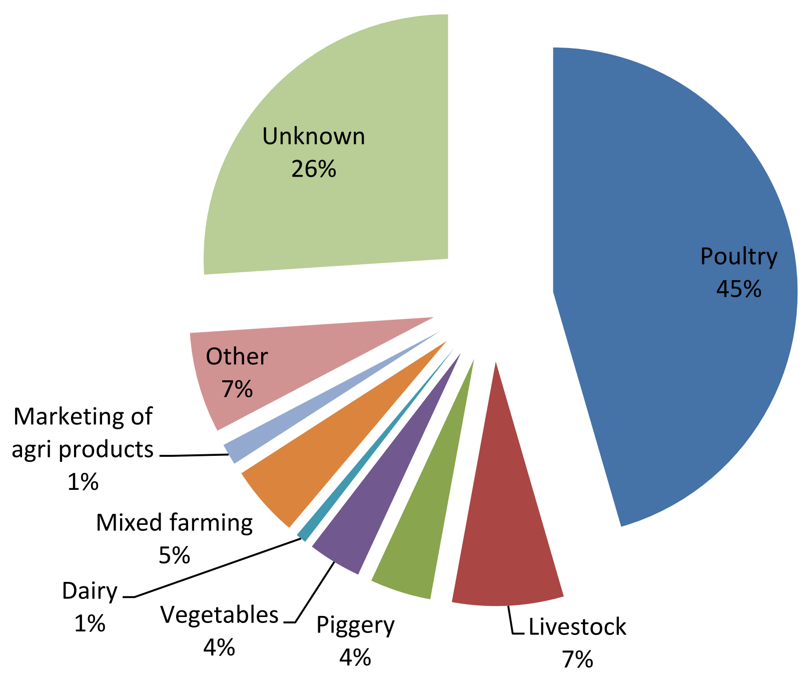
Figure 12: Geographic spread of Farming & Agricultural Services Co-operatives



- A growing contributor in the form of agro-tourism (e.g. game hunting, farm holidays, the Nampo Expo)

The provincial growth & Development Strategy considers Agriculture also as a key economic driver. It is no wonder therefore that 991 co-operatives are in the Farming sector and the Agricultural products and services sector. That 49% of the co-operatives are concentrating on Poultry (broilers, layers) is however interesting. It appears from a comment in a workshop at Detea on 8 July that the Free State Department of Agriculture had decided on Fezile Dabi District Municipality as becoming a hub for Poultry farming because of its close location to the markets of Gauteng. Whether that decision was based on a proper market assessment considering also international production and the fact that the South African giants in Poultry (Rainbow Chicken as well as Country Bird) are both struggling in the current climate, is uncertain.

Figure 13: Farming & Agro-services co-operatives

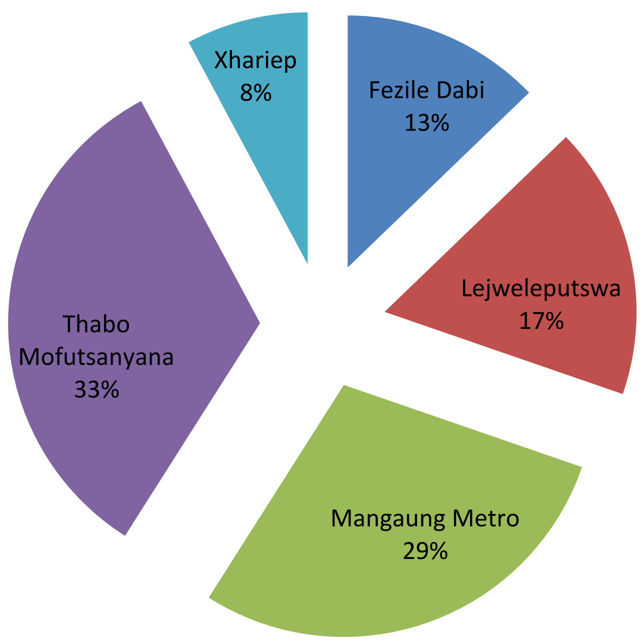


How co-operatives will be viable in the face of competing with commercial farmers is a key question. The minute percentage of farming co-operatives concentrating on niche-markets with higher value products (honey production, asparagus, hydroponic horticulture, flower production, etc.) appears like a missed opportunity.

9.2 Manufacturing

In this section the 383 co-operatives in the categories of manufacturing & processing are considered. In manufacturing the Free State Growth & Development Strategy emphasises the strengthening of existing value chains as well as diversification of manufacturing activities. Concerning processing the linkages with provincial agricultural production is also stressed. The creation of the plethora of co-operatives will be discussed against these stated provincial strategies by both considering the geographic manifestation of co-operatives that can be classified as manufacturing or processing enterprises, the strengthening of existing value chains as well as diversification.

Figure 14: Geographic spread of manufacturing & processing Co-operatives



The geographic spread of these is captured in Figure 14. The disjuncture with both the GVA and the Enterprise Architecture analysis is again clear with Fezile Dabi (the manufacturing heartland of the province) and the Mangaung Metro lagging behind Thabo Mofutsanyana in co-operatives belonging to the manufacturing and processing sectors.

When considering the sub-sectors in the manufacturing and processing sectors, the picture that emerges is captured in Figure 15.

Clothing & textiles related co-operatives constitute 26% of the manufacturing & processing sectors, leading Bakeries (11%), Brick-making (10%) and Paper products (7%) and Agro-processing (7%).

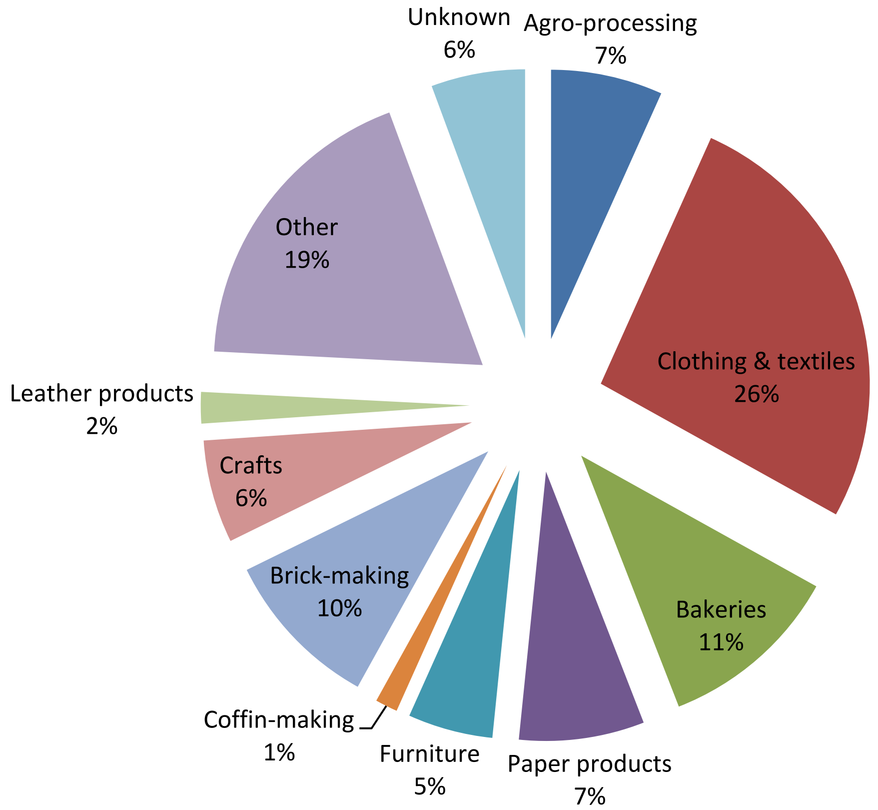
Looking closer at the large component of co-operatives in clothing & textile category, the following picture emerged:

- 44% of these are sewing and/or knitting groups;
- 8% are engaged primarily in producing school uniforms.

Considering the fact that the large textile industries in South Africa had been in decline over the past 15 years despite AGOA access to the US market, mainly because of an inability:

- to compete with the mass textile outputs of China, Vietnam and Bangladesh (having no comparative advantage)

Figure 15: Sub-sector spread of manufacturing & processing co-operatives



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- to compete with the design and quality outputs of an Italy, France, US or Germany (no competitive advantage – a brand like Dior or Versace)

the sustainability of the plethora of co-operatives in this sector is questionable since they can compete only on price, quantity and quality for commercial clients. Since this is costly both in capital for equipment as well as working capital (wages, procuring textiles, electricity, etc.) it appears again as if the creation of the co-operatives was aimed largely at rendering services mainly to consumers in the local community (school uniforms).

In Agro-processing six of the 25 co-operatives are dairies with 5 involved in milling, 2 in the production of Atjar and 2 in the production of peanut butter.

In the sub-category of paper related manufacturing, some interesting observations can be made:

- Is the Phahameng Agricultural Co-operative of Phiritona, Heilbron, really engaged in "*paper making from trees*" as claimed in the CIPC entry? Given the massive requirement for water (whether paper-making through a chemical process or a mechanical process) and investment, the likelihood of manufacturing paper from trees appears to be doubtful. The question is also where the trees are coming from, since forestry is not an industry in the Free State province. The same applies to the Rearebetswe Paper Making Co-operative of Kroonstad.
- The large group - 23 co-operatives in total – of co-operatives in the Free State that manufacture toilet paper and/or tissues and/or disposable nappies is also very high.

The lack of a linkage to the massive petro-chemical industry of Sasolburg is also striking in the absence of down-streaming entities. Only two co-operatives indicated manufacturing of polish.

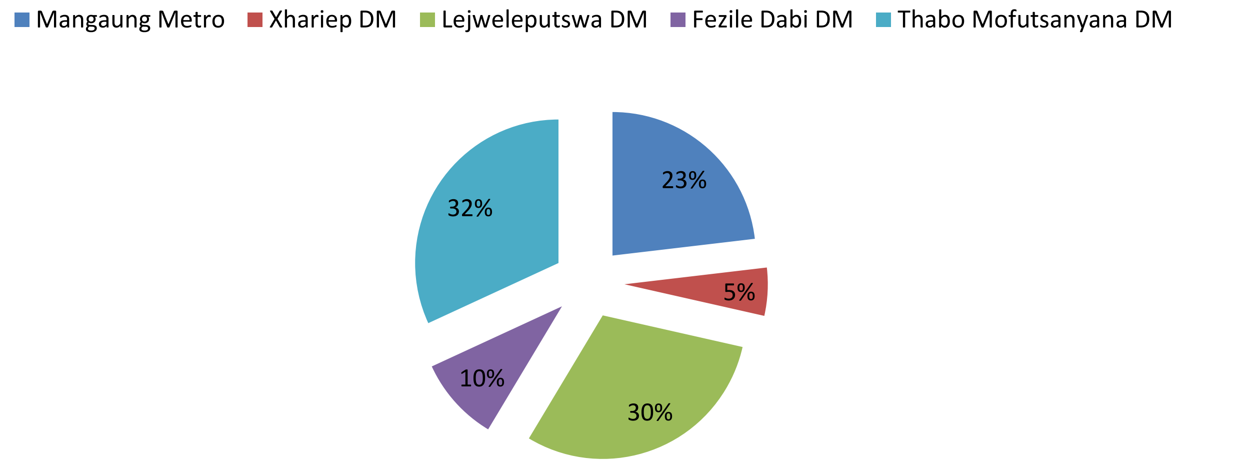
In the crafts category nine co-operatives are involved in products involving beadwork and five in pottery.

A total of 7 (seven) co-operatives are involved in leather work and products, with nineteen engaged in furniture production.

9.3 Tourism & Hospitality

The 389 co-operatives in this sector are distributed in the Province as depicted in Figure 16.

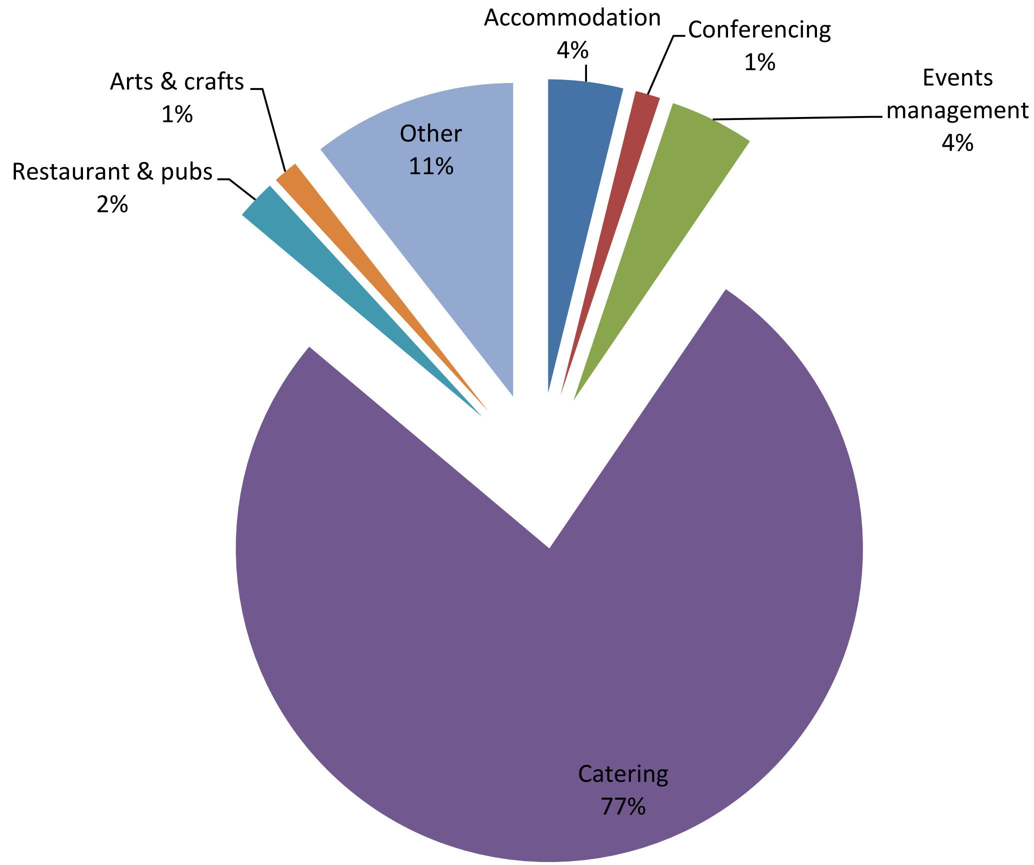
Figure 16: **Tourism & Hospitality co-operatives in the Free State**



Tourism is a major economic driver bringing money in from outside a locality. The situation of Clarens as a tourism success story is well-documented. The first reaction to 389 co-operatives in this sector therefor sounds inspiring, but a closer focus indicate that the vast majority of these co-operatives are caterers (77%) and with a large number of these also renting out tents, cutlery, tables and chairs it appears as if they are more focused on meeting local community needs than on attracting tourists from outside the locality or even province. See Figure 17.

Events management (4% of co-operatives) and accommodation (4%) are apart from the unclassifiable co-operatives (11%) the important activities or sub-sectors to note. Whether a town like Allanridge can support two co-operatives engaged in events management is however doubtful, and it is also unlikely that Allanridge is a destination for events management given the facilities in the locality.

Figure 17: **Co-operatives in Tourism & Hospitality according to activities**



Serious questions about whether the co-operatives in this sector will enhance the lure of the Free State as a tourism destination therefore emerge.

9.4 Mining

The Provincial Growth & Development Strategy stresses the need to maintain at least the mining activities in the province. This is in light of the massive decline of mining in the Free State Goldfields where employment in mining had shrunk from 190 000 in 1989 to 45 000 by 2010. This decline had also a devastating impact on other enterprises in the Free State Goldfields.

On the data list only 23 co-operatives are categorised as mining co-operatives. Of these:

- three mine sandstone;
- two operate quarries (stone);
- two operate sandpits;
- two extract salt;

- two are involved in diamond mining
- one in extracting gold ore
- and one merely states "Mineral deposits: sell minerals and make a profit".

The following questions are important in assessing these activities:

- Are the necessary licences in place for these activities?
- Were the required Environmental Impact Assessments conducted?
- Are any of the diamond and/or gold mining co-operatives the formalisation of an illegal Zama-Zama activity and has that involved a transfer of a shaft from one of the established mining companies?

9.5 Transport & Logistics

This sector is viewed important since the N1, N3, N5, N6 and N8 national roads run through the Province. With the demise of non-ore railage transportation by truck has increased tremendously. Harrismith as a potential logistical hub on the N3 is important, but the possible re-alignment of the route could have a substantial negative impact on the town and in fact scuttle the possibility of the town becoming an important logistical hub and not merely a stopping point on the N3 and the N5.

The 39 co-operatives in the Transportation & Logistics sector have one taxi-operator, some distributors, and two warehousing activities. Detea will have to determine:

- Will support to these 39 co-operatives, in view of the importance of the N3 for Harrismith, play a role to convince SANRAL to keep the current N3 route?
- Will co-operatives in this sector contribute to really building a locational strength in the Free State in this sector?

9.6 Green economy enterprises

The Green Economy is not really a sub-sector, but rather a tag that could cover enterprises in a range of sectors, e.g. tourism & hospitality (eco-tourism), general services (recycling), processing (bio-gas generation), agricultural products & services (donga rehabilitation). A scan of the co-operatives indicated that several multi-purpose co-operatives are involved in cleaning services, catering and recycling. Only a handful are dedicated to recycling with six just listing recycloing and waste management, and one each concentrating on recycling of bottles, metal and tyres. There is also a co-operative engaged in green construction techniques.

10. Are the Co-operatives anchored in the local value chains?

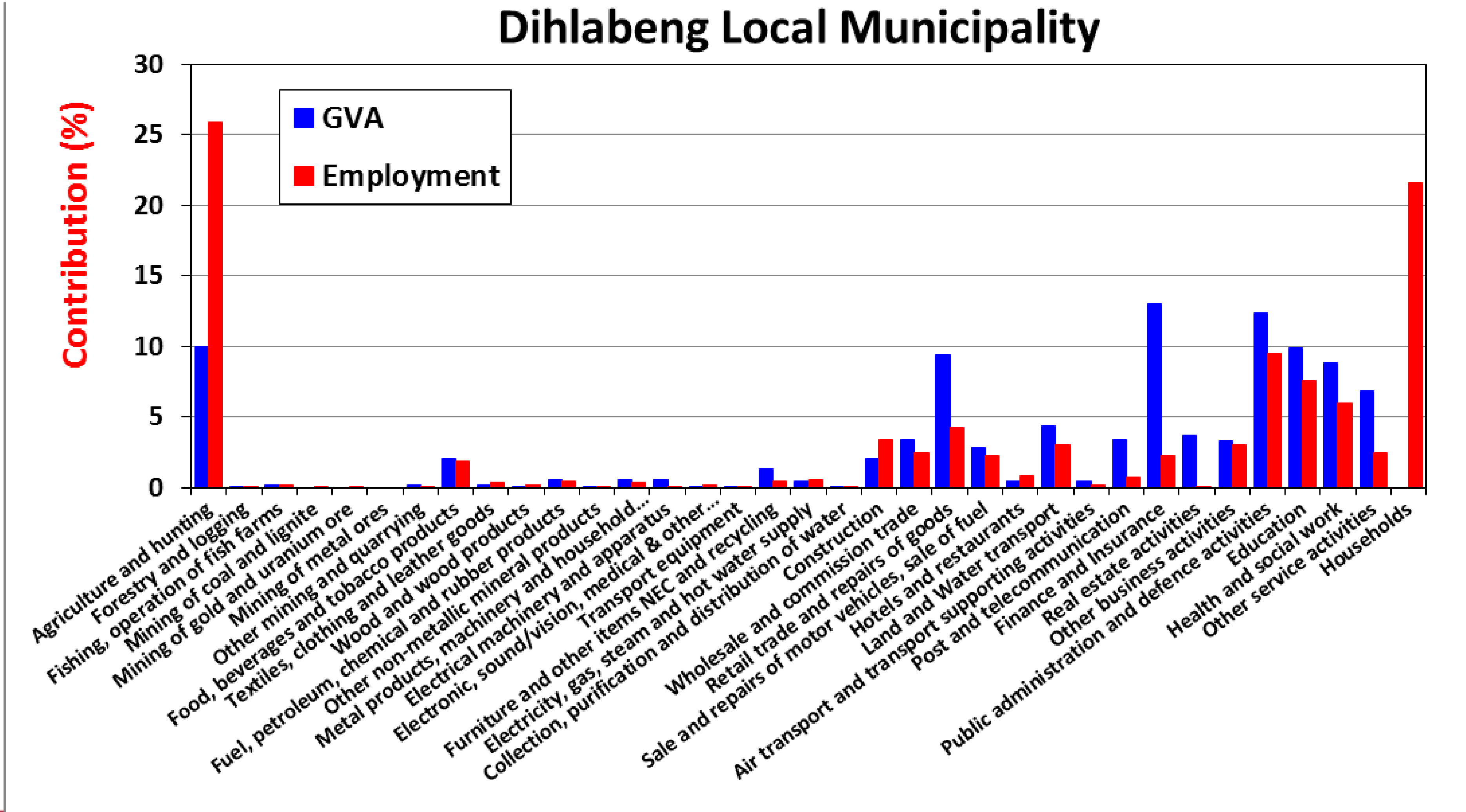
In this section the focus will be on a number of localities to determine whether the co-operative classification demonstrates linkages to the existing value chains of the locality. It doesn't fall into the scope of this assignment to do it for each and every local municipality and it will be done in this study for the Metsimaholo Local Municipality as well as the Dihlabeng Local Municipality.

The SME Observatory will discuss with Detea the prospects of a workshop to enable Detea personnel to make such comparisons for the other Local Municipalities and even at town level.

In the Eastern Free State the town of Bethlehem is the seat for the Dihlabeng Local Municipality. It is important to consider the economic drivers of the area (Figure 18 below):

- Agriculture provides a substantial contribution to GVA, but a more important contribution to employment opportunities;
- Public sector administration, as well as education and health services (all driven in the main by the public sector) accounts for 30% of GVA
- Manufacturing is negligible, as well as tourism.

Figure 18: **GVA & Employment in Dihlabeng**



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NB: This is a first deliverable in terms of the ILO-UFS contract. The findings are preliminary and will be further informed by the activities required in the subsequent phase of the contract.

This Local Municipality includes the town of Clarens. Clarens is probably the most successful tourist town in the province. Not only is the town situated in a magnificent valley with the typical eastern Free State sandstone cliffs, it houses an array of touristic enterprises, a golf course and is close to the Golden Gate National Park. Several other towns in the local municipal area are in their own right also touristic havens: Rosendal for the really "*get away from the hustle and bustle*" retreats, Paul Roux known for its magnificent sandstone houses, and Fouriesburg with the popular Meiringskloof. The local municipal area has indeed the potential for a formidable tourism cluster.

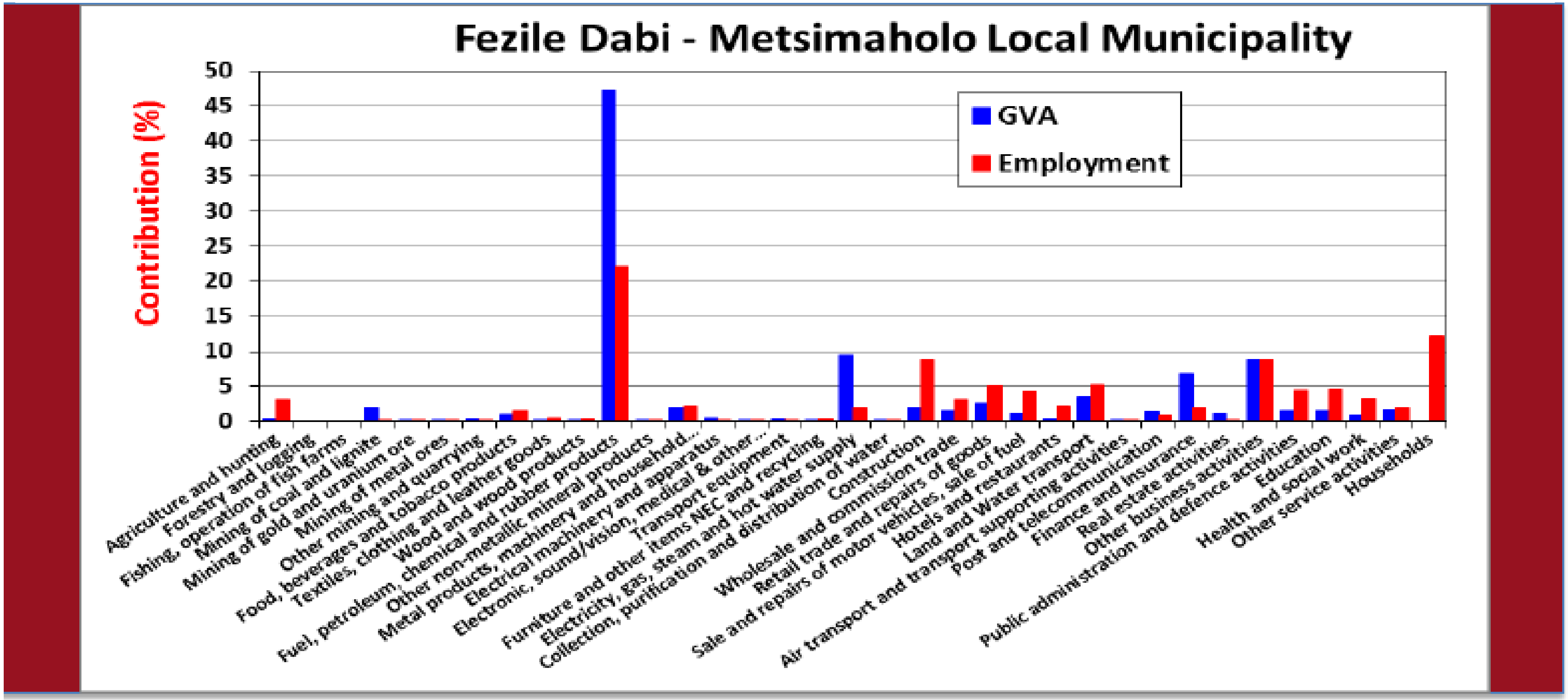
The birth of large generation of new co-operatives in the area however is hardly aligned to the key economic drivers:

- In agricultural production (farming) the thrust has to be away from commodities to high value produce. There is no evidence of that in the array of co-operatives in agriculture.
- There is insufficient evidence from the list of co-operatives that meaningful agro-processing linking to value chains is being pursued in a strategic mode. (This has to be further assessed in some interviews with co-operatives).
- In tourism the emphasis is on catering services. There is little evidence that this is aimed at tourists from outside the municipal area and it appears to be more aimed at local community consumers in the context of funerals, weddings, and community based functions.

In the case of Fezile Dabi and more particularly the Metsimahole LM area, the economy is driven by die factories of Sasolburg: not only the Sasol 1 factory of the Sasol Group of companies and the oil refinery linked to the original Durban pipeline, but a range of other factories as well. It is known that as part of its CSI Sasol 1 is supporting the development of small enterprises. In a strategic assessment of opportunities co-operatives linked to the value chain of Sasol 1 (e.g. wax products) would therefore be logical.

Figure 19 depicts the GVA in Metsimaholo according to economic sectors. As striking as the absolute dominance of the fuel, petroleum & chemical sector, is the absolute absence of agriculture. In fact, agriculture is fairly insignificant as a value adder in this area.

Figure 29: **GVA & Employment in Metsimaholo**



However an analysis of the co-operatives in Sasolburg, the Metsimaholo LM and even at district level for Fezile Dabi suggests that Sasolburg is not the birthplace of the multi-national Sasol Group of companies, but rather the headquarters of Rainbow Chicken:

- in the Metsimahole LM area there is 106 co-operatives focussing on Poultry;

- in the Ngwathe LM there is a total of 47 co-operatives focussing on Poultry;
- in Moqhaka LM there is a total of 94 co-operatives focussing on Poultry.

The first analysis did not reveal any striking or even obvious linkages to the main economic drivers of localities.

11. Preliminary conclusions

The findings in the first analyses will be reflected upon in a workshop with Detea. However the following conclusions are important at this stage:

(a) It appears highly unlikely that the birth explosion of co-operatives is the result of members in communities freely and voluntarily and spontaneously deciding that they want to formalise their entrepreneurial efforts through forming co-operatives. This has resonance with the concept of co-operatives having a 'life-cycle' which support agencies need to be aware of and offer varying forms of assistance which are time and context appropriate (Hartley and Johnston, 2014).

(b) It appears far more likely that there has been a public sector driven campaign to create as many co-operatives as possible. It was probably driven by consultants who had received an incentive for each co-operative registered. As the literature argues there is a need to be sensitive to the very real financial, skills and marketing challenges co-operatives face and when establishing them, focussing on their potential markets and user needs is critical as supply does not necessarily create demand (Philips 2003; Borda Rodriguez and Vicari, 2014).

(c) If the conclusions in (a) and (b) are correct, the SME Observatory's hypothesis is that the likelihood of successful enterprise growth is fairly low and that a high failure rate of co-operatives as formal enterprises , can, unfortunately be anticipated.

(d) This attempt of the State as enterprise incubator appears to have ignored the very basic dynamics of local economic drivers and value chains. This will further enhance the prospects of the enterprise failure of co-operatives, which echoes the concerns of Philips (2003) that institutional support must be appropriate and consider key variables which impact on success.

(e) The creation of the enterprises appear in many instances as formal enterprise creation without real economic activity supporting it: this cannot be assessed purely from a database and has to be pursued by research assessing outputs and impact on GVA and employment opportunities.

(f) The Enterprise Architecture approach of the SME Observatory proves that formal entrepreneurial space is in many sectors occupied: enterprise formation through forming co-operatives in trade will therefore either set such co-operatives up to failure or push existing trading entities into oblivion.

(g) A large percentage of enterprises are mainly aimed at local community consumption expenditure, e.g. catering services and in some cases even to the expenditure of the members of the co-operative. Given the socio-economic conditions of such local communities, these attempts boil largely down to a recycling of poverty since it fails to bring in money from outside the community. Poverty cannot be overcome by such approaches. A broader vision for what co-operatives can undertake and the niche that they can fill is clearly needed Philips, 2005; Hartley and Johnston, 2014).

(h) A substantial number of co-operatives appear to be established to gain income from public sector expenditure. Apart from a number that were blunt enough to state that “tendering” is their activity, a large number are aimed at feeding schemes (schools) and cleaning services (public sector buildings). This is more a redistributive approach than a growing of the economy since it is tax income (derived from private sector surplus and, in the face of a budget deficit, from loans Government has to take on) that is used for the food parcels, feeding schemes and such cleaning and security services.

(i) The overwhelming majority of co-operatives are aimed at production of commodities (vegetables / poultry / crops) or undifferentiated products (catering services – there is no evidence of e.g. a branded Meqheleng Chakalaka Maize Chips, rather run-of-the-mill catering for community gatherings). This large scale failure to grasp opportunities to embark on differentiated products will not provide the leverage that could be obtained by a targeted intervention to create conduits for products or services that will bring in money from outside the local communities: export-led enterprises. In addition, as the literature argues there is scope to also encourage the establishment of ‘user co-operatives’ which are regarded as poorly developed in the country Philips, 2003).

(j) It is unlikely that here has been a rapid wave of entrepreneurial climate change in the Free State: many of the new co-operative enterprises probably do not have entrepreneurs with adequate skills in them. Any intervention by

Detea with the thousands of co-operatives will have to be carefully assessed. There clearly is a need to learn from succeeding and failing co-operatives what the key catalytic variables are.

12. Issues requiring further attention:

The co-operative data base received via Detea from the various Provincial Departments has to be integrated with the database that this report is based on.

A questionnaire for the telephone interviews has to be developed by the SME Observatory and Detea: it will be important to reflect on some of the issues and preliminary conclusions and how these could be assessed in such interviews.

A decision has to be made about the 30 co-operatives to be visited for in-depth interviews.

Detea needs to reflect on its enterprise policies: given the conclusions of the Enterprise Architecture approach, the policies need to reflect on what kind of climate is required for sustainable enterprise creation: efforts and resources that effectively contribute to enterprise churn do not really contribute to enterprise, job and GVA growth.

The survey of co-operatives needs, among other issues, to focus on:

1) How/why the co-operative was established; and was it member, NGO or government instigated?
2) What were the expectations of its leaders, what did they hope to achieve and have these goals been realised, if not why?
3) If a support agency was involved what did they hope to achieve?
4) What were the goals and aspirations of the members? Have they been realised? Why or why not?
5) On what economic basis was the focus of the co-operative established? Was market research undertaken? What did it show? Was a business plan developed? Why or why not?
6) What changes has the co-operative experienced over time? Why did this occur?

7) What has been the track record of salaries earned/ paid; turnover; who are the clients/market; what has happened to members over time?
8) Details of how the co-operative has evolved over time and in response to market change need to be established.
9) What are the future plans of the co-operative?
10) In cases where a co-operative did not commence operations one needs to assess what 'went wrong'.

An overriding impression is that a public sector initiated and funded drive to create and form co-operatives took place without considering real economic opportunities. More than 4 000 co-operatives were formed by end 2013 with probably many more in 2014 already. If there are not clear economic viable reasons for co-operative formation in these cases, it appears as if the poor were either experimented with or that it was a quick way for some consultants to riches. This will have to be assessed in the next phases of the study.